

TOD'S

TOD'S s.p.a.

D'S s.p.a.

2018 Annual Report

(Translation of the 2018 Annual Report approved in Italian
solely for the convenience of international readers)

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Company's data

Registered office

TOD'S S.p.A.
Via Filippo Della Valle, 1
63811 Sant'Elpidio a Mare (Fermo) - Italy
Tel. +39 0734 8661

Legal data Parent company

Share capital resolved euro 66,187,078
Share capital subscribed and paid euro 66,187,078
Fiscal Code and registration number on Company Register of Court of Fermo: 01113570442
Registered with the Chamber of Commerce of Fermo under n. 114030 R.E.A.

Offices and Showrooms

Munich – Domagkstrasse, 1/b, 2
Hong Kong – 35/F Lee Garden One, 33 Hysan Avenue, Causeway Bay
London – Wilder Walk, 1
Milan - Corso Venezia, 30
Milan - Via Savona, 56
Milan - Via Serbelloni, 1-4
New York - 450, West 15th Street
Paris – Rue de Faubourg Saint-Honore, 29
Paris – Rue du Général FOY, 22
Paris – Rue Royale, 25
Seoul – 11/F Pax Tower 609, Eonju-ro, Gangnam-gu
Shanghai - 1717 Nanjing West Road, Wheelock Square 45/F
Tokyo – Omotesando Building, 5-1-5 Jingumae

Group's Headquarter and main production site

Via Filippo Della Valle, 1
63811 Sant'Elpidio a Mare (Fermo) – Italy

Other production facilities

Arquata del Tronto (AP) – Zona Industriale Pescara del Tronto
Bagno a Ripoli, Loc. Vallina (FI) - Via del Roseto, 50
Bagno a Ripoli, Loc. Vallina (FI) - Via del Roseto, 60
Comunanza (AP) - Via S.Maria, 2-4-6
Comunanza (AP) - Via Merloni, 7
Durrës (Albania) – Rr. Jakov Xoxa Prane – Nish Goma – Shkozë
Tolentino (MC) - Via Sacharov 41/43

STOIL S Group

Report on operations

Corporate Governance bodies

Board of directors ⁽¹⁾	Diego Della Valle	Chairman
	Andrea Della Valle	Vice - Chairman
	Luigi Abete	
	Maurizio Boscarato	
	Marilù Capparelli	
	Sveva Dalmasso	
	Emanuele Della Valle	
	Gabriele Del Torchio	
	Romina Guglielmetti	
	Umberto Macchi di Cellere	
	Emilio Macellari	
	Vincenzo Manes	
	Cinzia Oglio	
	Emanuela Prandelli	
	Pierfrancesco Saviotti	
Executive Committee	Diego Della Valle	Chairman
	Andrea Della Valle	
	Umberto Macchi di Cellere	
	Emilio Macellari	
Compensation Committee	Vincenzo Manes	Chairman
	Sveva Dalmasso	
	Luigi Abete	
Control and Risk Committee	Romina Guglielmetti	Chairman
	Maurizio Boscarato	
	Vincenzo Manes	
Independent Directors Committee	Vincenzo Manes	Chairman
	Sveva Dalmasso	
	Romina Guglielmetti	
Board of statutory Auditors⁽²⁾	Giulia Pusterla	Chairman
	Enrico Colombo	Acting stat. auditor
	Fabrizio Redaelli	Acting stat. auditor
	Myriam Amato	Substitute auditor
	Gilfredo Gaetani	Substitute auditor
Independent Auditors ⁽³⁾	PricewaterhouseCoopers S.p.A.	
Manager charged with preparing a company's financial report	Rodolfo Ubaldi	

⁽¹⁾ Term of the office: 2018-2020 (resolution of the Shareholders' meeting as of April 19th, 2018)

⁽²⁾ Term of the office: 2016-2018 (resolution of the Shareholders' meeting as of April 20th, 2016)

⁽³⁾ Term of the office: 2012-2020 (resolution of the Shareholders' meeting as of April 19th, 2012)

TOD'S Group

TOD'S S.p.A.

Parent Company, owner of TOD'S, HOGAN and FAY and licensee of ROGER VIVIER brand

Del.Com. S.r.l.

Sub-holding for operation of national subsidiaries and DOS in Italy

TOD'S International B.V.

Sub-holding for operation of international subsidiaries and DOS in The Netherlands

An.Del. Usa Inc.

Sub-holding for operation of subsidiaries in the United States

Del.Pav S.r.l.

Company that operates DOS in Italy

Filangieri 29 S.r.l.

Company that operates DOS in Italy

Gen.del. SA

Company that operates DOS in Switzerland

TOD'S Belgique S.p.r.l.

Company that operates DOS in Belgium

TOD'S Deutschland GmbH

Company that distributes and promotes products in Germany and manages DOS in Germany

TOD'S Espana SL

Company that operates DOS in Spain

TOD'S France Sas

Company that operates DOS in France

TOD'S Japan KK

Company that operates DOS in Japan

TOD'S Macau Ltd

Company that operates DOS in Macao

TOD'S Hong Kong Ltd

Company that distributes and promotes products in Far East and South Pacific and manages DOS in Hong Kong. Sub-holding for operation of international subsidiaries in Asia

TOD'S Korea Inc.

Company that distributes and promotes products in Korea and operates DOS in Korea

TOD'S Retail India Private Ltd

Company that operates DOS in India

TOD'S (Shanghai) Trading Co. Ltd

Company that distributes and promotes products in China and operates DOS in China

TOD'S Singapore Pte Ltd

Company that operates DOS in Singapore

TOD'S UK Ltd

Company that operates DOS in Great Britain

Webcover Ltd

Company that operates DOS in Great Britain

Cal.Del. Usa Inc.

Company that operates DOS in California (USA)

Deva Inc.

Company that distributes and promotes products in North America, and manages DOS in the State of NY (USA)

Flor. Del. Usa Inc.

Company that operates DOS in Florida (USA)

Hono. Del. Inc.

Company that operates DOS in Hawaii (USA)

Il. Del. Usa Inc.

Company that operates DOS in Illinois (USA)

Neva. Del. Inc.

Company that operates DOS in Nevada (USA)

Or. Del. Usa Inc.

Company that operates DOS in California (USA)

TOD'S Tex. Del. Usa Inc.

Company that operates DOS in Texas (USA)

Holpaf B.V.

Real estate company that operates one DOS in Japan

Alban.Del Sh.p.k.

Production company

Un.Del. Kft

Production company

Re.Se.Del. S.r.l.

Company for services

Roger Vivier S.p.A.

Owner of ROGER VIVIER brand and Sub-holding for operation of international subsidiaries and DOS in Italy

Roger Vivier Hong Kong Ltd

Company that distributes and promotes products in Far East and South Pacific and manages DOS in Hong Kong. Sub-holding for operation of subsidiaries in Asia

Roger Vivier Singapore Pte Ltd

Company that operates DOS in Singapore

Roger Vivier (Shanghai) Trading Co. Ltd

Company that operates in China

Roger Vivier UK Ltd

Company that operates DOS in Great Britain

TOD'S Georgia Inc.

Company that operates DOS in Georgia (USA)

Roger Vivier France Sas

Company that operates DOS in France

Roger Vivier Korea Inc.

Company that operates DOS in Korea and that distributes and promotes products in Korea

Roger Vivier Switzerland S.A.

Company that operates DOS in Switzerland

Roger Vivier Macau Ltd

Company that operates DOS in Macao

Roger Vivier Japan KK

Company that operates DOS in Japan

TOD'S Danmark APS

Company under liquidation

TOD'S Austria GMBH

Company that operates DOS in Austria

TOD'S Washington Inc.

Company that operates DOS in Washington (USA)

Ala Del Inc.

Company that operates DOS in Delaware (USA)

TOD'S Massachussets Inc.

Company that operates DOS in Massachussets (USA)

Roger Vivier Paris Sas

Company that operates DOS in France

Buena Ltd.

Company that provides services in Great Britain

Roger Vivier Deutschland GmbH

Company that operates DOS in Germany

Roger Vivier Espana SL

Company that operates DOS in Spain

Roger Vivier Australia PTY Ltd

Company that operates DOS in Australia

TOD'S Australia PTY Ltd

Company that operates DOS in Australia

Roger Vivier Canada Ltd

Not operating company

Italiantouch S.r.l.

Company that manages on line sales in the European market.

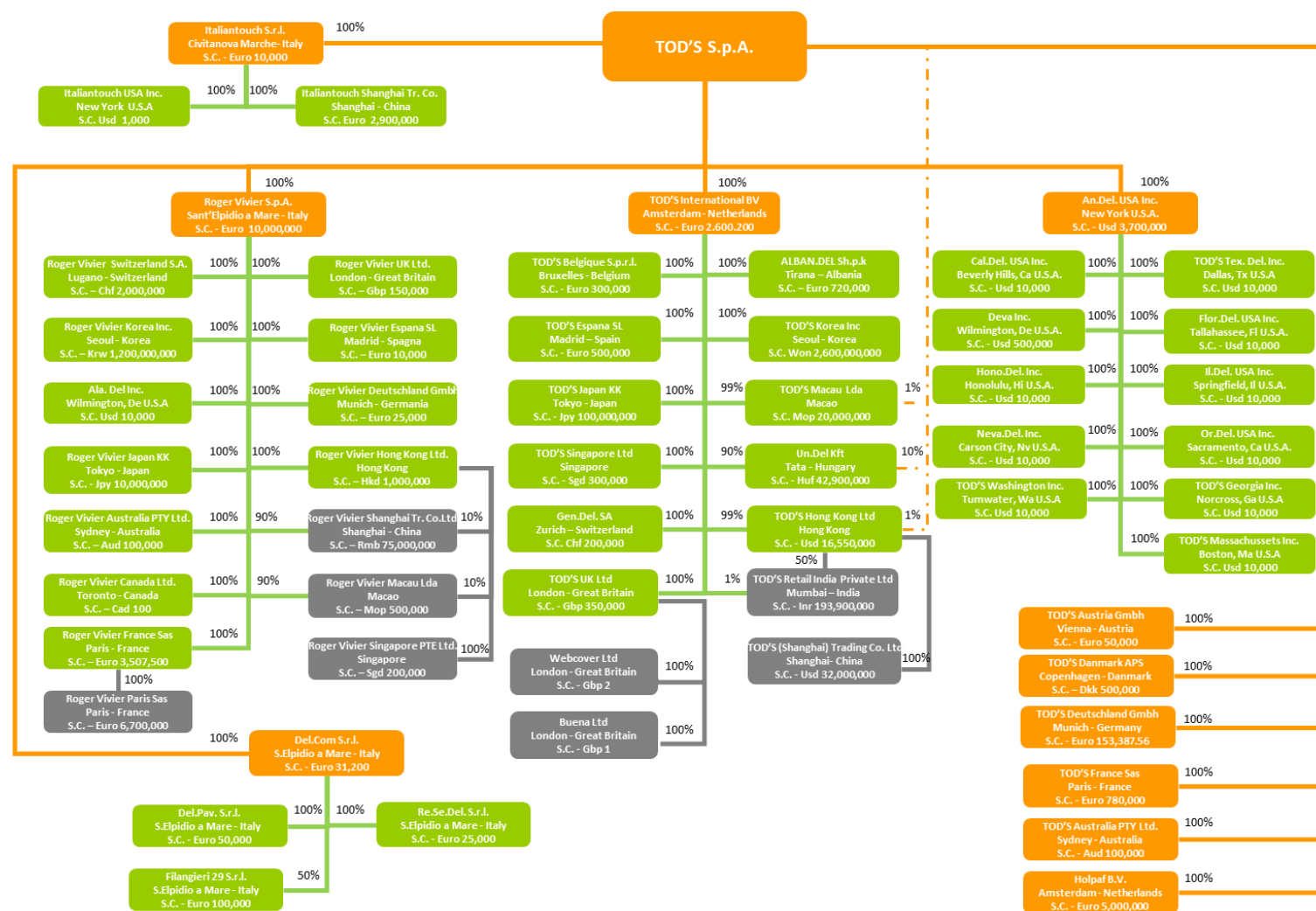
Italiantouch USA Inc.

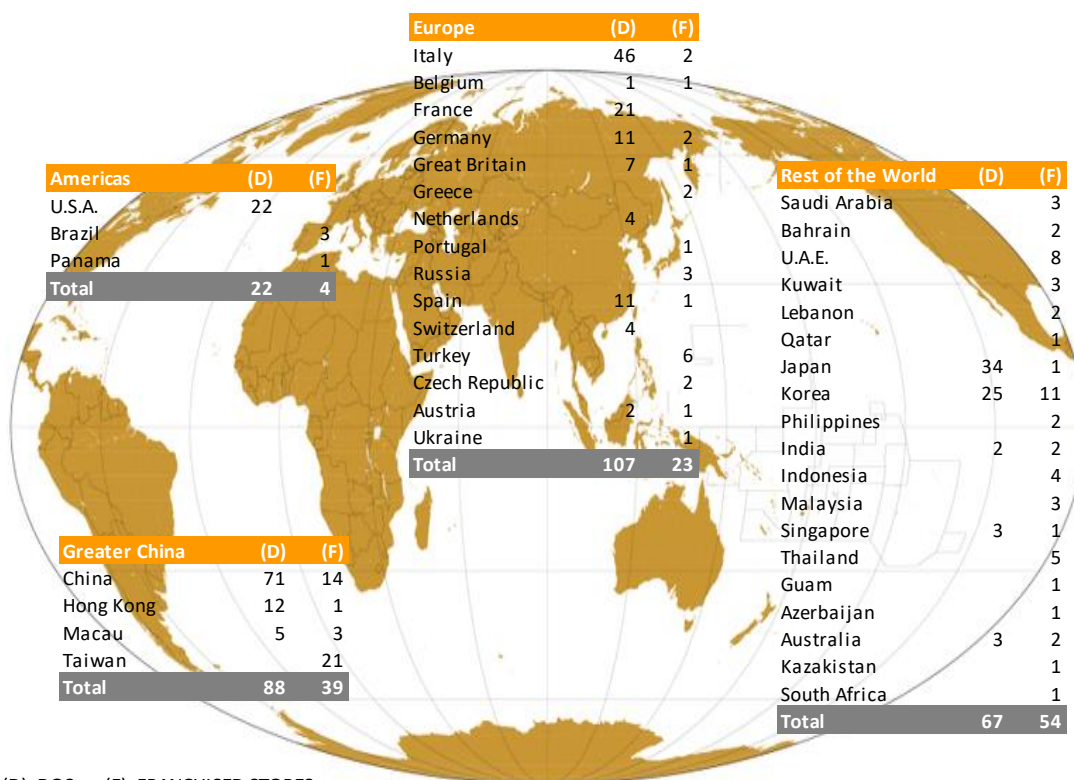
Company that manages on line sales in the USA market.

Italiantouch Shanghai Trading Co. Ltd

Company that manages on line sales in the China market

Group's organizational chart



Distribution network as of December 31st, 2018

(D)=DOS (F)=FRANCHISED STORES

DOS, 2018 new openings

Europe

Berlin	(Germany)
Madrid	(Spain)
Barcelona	(Spain)
Milan	(Italy)
London	(Great Britain)

Greater China

Tianjin	(China)
Beijing	(China)
Nanjing	(China)
Xian	(China)
Xian	(China)
Xian	(China)
Xian	(China)
Changsha	(China)
Shanghai	(China)
Hangzhou	(China)
Macau	(Macau)

Rest of the World

Busan	(Korea)
Seoul	(Korea)
Sydney	(Australia)
Sydney	(Australia)
Sydney	(Australia)

Franchised stores, 2018 new openings

Europe

Ankara	(Turkey)
Antwerp	(Belgium)
Kiev	(Ukraine)

Rest of the World

Bangkok	(Thailand)
Dubai	(UAE)
Dubai	(UAE)
Johannesburg	(South Africa)
Hyderabad	(India)
Calcutta	(India)

Greater China

Wenzhou	(China)
Wuxi	(China)
Tianjin	(China)
Wuhan	(China)
Taipei	(Taiwan)
Taipei	(Taiwan)
Taichung	(Taiwan)

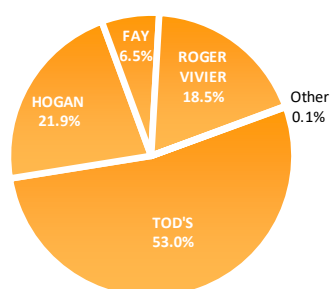
Americas

Rio de Janeiro	(Brazil)
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For a complete list of retail outlets operated by the DOS and franchising network, reference should be made to the corporate web site: www.todsgroup.com

Key consolidated financial figures

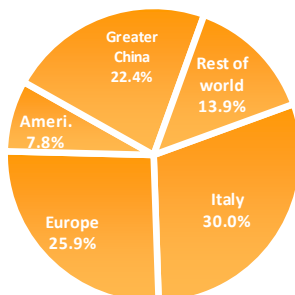
2018 Revenues - % by brand



P&L key figures (euro mn)

	FY 18		FY 17		FY 16	
Revenues	940.5		963.3		1,004.0	
EBITDA	118.3	12.6%	160.5	16.7%	180.9	18.0%
EBIT	71.8	7.6%	111.8	11.6%	128.4	12.8%
Profit before tax	65.8	7.0%	101.9	10.6%	115.0	11.5%
Profit for the period	46.5	4.9%	69.4	7.2%	85.8	8.5%

2018 Revenues - % by region

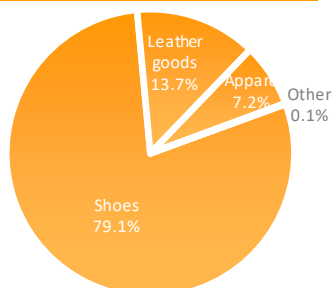


Main Balance Sheet indicators (euro mn)

	12.31.18	12.31.17	12.31.16
Net working capital (*)	314.4	261.3	279.2
Intangible and tangible fixed assets	808.6	802.9	822.5
Shareholders' equity	1,064.7	1,087.2	1,090.5
Net financial position	(75.3)	9.3	(35.4)
Capital expenditures	44.0	36.6	34.9

(*) Trade receivable + inventories - trade payables

2018 Revenues - % by product



Financial key indicators (euro mn)

	12.31.18	12.31.17	12.31.16
Operating cash flow	30.6	165.8	212.6
Net operating cash flow	25.4	148.2	149.7
Cash flow generated/(used)	(32.4)	(6.3)	7.9

Highlights of results

Revenues: 2018 revenues of 940.5 million euros, decreased by 2.4% in respect to 2017. The DOS network had sales of 607.8 million euros (-2.1%).

EBITDA: this totalled 118.3 million euros (160.5 million euros in 2017). The ratio of EBITDA to sales is 12.6%.

EBIT: this totalled 71.8 million euros (111.8 million euros in 2017), The ratio of EBITDA to sales is 7.6%.

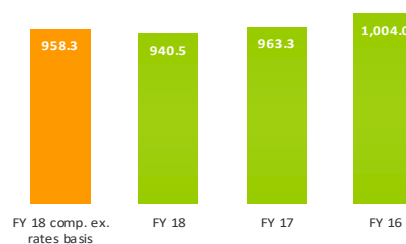
Net profit: consolidated profit for FY 2018 was 46.5 million euros, representing 4.9% of consolidated sales.

Net financial position (NFP): the Group had 191.3 million euros in liquid assets at December 31st, 2018 (221.6 million euros in 2017). The net financial position at the same date was negative for 75.3 million euros (in 2017 it was positive for 9.3 million euros).

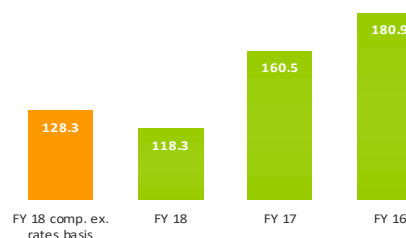
Capital expenditure: amount to 44 million euros capital expenditures occurred in 2018; they were 36.6 million euros in 2017.

Distribution network: a total of 22 new DOS were opened during the financial year. At December 31st, 2018 the single brand distribution network comprised 284 DOS and 120 franchised stores.

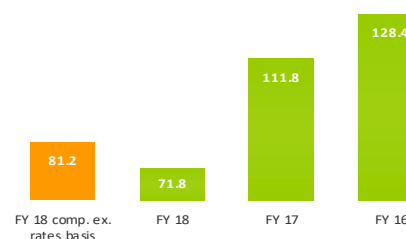
Revenues (euro mn)



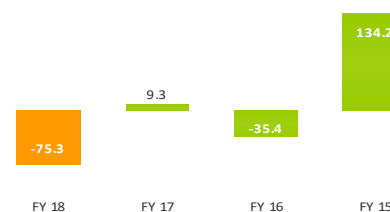
EBITDA (euro mn)



EBIT (euro mn)

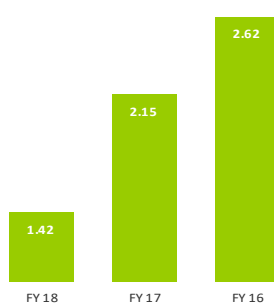


NFP (Euro mn)

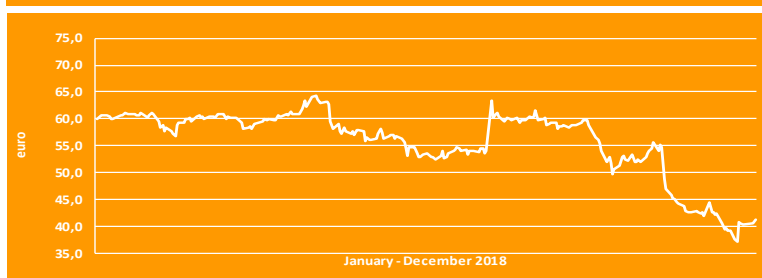


Main stock Market indicators (euro)	
Official price at 02.01.2018	59.90
Official price at 28.12.2018	41.28
Minimum price	37.32
Maximum price	64.30
Market capitalization at 02.01.2018	1,982,302,986
Market capitalization at 28.12.2018	1,366,101,290
Dividend per share 2017	1.40
Dividend per share 2016	1.70
Number of outstanding shares at 12.31.18	33,093,539

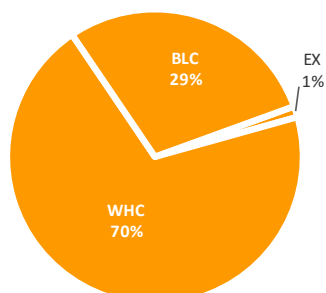
Earning per share (euro)



Stock performance



2018 Group's employees



The Group's employees

	FY 18	FY 17	FY 16	FY 15
Year to date	4,705	4,627	4,485	4,550
Average	4,672	4,572	4,514	4,464

EX = executives

WHC = white collar employees

BLC = blue collar employees

Introduction

In accordance with article 40 paragraph 2 *bis* of the Legislative Decree n. 127 of April 9th, 1991, the Parent company has prepared the Report of the Board of Directors on Operations as a single document for both the separate financial statements of TOD'S S.p.A. and the Group consolidated financial statements.

The Report on Operations must be read together with the Financial Statements and Notes to the Financial Statements, which are an integral part of both the Consolidated Annual Report and the separate financial statements. The Report on Operations also includes the additional information required by CONSOB, pursuant to the orders issued in implementation of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, as well as all subsequent notices containing provisions regarding financial disclosures.

In order to strip the effects of changes in exchange rates with respect to the average values for the previous year from the results for the 2018 financial year, the typical economic reference indicators (Revenues, EBITDA, and EBIT) have been recalculated by applying the average exchange rates for 2017, rendering them fully comparable with those for the previous reference period. Note that on the one hand, these principles for measurement of business performance represent a key to interpretation of results not envisaged in IFRSs, and on the other hand, must not be considered as substitutes for what is set out in those standards.

Moreover, the Report on Operations includes non-financial statement related to the fiscal year 2018 in accordance with articles 3 and 4 of the Legislative Decree n. 254 of December 23rd, 2016.

Group's activity

TOD'S Group operates in the luxury sector under its own brands TOD'S, HOGAN, FAY and ROGER VIVIER. It actively creates, produces and distributes shoes, leather goods and accessories, and apparel.

The Group's organizational configuration rotates around TOD'S S.p.A. that is at the heart of the Group's organization, its parent company owns TOD'S, HOGAN, FAY and, under a license agreement, ROGER VIVIER brands, the latter owned by the subsidiary Roger Vivier S.p.A. Through a series of sub-holdings, the organization is rounded out by a series of commercial companies that are delegated complete responsibility for retail distribution through the DOS network. Certain of them, strategically located on international markets, are assigned major roles in product distribution, marketing and promotion, and public relations processes along the "value

chain”, while simultaneously guaranteeing the uniform image that Group brands must have worldwide.

The Group’s production structure is based on complete control of the production process, from creation of the collections to production and then distribution of the products. This approach is considered key to assuring the prestige of its brands.

Shoes and leather goods are produced in Group-owned plants, with partial outsourcing to specialized workshops. All of these outsourcers are located in areas with a strong tradition of shoe and leather good production. This preference reflects the fact that an extremely high standard of professional quality is required to make these items, with a significantly high level of added value contributed to the final product by manual work.

The Group relies exclusively on selected specialized outsourcers, which enables it to exploit their respective specializations in crafting the individual products sold as part of the apparel line.

The prestige of the Group’s brands and the high degree of specialization necessary to offer the respective products to customers entails distribution through a network of similarly specialized stores. Accordingly, the Group relies principally on three channels: DOS (directly operated stores), franchised retail outlets, and a series of selected, independent multibrand stores. Added to this is the e-commerce channel, which is becoming increasingly important both from a strategic point of view and in terms of values.

Main events and operations during the year of TOD’S Group

Features of the international scenario during the year which has just ended were continual new political and trade tensions on the international scene which again gave rise to a situation of monetary and geopolitical uncertainty with direct repercussions on the markets. These phenomena are still affecting consumption associated with flows of tourists, who change destination abruptly and, more generally, they influence international customers’ propensity to consumption, with different effects in the various geographical areas of the luxury goods market. Against this complex background, there were contrasting trends in our Group’s sales performance in the various geographical areas during the year just ended, shaped above all by these sector macro phenomena. In particular, sales in Greater China and Asia rose, driven by a readjustment of local purchases as a result of smaller tourist flows to Europe and the United States. On the other hand the effects of the crisis of the big department stores are still being felt in the USA, to the benefit, nevertheless, of a general expansion of digital channels, while positive signs were confirmed in the European markets, already recorded during the first half of the year, in relation

to domestic consumption, which allow the adverse effects of the abovementioned tourist flows to be mitigated.

As regards brands, HOGAN returned very good results in Mainland China, where the brand recorded a strong double-digit growth which gathered the fruits of years of investment in support of the Groups' internationalisation strategy. More generally, the performances of this brand at Group level were satisfactory overall at a constant exchange rate. It succeeds in interpreting the casual luxury style, one of the main present macro trends in the sector and one which will continue to be most important for the major players.

The ROGER VIVIER brand development strategy is also continuing. Apart from the change in style management which took place during the year, several new DOS opened, among which, for its strategic importance, we mention the new London boutique in Bond Street and the two first DOS in Australia, a major growing market for the whole sector.

As regards business development, the quest for innovation, apart from style and product and the launching of the first TOD'S Factory project initiatives, also took the form of new distribution and communication strategies. In this pursuit of innovation, we went on investing in the digital channel, which on one hand is confirmed as a strongly developing sales channel for the Group, with online revenues almost doubling, and on the other hand allows innovative methods of communication with interaction and continually renewed content, meeting the expectations of international customers who increasingly acknowledge social media and brand websites as their main channels of information. In fact, the acquisition of related concern Italiantouch S.r.l. on the part of the parent company TOD'S S.p.A. was completed during the last part of the year precisely in order to maximise the business opportunities deriving from the digital channel and its integration in Group strategies. It is an e-commerce company which has been marketing the products of the Group's four brands online from its own technological platform since the end of 2012 and which also operates, at present, through two wholly-owned subsidiaries, in 33 countries, mainly focusing on the North American, European and Chinese markets. With the integration of the digital channel in the Group's distribution strategies, on the other hand, the Group will be able to speed up the implementation of the multi-channel project, which, through the combination of offline and online sales channels, will enhance the shopping experience, making it cohesive and effective and provide a more dynamic and more efficient range of sales and distribution solutions.

The Group's results in 2018

Consolidated sales were 940.5 million euros, decreased by 2.4% in respect to 2017 turnover when it was 963.3 million euros. The impact of currency fluctuations was negative: at constant

exchange rates, sales revenue would have been 958.3 million euros, showing a variation of 0.5% in respect to 2017. Operating margins, EBITDA and EBIT, were 118.3 million euros and 71.8 million euros respectively (while at a constant exchange rate would have been 128.3 and 81.2 million euros).

Consolidated net profit was 46.5 million euros, decreased by 22.9 million euros in respect to 69.4 million euros of the previous year 2017.

euro 000's				
Main economic indicators	Year 18	Year 17	Change	%
Sales Revenues	940,499	963,287	(22,787)	(2.4)
EBITDA	118,335	160,492	(42,157)	(26.3)
Deprec., amort., write-downs and advances	(46,575)	(48,732)	2,157	(4.4)
EBIT	71,760	111,760	(40,000)	(35.8)
Profit before taxes	65,751	101,897	(36,146)	(35.5)
Profit for the period	46,458	69,362	(22,904)	(33.0)
Foreign exchange impact on revenues	17,851			
Adjusted Sales Revenues	958,350	963,287	(4,937)	(0.5)
Foreign exchange impact on operating costs	(7,869)			
Adjusted EBITDA	128,316	160,492	(32,176)	(20.0)
Foreign exchange impact on deprec.& amort.	(576)			
Adjusted EBIT	81,165	111,760	(30,595)	(27.4)
EBITDA %	12.6	16.7		
EBIT %	7.6	11.6		
Adjusted EBITDA %	13.4	16.7		
Adjusted EBIT %	8.5	11.7		
Tax Rate %	29.3	31.9		

euro 000's			
Main Balance Sheet Indicators	12.31.18	12.31.17	Change
Net working capital (*)	314,401	261,346	53,055
Intangible and tangible fixed assets	808,598	802,937	5,661
Other current assets/liabilities	16,951	13,530	3,422
Net assets held for sale			
Invested capital	1,139,950	1,077,813	62,138
Net financial position	(75,252)	9,339	(84,591)
Shareholders' equity	1,064,699	1,087,152	(22,453)
Capital expenditures	43,985	36,627	7,358
Net cash flows from operating activities	25,431	148,195	(122,764)
Cash flow generated/(used)	(32,355)	(6,293)	(26,062)

(*) Trade receivable + inventories - trade payables

Revenues. In fiscal year 2018, consolidated sales were 940.5 million euros, showing a reduction of 2.4% in respect of previous year. At constant exchange rates, meaning by using the average exchange rates of FY 2017, including the related effects of hedging contracts, consolidated sales of TOD'S Group are 958.3 million euros, this value is broadly aligned with the figure registered in FY 2017 (-0.5%). TOD'S and ROGER VIVIER were the most affected by currencies fluctuations, due to their higher presence abroad.

In 2018, retail sales totaled 607.8 million euros (622.4 million euros at constant exchange rates), decreased by 2.1% in respect to the previous year (+0.2% at constant exchange rates), and represent

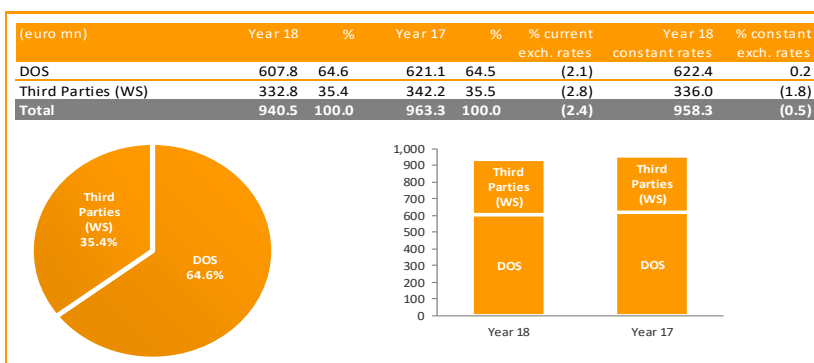
approx. two thirds of the Group's turnover. The Same Store Sales Growth (SSSG) rate, calculated at constant exchange rates as the worldwide average of sales growth rates registered by the DOS network, is -3.0% in the fiscal year (from January

1st to December 31st, 2018). The difference, compared to the 9-month figure, is mainly due to the worsening of sales in Italy and the rest of Europe, despite the improvement registered in Greater China.

As of December 31st, 2018 the Group's distribution network was composed by 284 DOS and 120 franchised stores, compared to 275 DOS and 112 franchised stores as of December 31st, 2017.

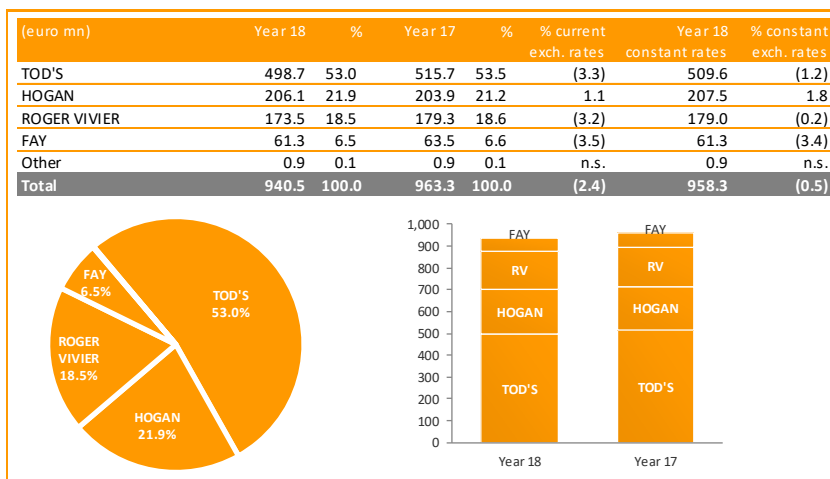
Revenues to third parties totaled 332.7 million euros (335.9 million euros at constant exchange rates), down 2.8% from the previous year (-1.8% at constant exchange rates), due to the already commented weakness of this channel in some important markets, such as Italy and USA.

TOD'S sales totaled 498.7 million euros in 2018 (509.6 million euros at constant exchange rates). Good results were achieved in the Americas and in Asia, while Europe was affected by lower purchases of tourists and political and economic uncertainties in Italy and in France. HOGAN revenues were 206.1 million euros (207.5 million euros at constant exchange rates), up 1.1% (+1.8% at constant exchange rates) from the previous year.



As already commented for the previous quarters, the weakness of the Italian market was more than offset by the solid double-digit growth recorded abroad. Sales of ROGER VIVIER totaled 173.5 million euros (179 million euros at constant exchange rates), showing a reduction of 3.2% in respect of previous year, while at constant exchange rates sales are

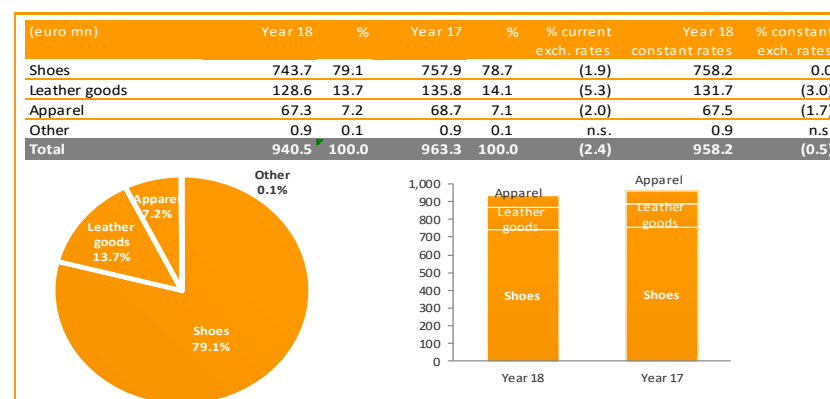
broadly flattish as compared to FY 2017. Revenues registered a visible improvement, with the arrival in stores of the new products designed by Gherardo Felloni, which are getting excellent feedback. Good results in Asia, while the



market was weaker in Europe, especially as sales to tourists. Finally, sales of FAY were 61.3 million euros; the 3.5% decrease (3.4% at constant exchange rates), as compared to FY 2017, is mainly due to the weakness of the domestic market.

Revenues from shoes were 743.7 million euros (758.2 million euros at constant exchange rates) in FY2018, decreased by 1.9% in respect to the previous year (at constant exchange rates sales are in

line with the figure registered last year). Sales of leather goods and accessories totaled 128.6 million euros (131.7 million euros at constant exchange rates), down 5.3% from FY 2017 (-3% at constant exchange rates). Finally,

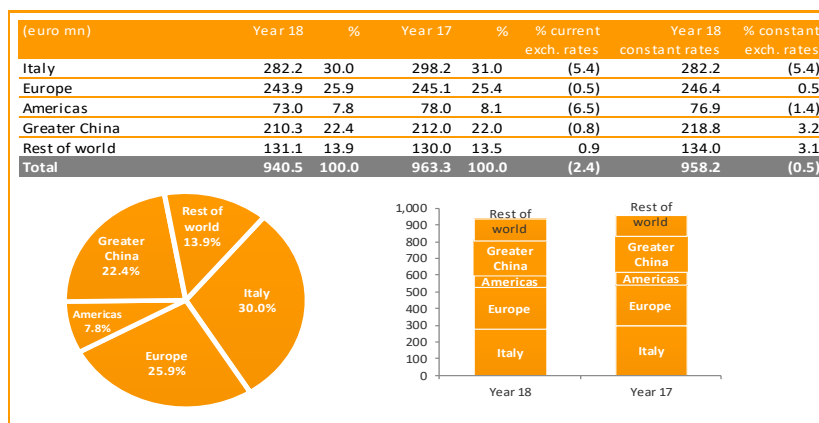


sales of apparel were 67.3 million euros (67.5 million euros at constant exchange rates), slightly below the figure of last year; the performance broadly reflects the trend registered by the FAY brand.

Domestic sales were 282.2 million euros; the 5.4% decrease, as compared to 2017, is mainly due to the persistent weakness experienced by this market.

In the rest of Europe, the Group's revenues totaled 243.9 million euros (246.4 million euros at constant exchange rates), slightly decreasing compared to the previous year (+0.5% at constant

exchange rates). In the Americas sales amounted to 73 million euros (76.9 million euros at constant exchange rates); the 6.5% decrease from 2017 (-1.4% at constant exchange rates) is due to the wholesale channel. The retail channel registered positive



results, especially thanks to purchases from local customers. The Group's sales in Greater China totaled 210.3 million euros (218.8 million euros at constant exchange rates), showing a slight

decrease of 0.8% (up 3.2% at constant exchange rates) from 2017 and with an acceleration of the performance in the fourth quarter. Positive results in mainland China, which represents approx. 60% of this region, in Hong Kong and in Macau.

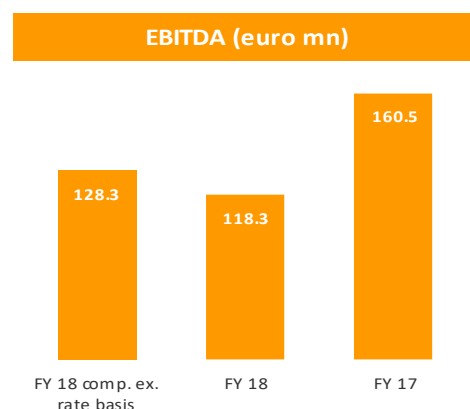
Finally, in the area "Rest of the World" the Group's revenues were 131.1 million euros (134 million euros at constant exchange rates), up 0.9% from 2017 (+3.1% at constant exchange rates).

Operating results. In 2018 the Group's EBITDA came to 118.3 million euros (160.5 million euros in 2017), accounting for 12.6% of consolidated revenues (16.7% in 2017). The operating result has been negatively impacted by the exchange rates; at constant exchange rates, or with the application of average cross rates from the previous period, EBITDA would come to about 128.3 million euros, representing 13.4% of sales revenues at constant exchange rates.

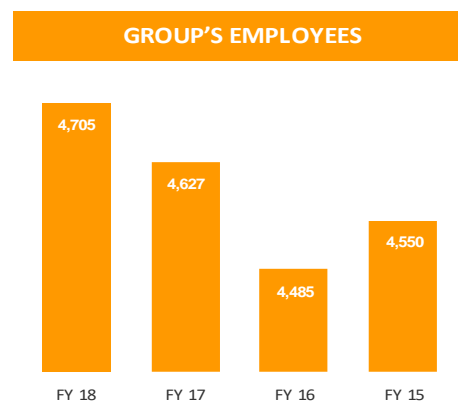
Strengthened the profitability at a gross margin level, thus confirming the excellent position of the Group brands in the highest end of the luxury markets, sustained by the positive result of the channels and geographical areas with higher margins. The gross operating result for the year,

nevertheless, was affected by the trend in revenues described above, as well as by a physiological increase in operating costs in support of the business development strategies, specifically linked to communication, the DOS network development and the strengthening of the organizational structure. On the other hand, the digital channel's inclusion in the Group, which took place in the last part of the year, only had a partial impact.

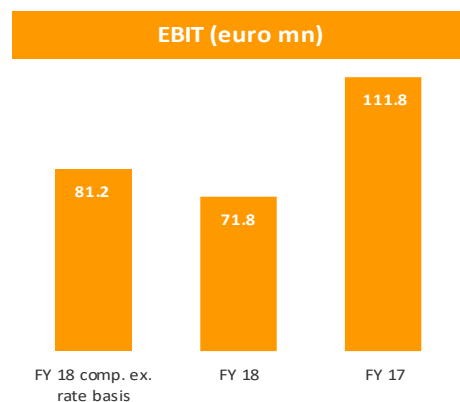
Costs for leases and rentals (locations and royalties payable) came to 117.4 million euros, substantially in line, at current exchange rates, compared to 2017 (118.2 million euros). The impact on revenues passed from 12.3% in 2017 to 12.5% of the current period, increased as a consequence of the rise of rental costs in the direct distribution network, which was the obvious consequence of the expansion of the DOS network (the number of DOS reported an increase of 9 during the period from December 2017 to December 2018).



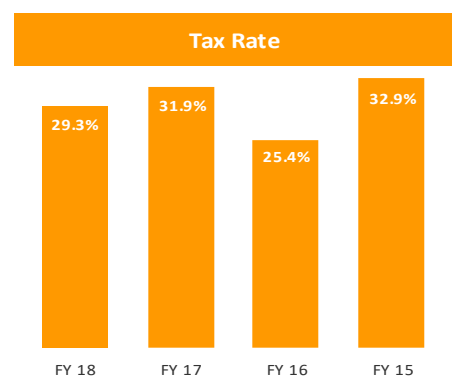
Increased the cost incurred for salaries payable to the personnel working for the Group coming to 198.4 million euros in 2018 against 191.5 million euros in 2017. The performance is substantially linked to the increase in the workforce, due to the abovementioned strengthening of the organisational structure, both at corporate and digital channel inclusion levels, as well as due to the physiological expansion of the direct distribution network. At December 31st, 2018 the number of employees are 4,705 showing an increase of 78 people with respect to December 31st, 2017, accounting for 21.1% of the Group revenues in 2018 against 19.9% in 2017.



In 2018 amortisation/depreciation and write-downs of fixed assets amounted to 44.5 million euros against 46.7 million euros in 2017, and included write-downs for impairment of fixed intangible and tangible assets for 1.4 million euros (2.5 million euros in 2017). At December 31st, 2018 amortisation and depreciation accounted for 4.7% of the Group revenues, substantially in line with the value posted in the previous year (4.6%). Net of additional provisions totalling 2.1 million euros, EBIT for the period equal to 71.8 million euros (111.8 million euros in 2017), representing 7.6% of consolidated sales (11.6% in 2017). At constant exchange rates EBIT would be equal to 81.2 million euros for a ratio on sales that would be increased to 8.5%.



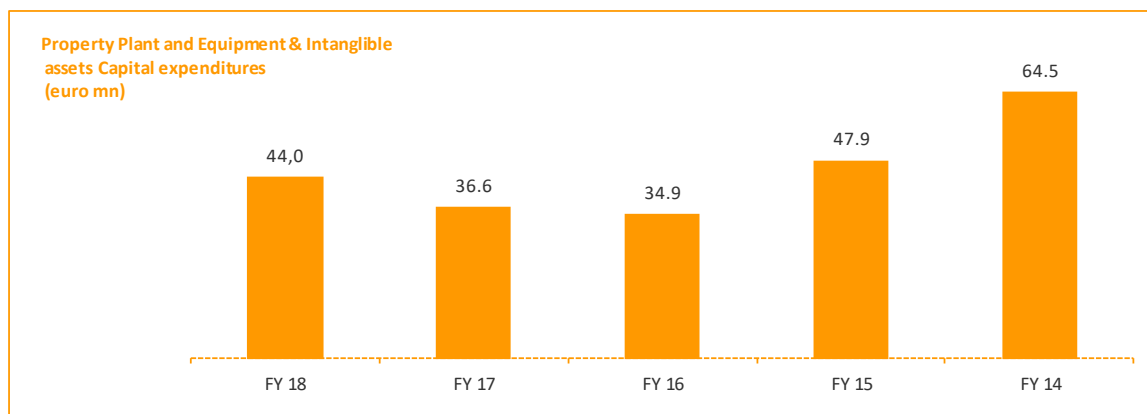
The balance of financial income and expenses is negative for 6.0 million euros, was affected by the performance of cross rates of some currencies with which the Group operates. Interest expense on loans decreased from 1.6 million euros in 2017 to 0.9 million euros in 2018 thanks to the step-by-step reduction of the indebtedness versus external banks.



Income taxes for the year amounted to 19.3 million euros, including the effects of deferred taxes, at a tax rate that comes to 29.3%, showing a decrease compared to 31.9% in 2017.

At December 31st, 2018 the 2018 consolidated profit, equal to 46.5 million euros (against 69.4million euros in 2017), accounted for 4.9% of consolidated revenues against 7.2% in 2017.

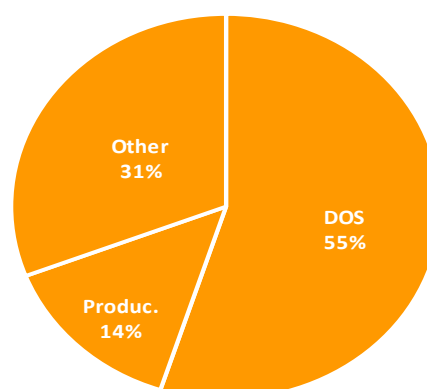
Capital expenditures. Capital expenditures in the 2018 financial year totalled 44 million euros increased in respect to the previous year when they were 36.6 million euros.



The Group invested an amount of about 23 million euros (against 19.6 million euros at December 31st, 2017) in the setting up of new DOS, among which the *boutique* ROGER VIVIER at Bond Street in London (UK) and in the renovations and relocations of existing stores, among which stands out the preparation of the flagship store TOD'S Sloane Apartment in London (UK), first chapter of a story of exclusive environments with which the brand presented a new idea of boutique.

Capital expenditures for production amount to 6.2 million euros, invested for the normal process of refurbishment of facilities and upgrading of industrial equipment (mainly forms, dies and moulds). The additional investments of the period were mainly done for the development of business management systems (software) among which the ones related to the digital channel, and to its integration into the Group's distribution network, aimed at the development of multi-channels.

INVESTMENTS BY ALLOCATION



Net financial position and cash flow. At December 31st, 2018 the net financial position posted a negative value of 75.3 million euros (it was positive for 9.3 million euros at December 31st, 2017), and it is formed by Cash and cash equivalents (cash and bank deposits) for 191.2 million euros (221.6 million euros at December 31st, 2017) and financial liabilities for 266.5 million euros (212.3 million euros at December 31st, 2017), of which 77.8 million euros as non-current financial liabilities (147.6 million euros at December 31st, 2017).

euro 000's			
Net financial position	12.31.18	12.31.17	Change
Current financial assets			
Cash and cash equivalents	191,268	221,609	(30,341)
Cash	191,268	221,609	(30,341)
Current financial liabilities			
Current account overdraft	(17,924)	(15,910)	(2,014)
Current share of medium-long term financing	(170,792)	(48,743)	(122,048)
Current financial liabilities	(188,715)	(64,654)	(124,062)
Current net financial position	2,553	156,956	(154,403)
Non-current financial liabilities			
Financing	(77,804)	(147,617)	69,812
Non-current financial liabilities	(77,804)	(147,617)	69,812
Net financial position	(75,252)	9,339	(84,591)

euro 000's		
Statement of cash flows	Year 18	Year 17
Net Cash and cash equivalents at the beginning of the period	205,699	211,993
Cash flows from operating activities	30,640	165,764
Interests and taxes collected/(paid)	(5,209)	(17,569)
Net cash flows from operating activities	25,431	148,195
Cash flow generated (used) in investing activities	(61,615)	(35,868)
Cash flow generated (used) in financing activities	4,786	(105,972)
Translation differences	(956)	(12,648)
Net Cash and cash equivalents at the end of the period	173,344	205,699

Operating activities during the year generated cash of 30.6 million euros (against 165.8 million euros in 2017). Net of taxes and interest expense, Cash Flows from operating activities amounted to 25.4 million euros (148.2 million euros at December 31st, 2017).

Compared to the previous year, in particular it is highlighted that a greater absorption of cash at the operating working capital level is mainly due to the anticipation of the production relating to the products of the following sales season, which will produce its positive effects on liquidity next year.

Cash flows from investing activities represent cash flows invested in fixed assets and include the effect from the acquisition of Italiantouch Group for 19.4 million euros. Cash flows from financing activities are related to both the reimbursement of outstanding loans for 48.9 million euros and distribution of dividends occurred during the financial year for 46.3 million of euros. The figure also includes the raising of a short-term loan, for a total of 100 million euros, stipulated by the Parent Company TOD'S S.p.A., characterized by the total absence of charges and interest, repaid on the due date of January 29th, 2019.

Report on operations of parent company TOD'S S.p.A.

The performances recorded by the Company during the year just ended were affected by the market trends commented on above. Sales during the year came to 636.9 million euros, recording an decrease of 3.9% compared to 662.6 million euros in 2017. The effects of exchange rates was negative; based on constant exchange-rates, i.e. using the same average exchange rates prevailing in 2017, revenues would be instead equal to 646.9 million euros.

EBITDA and EBIT for the year amounted to 109.5 and 89.7 million euros, accounting for 17.2% and 14.1%, respectively. Based on constant exchange rates, gross and net operating margins would be equal to 119 and 99.2 million euros, respectively, accounting for 18.4% and 15.3% of revenues. Net profit for the year amounted to 68.7 million euros.

euro 000's				
Main economic indicators	Year 18	Year 17	Change	%
Sales revenues	636,863	662,576	(25,712)	(3.9)
EBITDA	109,506	132,393	(22,887)	(17.3)
Deprec., amort., write-downs and advances	(19,794)	(19,647)	(147)	0.7
EBIT	89,712	112,746	(23,034)	(20.4)
Profit before taxes	90,650	111,866	(21,216)	(19.0)
Profit for the year	68,696	84,977	(16,281)	(19.2)
Foreign exchange impact on revenues	10,066			
Adjusted sales revenues	646,929	662,576	(15,646)	(2.4)
Impact on operating cost	(531)			
Adjusted EBITDA	119,042	132,393	(13,351)	(10.1)
Adjusted EBIT	99,246	112,746	(13,500)	(12.0)
EBITDA %	17.2	20.0		
EBIT %	14.1	17.0		
Adjusted EBITDA %	18.4	20.0		
Adjusted EBIT %	15.3	17.0		

euro 000's			
Main Balance Sheet indicators	12.31.18	12.31.17	Change
Net working capital (*)	299,188	189,840	109,348
Intangible and tangible fixes assets	257,685	258,643	(958)
Other current assets/liabilities	527,475	533,675	(6,200)
Invested capital	1,084,348	982,158	102,190
Net financial position	(159,122)	(73,945)	(85,177)
Shareholders' equity	925,225	908,213	17,012
Capital expenditures	17,585	15,687	1,898
Net operating cash flows	4,187	94,490	(90,303)
Cash flows generated/(used)	(34,099)	12,813	(46,911)

(*) Trade receivables + inventories - trade payables

Revenues. In the following table a breakdown of revenues, compared with the previous year:

euro 000's						
	FY 18	%	FY 17	%	Change	%
Brand						
TOD'S	296,332	46.5	325,709	49.2	(29,377)	(9.0)
HOGAN	169,113	26.6	173,416	26.2	(4,303)	(2.5)
FAY	55,966	8.8	57,675	8.7	(1,709)	(3.0)
ROGER VIVIER	109,537	17.2	100,876	15.2	8,661	8.6
Other	5,915	0.9	4,901	0.7	1,014	20.7
Total	636,863	100.0	662,576	100.0	(25,713)	(3.9)
Product						
Shoes	494,887	77.7	506,876	76.5	(11,989)	(2.4)
Leather goods	75,350	11.8	88,403	13.3	(13,053)	(14.8)
Apparel	60,711	9.5	62,395	9.4	(1,684)	(2.7)
Other	5,915	0.9	4,901	0.7	1,013	20.7
Total	636,863	100.0	662,576	100.0	(25,713)	(3.9)
Region						
Italy	252,781	39.7	253,496	38.3	(715)	(0.3)
Europe	172,977	27.2	181,206	27.3	(8,229)	(4.5)
Americas	44,655	7.0	52,568	7.9	(7,913)	(15.1)
Greater China	124,415	19.5	130,755	19.7	(6,340)	(4.8)
RoW	42,036	6.6	44,550	6.7	(2,515)	(5.6)
Total	636,863	100.0	662,576	100.0	(25,713)	(3.9)

In 2018 revenues from TOD'S brand came to 296.3 million euros, showing a decrease of 9% in respect to previous year. The HOGAN brand recorded revenues of 169.1 million euros, with a 2.5% difference compared to 2017, which was mainly linked to the weakness of the Italian market; good results obtained in mainland China and Hong Kong. The FAY brand recorded sales of 56 million euros, down by 3% compared to 2017. The ROGER VIVIER brand achieved revenues of

109.5 million euros (100.9 million euros in 2017), showing an increase of 8.6% compared to 2017 and confirming its appeal to international customers.

As regards product categories, sales data confirm the Company's leading position in the core business of footwear, whose revenues amounted to 494.9 million euros (506.9 million euros at December 31st, 2017), accounting for 77.7% of turnover, in 2018. Revenues from leather goods and accessories, which amounted to 75.4 million euros (88.4 million euros at December 31st, 2017), recorded a decrease of 14.8% compared to the previous year. Sales from apparel came to 60.7 million euros (62.4 million euros at December 31st, 2017); the performance was the same as that of the FAY brand.

Revenues from domestic market were substantially in line with previous year. In Europe, revenues amounted to 173 million euros, recording a change of 4.5% compared to 181.2 million euros in 2017. Revenues in American markets reported a fall of 15.1% compared to 2017, while in the Greater China region there was a decrease in revenues of 4.8% compared to 2017. The "Rest of the world" area recorded revenues of 42 million euros (44.5 million euros in 2017), showing a reduction of 5.6% in respect to the previous year.

Operating results. In 2018 EBITDA amounted to 109.5 million euros, accounting for 17.2% of sales, while the previous year EBITDA was 132.4 million euros, showing a margin of 20%.

The exchange rates trend had a negative impact; based on constant exchange rates, i.e. using the average exchange rates applied in 2017, EBITDA would come, in fact, to 119 million, accounting for 18.4% of revenues.

Personnel costs amounted to 88.7 million euros (86.8 million euros in 2017), accounting for a percentage of revenues from sales of 13.9% while the previous year it was 13.1%.

In 2018 amortization and depreciation amounted to 18 million euros (17.6 million euros in 2017), accounting for 2.8% of revenues (2.7% in 2017). Net of provisions of 1.8 million euros, EBIT for the period from January to December 2018 came to 89.7 million euros. At December 31st EBIT amounted to 14.1% of the Company's sales. Based on constant exchange rates this figure would come to 99.2 million euros, accounting for 15.3% of turnover.

In 2017 operating results had been equal to 112.7 million euros, accounting for 17% of revenues. Financial income and costs for the year showed a negative balance for 5.1 million euros, which was affected by the performance of cross rates of some currencies with which the Company operates and it includes, for about 0.6 million euros, interest expenses on outstanding loans, decreased in respect of 2017 (1.1 million euros) thanks to the reduction of the indebtedness versus banks.

The income from equity investments shows a positive result for 6.1 million euros, mainly thanks to dividend received for 6.8 million euros and the write off of equity investments for 0.7 million euros.

After considering a tax effect, for current and deferred income tax, totalling 21.9 million euros (26.9 million euros in 2017), at a tax rate of 24.2%, substantially in line with the previous year when it was 24%, the net result for the period came to 68.7 million euros, against 85 million euros in 2017. At December 31st, 2018 net profit accounted for 10.8% of revenues (12.8% at December 31st, 2017).

Capital expenditures. Capital expenditures made in the 2018 financial year amounted to 17.6 million euros, increased from previous year when they were 15.7 million euros. About 6 million euros are the capital expenditures invested in the normal processes of modernisation of facilities and industrial equipment mainly dedicated to the purchase of additional industrial equipment for the creation of the collections (lasts and moulds). A significant quota of investments in the year was also allocated to the development of the company information systems, among which those linked to the digital channel and its integration with the Group distribution network.

Net financial position (NFP). At December 31st, 2018, the net financial position was negative for 159.1 million euros (negative for 73.9 million at December 31st, 2017).

Other current financial assets are related to two loans granted to subsidiaries Roger Vivier S.p.A. and Tod's Denmark APS while other non-current financial assets are related to two loans granted to subsidiaries Tod's Australia PTY Ltd and Tod's Austria GMBH.

At December 31st, 2018 the current financial debt included both the current financial liability relating to the syndicated loan agreement entered into with Mediobanca and Crédit Agricole in 2014, and the short term loan for 100 million euros, previously commented, reimbursed on its expiring date at January 29th, 2019.

euro 000's			
Net financial position	12.31.18	12.31.17	Change
Current financial assets			
Cash and cash equivalents	66,703	100,802	(34,099)
Other current financial assets	9,200	9,000	200
Current financial assets	75,903	109,802	(33,899)
Current financial liabilities			
Current account overdraft			
Current share of medium-long term financing	(167,999)	(46,176)	(121,823)
Current financial liabilities	(167,999)	(46,176)	(121,823)
Current net financial position	(92,095)	63,626	(155,722)
Non current financial assets			
Other non-current financial assets	2,639		2,639
Non-current financial assets	2,639		2,639
Non-current financial liabilities			
Medium-long term financing	(69,666)	(137,572)	67,906
Non-current financial liabilities	(69,666)	(137,572)	67,906
Non-current net financial position	(67,027)	(137,572)	70,545
Net financial position	(159,122)	(73,945)	(85,177)

Operating activities during the year generated cash for 9.7 million euros (against 118.4 million euros in 2017). Net of paid taxes and interest expense, net Cash Flows from operating activities amounted to 4.2 million euros (94.5 million euros at December 31st, 2017). Compared to the previous year, in particular it is highlighted that a greater absorption of cash at the operating working capital level is mainly due to the anticipation of the production relating to the products of the following sales season, which will produce its positive effects on liquidity next year.

Cash flows from investing activities, amounted to 42.9 million euros and represent cash flows invested in fixed assets, which include, for 24.1 million euros, the price paid for the acquisition of Italianouch Group. Cash flows collected from financing activities amounted to 4.6 million euros (cash flows used for financing activities were 66.5 million euros in 2017) and they are mainly related to the reimbursement of the outstanding loans for 46.2 million euros and distribution of dividends to the shareholders for 46.3 million euros. The figure also includes the raising of a short-term loan, for a total of 100 million euros, stipulated by TOD'S S.p.A., characterized by the total absence of charges and interest, repaid on the due date of January 29th, 2019.

euro 000's		
Statement of cash flows	FY 18	FY 17
Net Cash and cash equivalents at the beginning of the period	100,802	87,989
Cash flows from operating activities	9,686	118,375
Interests and taxes collected/(paid)	(5,499)	(23,884)
Net cash flows from operating activities	4,187	94,490
Cash flow generated (used) in investing activities	(42,863)	(15,169)
Cash flow generated (used) in financing activities	4,577	(66,509)
Net Cash and cash equivalents at the end of the period	66,703	100,802

Other Information

Statement pursuant to art. 2.6.2 paragraph 8 of the regulations for markets organized and managed by Borsa Italiana S.p.A. In respect of Art. 36 of CONSOB Regulation no. 16191 of October 29th, 2007 on conditions for the listing of companies that control entities formed or governed under the laws of countries outside the European Union that are of material significance to the financial statements, we report that 10 of the company's direct or indirect subsidiaries fall under these provisions (Tod's Korea Inc., Tod's Shanghai Trading Co. Ltd, Roger Vivier Shanghai Trading Co. Ltd, Tod's Hong Kong Ltd, Roger Vivier Hong Kong Ltd., Tod's Japan KK, Deva Inc., An. Del. USA Inc. Flor Del. USA Inc., Cal. Del. Usa Inc.), that suitable procedures have been adopted to ensure total compliance with said rules, and that the conditions stated in Art. 36 have been satisfied.

Disclosure pursuant to Consob Resolution no. 17221 of March 12th, 2010 (Related Parties Regulation). During 2018 the Group did not conclude highly significant transactions with related parties or related party transactions that had a material impact on the assets, liabilities or net income of the Group, and there were no modifications or developments in the transactions described in the 2017 Annual Report that had the same effects. It should be noted that on September 27th, 2018, with effect from October 1st, 2018, the parent company TOD'S S.p.A. acquired from the related party Diego Della Valle & C. S.r.l., which is owned by directors Diego and Andrea Della Valle and is controlled by the former Director, 100% of the entire quota capital of related party Italiantouch S.r.l., a company that holds 100% of both the share capital of Italiantouch USA Inc. and Italiantouch Trading (Shanghai) Co. Ltd.

This transaction, which is described in more details in the explanatory notes, is described as one of "minor significance" according to art. 7 of the Regulation on Related-Party Transactions and art. 4 of the Procedure on related Parties Transactions. All the information regarding existing relations with related parties in 2018 are set out in the supplementary notes.

Management and coordination activities. Although TOD'S S.p.A. is subject to the control (pursuant to Article 93 of Legislative Decree 58/1998) of DI.VI. Finanziaria di Diego Della Valle & C. S.r.l., neither this latter company or any other party has dictated policy or interfered in the management of TOD'S S.p.A. (or any of the subsidiaries of TOD'S S.p.A.). Indeed, management of the issuer and its subsidiaries was not subject to any influence by third parties outside the TOD's Group.

TOD'S S.p.A. is not subject to management and coordination by the parent company DI.VI. Finanziaria di Diego Della Valle & C. S.r.l. or any other party pursuant to Sections 2497 et seq. Italian Civil Code.

Pursuant to the Corporate Governance Code, transactions that have a particularly significant impact on TOD'S S.p.A. strategy, operations, assets, liabilities, and financial position are subject to exclusive review and approval by the Board of Directors of the issuer TOD'S S.p.A. Its members include independent directors without executive responsibilities at the company, in accordance with the rules set out in article 3 of the Corporate Governance Code.

The expertise and authority of the independent directors without executive responsibilities and their material impact on decisions taken by the Board of Directors represent a further guarantee that all decisions by the Board of Directors are taken exclusively on behalf of TOD'S S.p.A. without being influenced by instructions or interference by third parties representing interests opposed to the Company's.

All subsidiaries of TOD'S S.p.A. are subject to management and coordination by the issuer. This activity consists in defining the general strategic policies for the Group, the internal control and risk management system, and the elaboration of general policies for management of the most

important operating drivers (human, financial, productive, marketing and communication resources), without impairing the complete managerial and operating autonomy of the subsidiaries.

Research and development. Given the particular nature of the Group's production, research and development activity consists of continuous technical/stylistic revision of models and constant improvement of the materials used to realise the product.

Since this activity is exclusively ordinary, the associated costs are charged entirely to income in the year that they are incurred, and thus recognised as normal production costs.

Research and development costs, as defined above, have assumed major importance due to operating realisation of projects connected with expansion of the existing product line with new types of merchandise that complement current ones. These will increase the number of brands offered and stimulate increased sales to end customers.

Reconciliation of the result for the period and net equity of the Group with the analogous values of the Parent Company. The following table illustrates the reconciliation of the result for the period and net equity of the Group with the analogous values of the Parent Company, in accordance with CONSOB memorandum DEM/6064293 dated July 28th, 2006.

euro 000's	12.31.18		12.31.17	
	Net Profit	Share equity	Net Profit	Share equity
Parent Company	68,696	925,225	84,977	908,213
Difference between book value of consolidated Companies and net equity method valuation	(9,685)	220,866	(1,360)	244,388
Goodwill from Business combination Parent Company		(13,685)		(13,685)
Goodwill from Business combination Group		12,285		12,285
Others (*)	(11,865)	(79,541)	(12,609)	(64,929)
Minority interest	(688)	(452)	(1,645)	880
Group	46,458	1,064,699	69,362	1,087,152

(*) Mainly dividends and intercompany profits

Information on Share Capital. At December 31st, 2018 the Company's share capital was divided into 33,093,539 shares, with a par value of Euro 2 each, for a total nominal value of euro 66,187,078, unchanged respect to 2017.

Own shares and shares or quotas of controlling companies. As of December 31st, 2018 the Company did not possess any of its own share nor did it possess any shares or quotas of the controlling companies, neither since the date on which the shares of the Company were listed on the Milan Stock Exchange, the Company has not been a party to any transactions with reference to its own shares.

Significant events occurred after the end of the period

Consistently with the regular monitoring of its distribution network, the Group has decided to move the location of the flagship store of the Tod's brand in Tokyo, from Omotesando to another area of the city which has greater traffic. It then caught the opportunity to sell the property of Omotesando in a moment that sees the Japanese real estate market at its all-time highs. On March 7th, 2019, the company Holpaf BV, a wholly-owned subsidiary of Tod's, signed a preliminary agreement concerning the sale of the property of Omotesando which hosts the Japanese flagship store of the Tod's brand and the Group's regional offices. The price agreed for the sale of the real estate is equal to 156 million euros, of which one third was cashed in at the signing of the preliminary, as a deposit and advanced payment, and the remaining two thirds at the time of the closing, with the definitive transfer of the real estate. The completion of the sale will result in a gross gain of around 100 million euros, compared to the book value accounted in the financial statements.

The Group will maintain the availability of the property until the date of the closing that will take place, upon indication of the Group, when it will have available both the new store and the new offices, anyway by October 31st, 2019.

Business outlook

The results for the period which has just ended reflect the Group's present development plan and the strategic choice to invest substantial financial resources in supporting future growth. The objective is to carry out this development plan without delay, improving the performances of the direct network of stores by means of the excellence of the Group's products and highlighting their quality, craftsmanship, style and creativity. On this basis, further reinforced by cogent targeted communication strategies on all channels and thanks to the excellent results from the digital channel, which will be increasingly integrated in the Group, we may expect that revenues will start growing again in the near future.

Approval of Financial Statement and proposal for the allocation of the profit for the period

The consolidated financial statements of the TOD'S Group and the separate financial statements of TOD'S S.p.A. were approved today by the Board of Directors.

It is proposed to the shareholders meeting to approve the separate financial statements of TOD'S S.p.A. and the following allocation of the 2018 Company's profit, which amounts to 68,695,558.92 euro:

- i. 35,137,441.92 euros to the extraordinary reserve;
- ii. 33,093,539 euros, to be distributed to shareholders in the form of a dividend of 1 euros per share for each of the outstanding 33,093,539 shares;
- iii. 464,578 euros to the specific reserve for promoting territorial solidarity projects.

Milan, March 11th, 2019

The Chairman of the Board of Directors
Diego Della Valle

Consolidated Non-Financial Statement - FY 2018 pursuant to articles 3 and 4 of Italian Legislative Decree no. 254 of 2016

Letter to stakeholders

2018 was a very important year for our Group. The path towards increasingly integrating sustainability in our business strategy led, over the course of 2018, to the achievement of many milestones. This year we are committed to meeting our commitments to continuously improve our sustainability performance and to develop increasingly strong and transparent relationships with stakeholders.

Our second Non-Financial Statement, relating to the 2018 financial year, reflects what has been achieved over the course of the year. With this new edition, we intend not only to present the goals that have been reached, but above all to demonstrate our commitment to the implementation of a sustainability strategy that is increasingly interconnected with our business strategy, progressively integrating sustainability objectives and economic objectives.

The Group's values of tradition, innovation, ethics, solidarity and Italian spirit continue to represent the core principles that have allowed our Group to grow in a mindful manner, increasingly conscious of how these values constitute the foundations on which to base our future development.

During 2018, we formalised the Sustainability Policy in order to spread the principles of corporate and environmental responsibility and to promote their application not only within the Group, but also among those who cooperate or collaborate with us in any capacity. The principles set out in the Sustainability Policy are outlined in our first Sustainability Plan, which is an even more tangible representation of how our commitment to sustainability concretely permeates the essence of our business. In addition, as further evidence of the importance that we place on the values of ethics and integrity, our Group formalised an Anti-corruption Policy in 2018.

These values were further consolidated over the course of 2018 through the preparation of a Supplier Code of Conduct, which defines the principles and rules of conduct that must be respected in order to guarantee fair, equitable and responsible working conditions along the supply chain. Furthermore, this year the Group focused on working towards promoting the well-being of all those who deal with us and towards improving the quality of internal relations, including through the organisation of workshops aimed at spreading sustainability principles.

In the current dynamic, changing environment, the main challenge is to continue to grow over time, while at the same time continuing to develop a transparent relationship with all our stakeholders. With this in mind, we believe that what we have done so far is only a first step in a process of sustainable development that will continue to evolve, providing results that we can take pride in.

Methodological note

TOD'S Group's (hereinafter also the "Group" or "TOD'S") first Non-Financial Statement is a tool to transparently and articulately describe the economic, social and environmental results achieved by the Group and demonstrates the Group's commitment to sustainable development, with the aim of creating value not only for itself, but also for its stakeholders.

This document also responds to the obligation to report non-financial information set out in Legislative Decree no. 254 of December 30th, 2016 (hereinafter "Decree 254"), which TOD'S S.p.A. is subject to.

This Non-Financial Statement relates to the 2018 financial year (from 1 January to 31 December) and was prepared in accordance with articles 3 and 4 of Decree 254 and with the GRI Sustainability Reporting Standards defined in 2016 by the GRI - Global Reporting Initiative, according to the "In accordance - Core" option. The appendix to the document contains the "GRI content index", with the details of the content reported in accordance with the guidelines mentioned above. This document also follows the "Guidelines on non-financial reporting" (2017/C 215/01) issued by the European Commission on June 26th, 2017.

The NFS is published annually and the previous edition, relating to the 2017 financial year, was published in March 2018.

The present document aims to describe to its stakeholders the management model and policies practised by the Group in relation to sustainability, describing the most significant results achieved in the financial year in question, to the extent necessary to ensure understanding of the company's business, performance, results and impact, covering environmental and social issues and issues relating to staff, to respecting human rights and to the fight against active and passive corruption, which are relevant considering the company's activities and characteristics and stakeholders' expectations, as illustrated in the materiality analysis contained in this document.

The process of collecting data and information to draft this Non-Financial Statement was managed in collaboration with TOD'S Group's corporate functions, with the aim of providing a clear and precise indication of the information considered significant for the stakeholders according to the principles of accuracy, balance, clarity, comparability, reliability and timeliness set out in the GRI guidelines.

The scope of the data and information reported in this Statement is limited to the fully consolidated companies in TOD'S Group as of December 31st, 2018 which are grouped into the following regions: Italy, Europe, Greater China, Americas and Rest of the World¹.

In particular, the scope of the economic data is the same as that of the Group's 2018 Consolidated Financial Statements, while the scope of the social and environmental data and information is limited to the fully consolidated subsidiaries.

¹ For more information on the fully consolidated companies in TOD'S Group, please refer to the specific section of the Group's Annual Financial Report for 2018.

The full scope of consolidation as of December 31st, 2018 changed from how it was as of December 31st, 2017. In particular, the following companies were established: Roger Vivier Deutschland GmbH (on February 6th, 2018), Roger Vivier Australia PTE Ltd (on April 16th, 2018), Roger Vivier Espana SL (on May 4th, 2018), Tod's Australia (on July 25th, 2018) and Roger Vivier Canada (on October 10th, 2018).

Furthermore, on September 27th, 2018, effective as of October 1st, 2018, TOD'S S.p.A. acquired 100% of the shares representing the share capital of Italiantouch S.r.l., which in turn has full ownership of both Italiantouch USA Inc. and Italiantouch Shanghai Trading Co. Ltd.

Finally, on June 27th, 2018, effective as of July 1st, 2018, Del. Com. S.r.l., which is wholly controlled by the parent company TOD'S S.p.A., acquired, from third parties, the additional 50% of the shares representing the share capital of Del. Pav. S.r.l.

Any specifications and exceptions to the reporting² scope are duly noted in the relevant sections. This document provides adequate data and information to the extent necessary to ensure understanding of the Group's business, performance, results and impact (so-called material issues).

Where available, data relating to the previous financial year is shown for comparative purposes only, in order to allow an assessment of the performance of the Group's activities over a longer period of time. Moreover, the chapters of the Non-Financial Statement report quantitative information for which estimates have been used.

Finally, to facilitate reading of the document, it should be noted that the following terms have been used:

- "The Parent Company" and "The Company" with reference to TOD'S S.p.A.;
- "The Group" with reference to TOD'S Group (Parent Company and fully consolidated companies);
- "Italy" with reference to the area that is home to the business of TOD'S S.p.A., Del. Com. S.r.l., Del. Pav. S.r.l., Filangieri 29 S.r.l., Re.Se.Del. S.r.l., Roger Vivier S.p.A., Italiantouch S.r.l.

Envisaging a path of continuous improvement related to sustainability aspects, the Group achieved many objectives in 2018, in line with what was outlined in its development plan for project activities over the 2018-2020 three-year period. Namely:

- development of a Sustainability Policy and Sustainability Plan, setting out the Group's principles, goals and commitments regarding the relevant issues;
- formalisation of the Group's Anti-Corruption Policy;
- design and implementation of initiatives to analyse the corporate climate;
- organisation of workshops to spread sustainability culture within the Group.

² In cases of limitations, the scope coverage was calculated as a percentage of the total number of Group employees at the end of the reference year.

The activities will continue in subsequent financial years. In particular, for 2019 and 2020, the Group's development plan includes the following objectives:

- preparation of the Supplier Code of Conduct, based on international conventions and standards (ILO, UN) and sharing of the Supplier Code of Conduct with the main categories of suppliers (contractors, external workshops and relevant suppliers of raw materials and components) by 2019;
- planning and conducting of third-party production chain audits focused on environmental and social issues, human rights, health and safety, and ethical principles, by the end of 2019;
- formalisation of policies regarding personnel management issues by the end of 2019 for Italian companies and subsequent extension to the Group's other companies, in order to standardise actions and behaviour in the various regions in which the Group operates;
- formalisation of the Group's environmental policy by the end of 2019;
- start of the implementation of the ISO 14001 environmental management system, by 2019;
- start of the implementation of the ISO 45001 health and safety management system by 2020.

This Statement was assessed for compliance by an auditor which, with a separate report, certifies the compliance of the information provided pursuant to Article 3(10) of Legislative Decree 254 of 2016. Checks are carried out according to the procedures indicated in the "Independent Auditor's Report" included in this document.

This document was approved by the TOD'S S.p.A. Board of Directors on March 11th, 2019 and published on the company's website www.todsgroup.com. To request more information about TOD'S Group's sustainability strategy and the contents of this Non-Financial Statement, please contact the following address: infocsr@todsgroup.com.

1. Approach to sustainability

For TOD'S Group, sustainability means conducting its activities with an eye to the future and focusing its business strategy on creating value for stakeholders in the medium and long-term.

The Group's sustainability strategy is geared around three core values that have always been key to its identity:

- **tradition and innovation**, the result of over a century of quality and excellence, based on passion, creativity and the promotion of Made in Italy production, elements that are inseparable from the outstanding quality of the products made by the Group's brands;
- **ethics**, namely the continuous pursuit of honesty, fairness, confidentiality, transparency and reliability in its relationship with all stakeholders;
- **solidarity and Italian spirit**, in other words responsibility towards the community (with a focus on the most vulnerable people, both locally and internationally) and towards the area in which the Group is present (with the aim of enhancing Italy's image throughout the world).

These values are reflected in numerous annual and long-term sustainability initiatives that the Group undertakes, evidencing its commitment to its stakeholders and to the context in which it operates.

Strengthened by its values and aware of its commitment to uphold and continually develop them, the Group has taken steps towards sustainability reporting in order to demonstrate its economic, social and environmental impact on the local area and the community, while constantly monitoring this impact and striving to improve.

In order to promote the spread of social and environmental sustainability standards, which have **Sustainability Policy** always been the basis of TOD'S Group's activities and business strategies, the Group prepared a during 2018, which was approved by the Board of Directors on January 23rd, 2019.

The principles presented in the document relate to Human Resources, the environment, responsible management of the supply chain, the central importance of the customer and to supporting the country and its economic/industrial system and artistic and cultural heritage. They apply to corporate bodies, employees (without exception), contractors (including but not limited to consultants, agents, representatives, brokers, etc.), and anyone who works with TOD'S Group companies in any capacity.

TOD'S Group's Sustainability Plan

In order to implement its approach to sustainability with tangible actions and concrete objectives in the short and medium term, TOD'S Group drafted its first Sustainability Plan in 2018. The Plan defines initiatives in line with the Group's strategy, aimed at achieving objectives in the following areas:

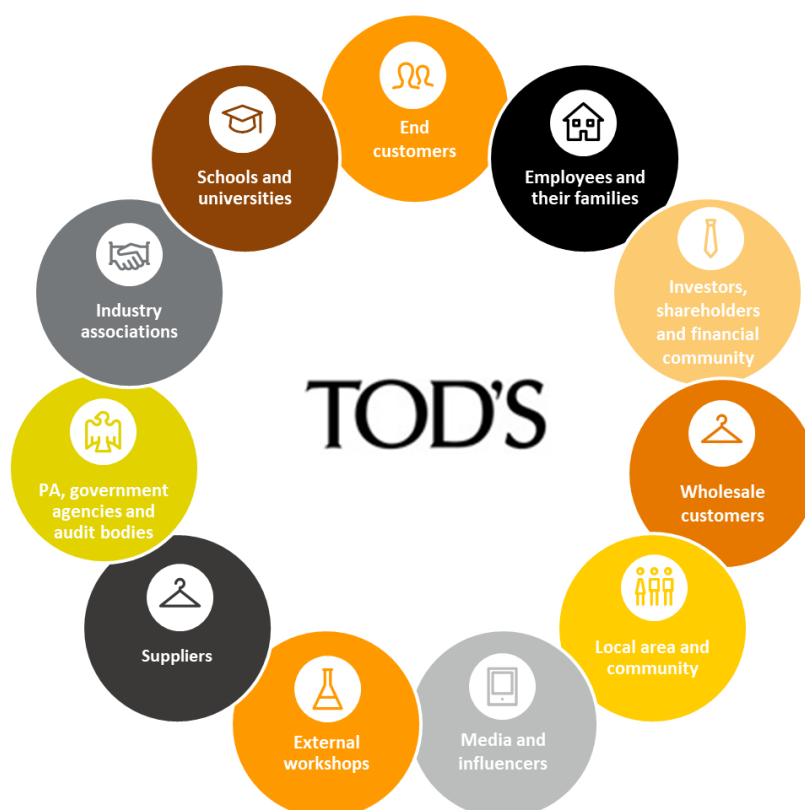
- **management of sustainability issues**, for example through implementation of initiatives in line with the requirements of Legislative Decree 254 of 2016 and by international reporting standards and the organisation of stakeholder engagement activities;
- **talent development and promotion of equal opportunities**, for example through implementation of tools aimed at assessing employee performance and defining training plans customised to their tasks and training needs;
- **employee well-being**, through optimisation of welfare programmes and implementation of initiatives aimed at protecting workers' health and safety;
- **responsible management of the supply chain**, through the definition and dissemination of social, ethical and environmental standards for suppliers, the implementation of production chain audits and the definition and implementation of standards relating to the use of chemical substances;
- **monitoring and reduction of environmental impact**, through the implementation of an environmental management system and the definition of an energy efficiency plan in the Group's stores, offices and factories;
- **environmental awareness activities for employees**, through the promotion of good behaviour from an environmental point of view among the Group's employees and the implementation of sustainable mobility activities;
- **monitoring and optimisation of logistics**, for example through initiatives aimed at increasing the traceability of emissions produced by logistics processes;
- **responsible consumption of materials**, for example through actions aimed at optimising and rationalising environmental impact related to materials used, such as paper and plastic;
- **management, satisfaction and central importance of customers**, through CRM initiatives, customer satisfaction level assessments and activities designed to involve customers;
- **collaboration with schools, universities, industry associations and design institutes**, through ongoing collaboration, the launch of new initiatives and the promotion of projects designed to support research and innovation in terms of health protection, safety and respect for the environment;
- **initiatives to show solidarity and support for Italian spirit**, through the promotion and continuation of initiatives to benefit the area and to support its artistic and cultural heritage.

1.1 Interaction with stakeholders

Openness, dialogue and constant interaction with internal and external stakeholders are essential to the company's pursuit of its goals. This approach allows the Group not only to understand the needs, interests and expectations of its stakeholders, but also to identify the best ways to generate shared value in the medium and long-term.

Starting from its own characteristics, activities and awareness of its role in the context in which it operates, TOD'S Group has carried out internal analysis, which involved the management, to identify the categories of stakeholders with which it interfaces in the course of its activities. The results of this analysis, integrated and compared with what emerged from a careful benchmark analysis aimed at a mapping current trends, including among its main competitors, and national and international best practices, led to the identification of 11 categories of stakeholders that can influence or be influenced by the Group's activities.

The map of TOD'S Group stakeholders




The Group's approach to its stakeholders is aimed at implementing various kinds of dialogue and involvement initiatives that take advantage of the Group's many interaction channels.

Main initiatives for dialogue with stakeholders

Stakeholder categories	Main dialogue and involvement initiatives
 End customers	<ul style="list-style-type: none"> • Different sales ceremony for each of the Group's brands • Direct interaction with sales staff in the boutiques • E-commerce digital sales channel • Telephone and e-mail contact • Option to customise products • Gifting strategy • Product catalogue delivery • Customer Care and Customer Delight services • After-sales services • Returns management policies • Creation of special content on social media
 Employees and their families	<ul style="list-style-type: none"> • "Welfare" project (in Italy) • Induction programmes for new employees • Italian Orientation project for new retail employees • Gym services, childcare centre, media library/library and corporate catering in the headquarters • Skills development programmes, tailored to the needs of different professional figures • Linguistic and technical/specialist training programmes • Workshops on sustainability issues within the Group • Annual meetings to discuss career development and performance assessments • Membership on a three-year basis of an assessment programme to monitor, improve and develop staff management practices • Cycles of interviews designed to assess the corporate climate
 Investors, shareholders and financial community	<ul style="list-style-type: none"> • Shareholders' Meeting • Institutional website • Meetings and conference calls with institutional investors and analysts • Industry conferences organised with the main international brokers • Roadshows in the main European financial centres • Investor day

	<ul style="list-style-type: none"> • Contact with private shareholders
 Wholesale customers	<ul style="list-style-type: none"> • Meetings in the showrooms • Telephone or e-mail contact to share business performance • Invitations to fashion shows/events/collection presentations
 Local area and community	<ul style="list-style-type: none"> • 1% of the Group's net profit is allocated to supporting initiatives targeted at members of the local community who require the most assistance • Collaborations with non-profit organisations to support charitable initiatives for disadvantaged people • National and international collaborations and initiatives aimed at the promotion and protection of the Italian spirit worldwide
 Media and influencers	<ul style="list-style-type: none"> • Institutional website • Institutional communication events and initiatives • Conferences • Press releases • Press days • Interviews with top management • Invitations to fashion shows/events • Collaborations with important bloggers and influencers
 External workshops	<ul style="list-style-type: none"> • Definition and sharing of technical and quality standards • Visits to start the production process and to monitor product quality • Sharing of production progress • Dedicated portal/information systems
 Suppliers	<ul style="list-style-type: none"> • Daily reports • Definition and sharing of technical, stylistic and quality standards • Supplier portal
 PA, government agencies and audit bodies	<ul style="list-style-type: none"> • Special periodic meetings • Collaboration to develop initiatives
 Industry associations	<ul style="list-style-type: none"> • Constant dialogue and meetings • Participation in workgroups • Design and development of joint projects • Participation in trade fairs

 Schools and universities	<ul style="list-style-type: none">• Support for initiatives to facilitate students' entry into the world of work, including through school/work alternation• Participation in career days and job fairs• Organisation of placements and internships• Sharing of expertise• Collaborations with prestigious universities and design schools• Participation in specialised training courses
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1.2. Materiality analysis

In order to identify economic, social and environmental aspects that are relevant to the Group and significantly influence or could influence the assessments and decisions of its stakeholders, TOD'S Group carried out a materiality analysis that was translated into the aspects reported in the Non-Financial Statement.

The process of defining the material aspects, which was carried out according to the GRI Standards Guidelines published in 2016 by the GRI - Global Reporting Initiative and pursuant to Legislative Decree 254 of 2016 on non-financial information, was divided into several stages, which are presented below.

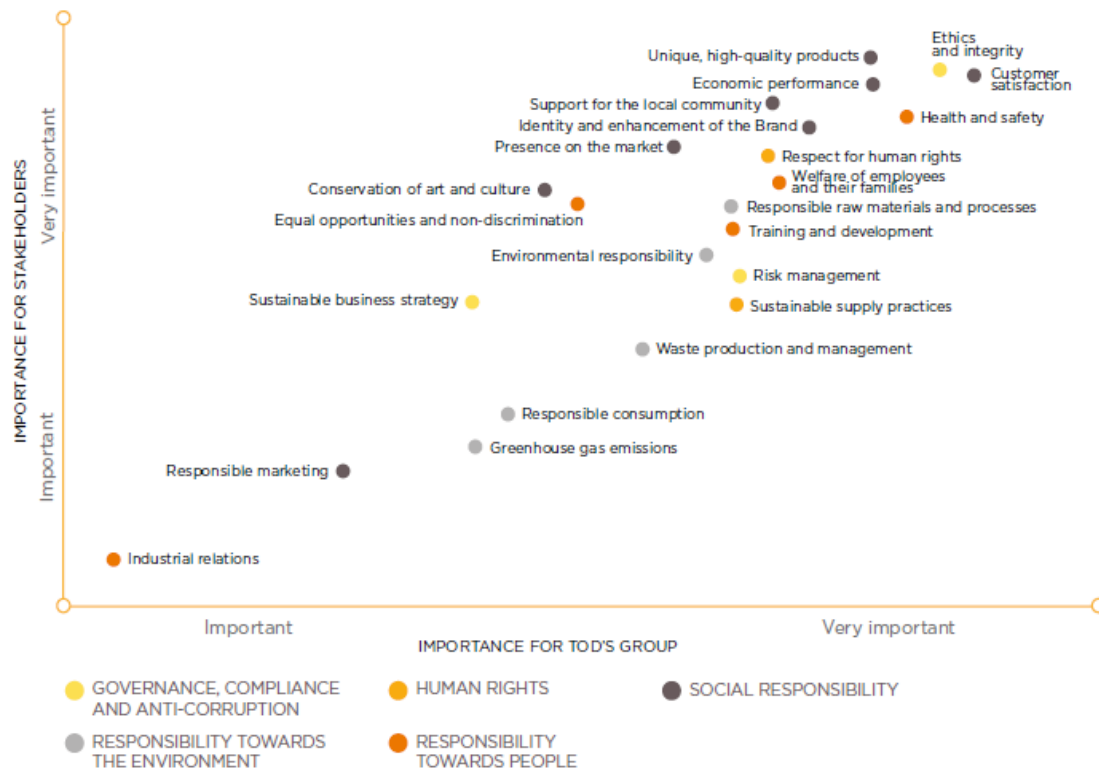
- **Identification of the relevant issues:** first, all the issues relevant to the Group and its stakeholders were identified. These issues were identified through analysis of internal documents (Code of Ethics, Annual Financial Report, institutional website, etc.) and external documents (studies and industry publications), as well as through extensive benchmarking analysis of best industry practices at a national and international level.
- **Evaluation of the relevant issues:** in order to prioritise the relevant issues, the Group organised a workshop that involved the participation of the management. The management was asked to evaluate the relevance of the issues from two different perspectives: on the one hand, for the Group and, on the other, for the stakeholders, acting as a representative for their opinions and expectations.
- **Identification of material issues:** drawing on the results of the workshop, it was possible to define TOD'S Group's first materiality framework, which consists of **23 material themes**, including respect for ethical principles, customer satisfaction and the offer of unique, high-quality products.

Considering the importance that the Group places in stakeholder involvement, with a view to defining material topics and to identifying their needs and expectations, the Group has set itself the goal of guaranteeing, over the years, to increasingly involve stakeholders in the **materiality process**.

It should be noted, in this regard, that TOD'S Group already began, in 2018, the process of employee involvement, submitting the issues in the materiality framework for employees' evaluation in the workshop sessions on sustainability. The most relevant issues that emerged were in line with what was reported in the most important area within the materiality framework.

TOD'S Group's materiality framework

The materiality framework's synthesis of the company's approach and the shareholders' perspective is a significant tool for defining and developing sustainability priorities and continuing to generate shared value in the medium and long-term.



2. Ethical and responsible business management

Due to its size and the significance of its activities, TOD'S Group is aware of the important role it plays in the community in which it operates and is therefore determined to ensure that its activities are conducted to the highest degree of correctness, while building and preserving a relationship of trust with its stakeholders.

For this reason, the Group conforms to the following ethical standards in the pursuit of its objectives:

- compliance with the legislative and regulatory provisions applicable in all the countries in which Group companies operate and observance of the strictest rules, particularly as these apply to relations with the public administration;
- equal and impartial treatment of employees, associates and customers;
- transparency and reliability;
- honesty, correctness and good faith;
- confidentiality;
- value of people and human resources.

Since 2008, these principles, which inspire our business conduct, have been formalised in the **Group's Code of Ethics**, which has been subsequently updated, most recently by the board resolution of April 19th, 2018, in order to align its content to the best international practices, as well as to further integrate issues of corporate social responsibility. Observance of the Code of Ethics is an essential condition underlying the correct operation of the companies comprising the Group, the protection of its reliability, reputation and image, enabling us to ensure the increasing satisfaction of our customers. Therefore, all employees and other individuals who are involved in the operations of TOD'S Group companies are required to know and uphold the principles of the Code of Ethics, each to the extent of their competence. In order to concretely apply the inspiring principles contained in the Code of Ethics, the Group promotes knowledge of the Code and disseminates it through publication on the company website (at the following address: https://www.todsgroup.com/system/document_its/288/original/Codice_Etico_Aggiornamento_del_19042018.pdf) and the provision of specific informative and training activities for employees, while also guaranteeing its full observance through the inclusion of specific clauses in the contracts and agreements to which the Company or the Group is party.

2.1. Compliance with laws and regulations

To ensure the highest level of correctness and transparency in the pursuit of its business and within the relative company activities, TOD'S S.p.A. adopted its own Organisation, Management and Control Model (the "Model" or "Organisational Model") pursuant to the January 30th, 2009 resolution of the Board of Directors, in compliance with the requirements of Legislative Decree 231 of June 8th, 2001.

In addition to ensuring application of correct corporate governance principles and in accordance with the ethical and social values underlying the Code of Ethics, the adoption of the Organisational Model and the Code of Ethics is an effectual instrument with which to regulate the relations of all the employees and associates of the Group with the Group's stakeholders (suppliers, customers, public administration, partners, etc.) - preventing the risk of committing the offences included in Legislative Decree. 231 of 2001.

Through its adoption of the Model, the Company intends to pursue the following objectives:

- make the recipients of the Model aware that by violating the provisions therein, they run the risk of committing illegal acts which could result in them receiving criminal penalties, as well as administrative penalties and disciplinary measures imposed directly by the Company;
- reiterate that the Company very strongly disapproves of these forms of illegal conduct, since they violate the law and the principles of ethics which it strives to follow in the conduct of its business;
- allow the Company, through monitoring of the areas of operations at risk, to immediately intervene or prevent the offences from being committed. The provisions of the Model are binding upon the directors and all persons whose duties involve the representation, administration and management, including the de facto management, of the Company as well as the employees and the external associates who are subject to the direction or supervision of the Company's management. The Model is periodically updated by the Board of Directors so as to reflect the offences that have been introduced in the meantime; the last update was approved pursuant to the Board's resolution on April 19th, 2018. With the same resolution, the Supervisory Body was also renewed, a body with autonomous powers of initiative and control to ensure the correct implementation and observance of the Model and application of the necessary updates. Currently, this Body has three members: an independent director (who is the Chairman), a member of the Board of Statutory Auditors and the Head of the Internal Audit Department.

Upon completing the verification work for the period of reference, every half year the Supervisory Body submits a report to the Board of Directors. Moreover, the Body assists other departments/functions with supervisory duties to observe the rules of conduct included in the Code of Ethics and the Organisational Model.

In 2018, the two main Italian subsidiaries – Roger Vivier S.p.A. and Del. Com. S.r.l., by resolution of their respective Governing Bodies, adopted, respectively as of August 2nd, 2018 and September 7th, 2018, their own Organisation, Management and Control Model, pursuant to Legislative Decree 231 of 2001, also establishing their own Supervisory Body. To afford all the recipients the ability to report acts or facts which could be in violation of the Model, each of the three companies – TOD’S S.p.A., Roger Vivier S.p.A. and Del. Com. S.r.l. – has set up a confidential communications channel which allows interested parties to contact the Supervisory Body, using an ordinary postal address and an email address.

Anti-Corruption Policy

Over the past few years, the fight against corruption, both at a national and international level, has become increasingly important, as evidenced not only by the toughening of associated sanctions (i.e. fines, injunctions and detention), but also in terms of the reputational impact of this crime.

TOD’S Group, in its business activities, is committed to fighting corruption and to preventing the risks of illegal practices, at every working level and in every geographical area in which it operates, through the dissemination and promotion of ethical values and principles, as well as through effective provision of rules of conduct and effective implementation of control processes, in line with the requirements set out by applicable regulations and with international best practices.

In this regard, with a resolution passed on January 23rd, 2019, the Board of Directors of the Parent Company TOD’S S.p.A. approved the Group’s Anti-Corruption Policy (available at the following link: <https://www.todsgroup.com/en/corporate-governance/procedures-and-guidelines/>) in order to strengthen measures to prevent and combat potential corrupt practices.

This Policy applies to all corporate bodies, employees, agents, suppliers, associates and anyone assisting or taking part in any capacity in the pursuit of TOD’s Group objectives, irrespective of their specific type of contractual relationship (hereinafter also “Recipients”).

TOD’S Group is aware that this policy, which set outs in a clear and transparent manner the set of conduct standards to prevent, identify and manage the risks of corruption, as well as the

rules and values that inspire the Group to achieve its business objectives, is of crucial importance to ensuring maximum transparency and fairness in the conduct of its business in all the countries in which it operates, protecting its image and reputation and meeting the expectations of all stakeholders.

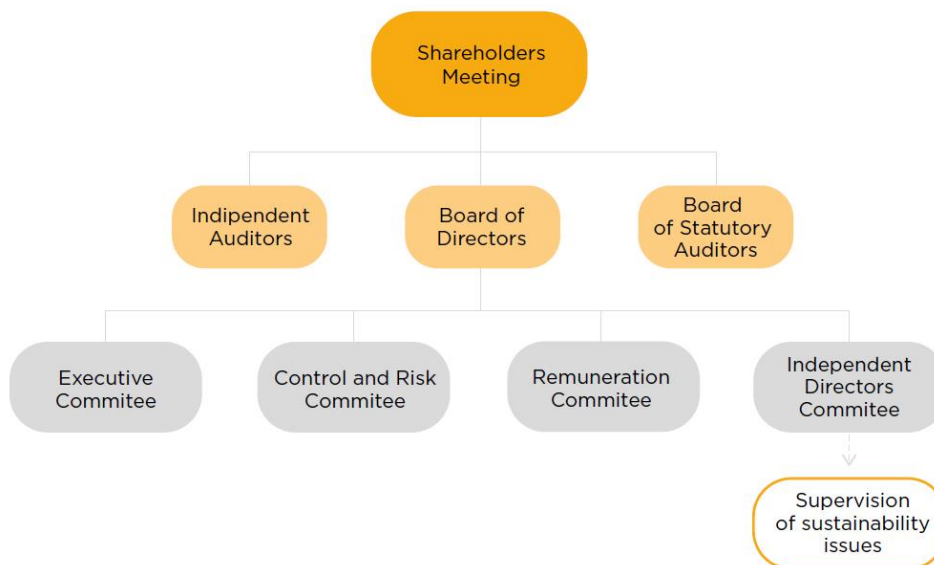
By adopting and disseminating the Anti-Corruption Policy, TOD's Group intends to pursue the following goals:

- define an approach that seeks to contrast any form of corruption, censuring any type of unlawful behaviour as violative not only of the law, but of the ethical principles to which the Group subscribes as it carries out company operations;
- reinforce a corporate culture of integrity and compliance, as well as supervision of company operations and procedures, and interactions with third parties;
- define principles and rules of conduct that all Recipients must implement in order to prevent corrupt behaviour;
- make the Recipients aware that by violating the Policy, they run the risk of committing illegal acts which could result in them receiving criminal penalties, as well as administrative penalties and disciplinary measures imposed directly by the Company.

Finally, all Recipients, should they become aware of any suspected breach of the Anti-Corruption Policy or of any behaviour that does not conform to the rules of conduct adopted by the Group's companies, can, through the established reporting channels, report such incident without delay to the Whistleblowing Office, the body tasked with supervising the implementation and dissemination of this Policy.

Corporate Governance Model

The Parent Company TOD'S S.p.A. has structured its corporate governance system along the lines of the principles and application criteria recommended by the Corporate Governance Code for Listed Companies (the "Code"), distributed by Borsa Italiana. TOD'S S.p.A. follows the traditional corporate governance system, as follows:



The **Shareholders' Meeting** is legitimated to make resolutions, whether ordinary or extraordinary, on the issues placed under its competence by the Law or the Articles of Association.

The **Board of Directors** is vested with the broadest powers for the ordinary and extraordinary management of the Company, without limitations, and has the power to take all the actions that it considers necessary for implementation or achievement of the corporate purpose, except the powers that the law vests in the Shareholders' Meeting exclusively.

The **Board of Statutory Auditors** is legally responsible for monitoring i) observance of the law and the Articles of Association and compliance with the principles of correct management; ii) the adequacy of the Company's organisational structure insofar as the areas that fall under its competence, the Company's internal audit and risk management system and its administrative and accounting system, as well as the reliability of the latter insofar as correctly representing the operating events; iii) the adequacy of the instructions given by companies belonging to TOD'S Group in relation to the information to be provided pursuant to disclosure obligations; iv) the procedures for implementation of the corporate governance rules as provided in the Corporate

Governance Code for Listed Companies which the Company follows. Legislative Decree 39 of 2010 also requires the Board of Statutory Auditors to monitor, in particular, the financial disclosure process, the efficacy of the internal control systems, the internal audit system, if applicable, and the risk management system, the legal audit of the annual accounts and the consolidated accounts and to ensure that the auditing firm is independent. Moreover, within the scope of the functions attributed to it by the Law, the Board of Statutory Auditors shall also monitor observance of the provisions set forth in Legislative Decree 254 of 2016.

The **Independent Auditors** are appointed by the Shareholders' Meeting to audit the accounts, in compliance with the Articles of Association. In compliance with the Italian Civil Code, an external auditor will perform its audit independently and autonomously and therefore shall not represent either the majority or the minority shareholders.

The Shareholders' Meeting appointed PricewaterhouseCoopers S.p.A. as the external auditor of the separate and consolidated accounts for the years 2012 to 2020.

The Financial Reporting Manager is also included among the corporate bodies. The following Committees have been established within the Board of Directors:

- The **Executive Committee**, which ensures that the Company has an agile decision-making process in place. It is vested with all powers which are not restricted to the Board of Directors pursuant to the law, the Articles of Association or the rules of Conduct endorsed by the Company;
- The **Control and Risk Committee** and the **Remuneration Committee**, the role of which is to advise and recommend;
- The **Independent Directors Committee**, established in implementation of Consob Regulation 17221 of 2010 containing the rules regarding Related Party Transactions (the "OPC Regulation"), which is vested with the role and the powers that the OPC Regulation assigns to a committee comprised exclusively of non-executive and independent directors with regard to material transactions with related parties; with its resolution on January 25th, 2017, the Board of Directors also assigned the Independent Directors Committee the duty of supervising sustainability issues related to business operations and to the dynamics of its interaction with all the stakeholders. The Independent Directors Committee therefore:
 - "examines and assesses the sustainability policy to ensure the creation of value over time for shareholders and for all the other stakeholders in compliance with the principles of sustainable development and the sustainability guidelines and objectives submitted each year for review of the Board of Directors;

- examines implementation of the sustainability policy on the basis of the indications provided by the Board of Directors;
- examines and assesses the sustainability initiatives, including in relation to individual projects;
- examines the company's non-profit strategy and implementation thereof, including in relation to individual projects, and the non-profit initiatives submitted to it for review of the Board;
- on the request of the Board, expresses its opinion on other issues regarding sustainability".

The composition of the Board of Directors as of December 31st, 2018 is provided below:

Name	Position	Year of birth	Executive	Non-executive	Independent*
Della Valle Diego	<i>Chairman</i>	1953			
Della Valle Andrea	<i>Chief Executive Officer</i>	1965			
Abete Luigi	<i>Director</i>	1947			
Boscarato Maurizio	<i>Director</i>	1941			
Capparelli Marilù	<i>Director</i>	1974			
Dalmaso Sveva	<i>Director</i>	1956			
Della Valle Emanuele	<i>Director</i>	1975			
Del Torchio Gabriele	<i>Director</i>	1951			
Guglielmetti Romina	<i>Director</i>	1973			
Macchi di Cellere Umberto	<i>Chief Executive Officer</i>	1964			
Macellari Emilio	<i>Director</i>	1958			
Manes Vincenzo	<i>Director</i>	1960			
Oglio Cinzia	<i>Director</i>	1970			
Prandelli Emanuela	<i>Director</i>	1970			
Saviotti Pierfrancesco	<i>Director</i>	1942			

*Corporate Governance Code Independence and CFA (Consolidated Financial Act) Independence.

The current composition of the Board of Directors ensures gender balance in compliance with Law 120 of 2011 and article 17 of the Company's Articles of Association.

In 2018, TOD's Group participated, for the first time, in the Integrated Governance Index (IGI) survey conducted by "ETicaNews" and "Top Legal" with the scientific support of numerous industry associations.

The IGI outlines the companies' positioning in relation to key aspects of sustainability, such as the presence or absence of a Sustainability Committee, the existence of a remuneration policy linked to ESG parameters and the diversity of the Board, with the aim of providing a snapshot of companies' degree of progress in sustainability governance or integrated governance. In 2018,

around 50% of the top 100 companies listed in the Italian stock exchange participated in the study.

For further information regarding Corporate Governance please see the “Corporate Governance and Ownership Structure Report” prepared according to article 123-bis of Legislative Decree 58 of February 24th, 1998 (the Consolidated Finance Act or CFA) for the 2018 financial year, approved by the Board of Directors in its meeting of March, 11th, 2019: the report explains in detail the corporate governance system of TOD’S S.p.A. and includes, in addition to the information required pursuant to article 123-bis par. 2 of the CFA, a comprehensive examination of the current state of the implementation of the governance principles recommended by the Corporate Governance Code for listed companies, in compliance with the so-called “comply or explain” principle. The Corporate Governance and Ownership Structure Report which we hereby refer to in full, is provided to the public together with the Directors’ Report on operations and the financial statements. It can be consulted in the “Corporate Governance” section of www.todsgroup.com.

Again on March 11th, 2019, in observance of article 123-ter of the CFA and article 84-quater of Consob Resolution 11971/99 (the “Issuers’ Regulation”), as subsequently amended and supplemented, the Board of Directors of TOD’S S.p.A. approved the 2018 Remuneration Report. This Report has two sections: (i) the first covers the remuneration policy applicable to the members of the management body, the general manager and the key managers for 2019, and the procedures followed for adoption and implementation of this policy; (ii) the second provides information for each of the items comprising the remuneration report and describes the compensation paid in 2018 to the members of the administration and control bodies, the general manager and the key managers. The Report will be submitted for the approval of the Shareholders’ Meeting which has been scheduled for April 18th, 2019. It will be called upon to make a resolution regarding the first section, which will be non-binding. The Remuneration Report is available at the company’s headquarters and website www.todsgroup.com. It is furthermore noted, that although it is not included under the FTSE-Mib index, the Company, pursuant to the resolution of its board on October 24th 2016, voluntarily introduced as part of its internal control and risk management system, an internal reporting system to be used by personnel for reporting any irregularities or violations of the regulations applicable and the internal procedures (so-called whistleblowing), in line with the best practices domestically and internationally, providing a specific and confidential information channel, and ensuring the privacy of the whistleblower.

Integrated risk management

According to the Corporate Governance Code for Listed Companies, TOD'S Group has in place a risk management system which ensures that the main risks to which the issuer and its subsidiaries are exposed are correctly identified, adequately measured, managed and monitored, while concurrently determining the degree to which these risks are in line with management of the company in pursuit of the identified strategic objectives. At least on a yearly basis, the Directors in charge of the Internal Control and Risk Management System will identify the main risks of the company, taking into account the characteristics of the activities of the Company and its subsidiaries and submit these for examination by the Control and Risk Committee and the Board of Directors. It is hereby specified that the risk identification activity is carried out by way of Control and Risk Self-Assessment interviews, in order to obtain a comprehensive overview of the macro types of risks potentially applicable (typically "strategic" or external risks) and through the results of the internal audit of the company processes, in relation to the operational, financial and compliance risks. Once the risk identification has been completed, the risks are assessed. This process streamlines the internal/external information, allowing management to implement the appropriate actions. Risks are assessed by means of an assessment process upon completion of which a qualitative and quantitative rating is assigned. The rating process associates, for each risk, the probability that the event will occur, and the impact that it would have. These probabilities are also expressed (where possible) in terms of the historical frequency with which an event has materialised as part of the company operations, taking into account also the future scenarios involving repetition of the risky event. The main risk factors affecting the company has been grouped into the following categories, to ensure clarity and simplicity:

- **strategic:** risks which are characteristic of the business (such as for example risks connected to the demand dynamics of the "luxury goods" sector and the risks inherent in the location of the reference markets) the correct management of which constitutes a competitive advantage, or, otherwise, a reason for failure to reach the medium-long-term objectives for the company.
- **operational:** the risk of losses from inadequacy or inefficiency of the processes, persons or internal systems or the result of external events (such as for example, the timeliness of supplies, the concentration of suppliers, the handling of contractors/façons, security and confidentiality of company information, the risk of fraud, etc.). In the context of operational risks, given the digitalisation of processes and the creation of increasingly large information assets, cyber security risks are also identified.

In terms of operational risks, risks relating to potential internal and/or external fraud are also identified. As shown in the previous paragraph, the assessment of internal and/or external risk of fraud should be supplemented, if it arises, with any reports transmitted through the key

communication channels available within the company and any specific assessments conducted as part of the updating of the organisational model pursuant to Legislative Decree 231 of 2001. To protect against these risks, the project activities aimed at the adoption, dissemination and implementation of the Anti-Corruption Policy are highlighted. For more information, see the Anti-Corruption Policy box. Finally, the Audit Plan Methodology provides for adoption of a systematic and structured process that also includes, among its various phases, the identification and association of an indication whether the risk involves IT, financial and fraud, with each Audit Object included within the scope of the Plan.

- **financial:** risks that have direct repercussions on the economic results and the equity of the company and which are mainly connected to external factors such as foreign exchange, credit, interest rate and liquidity risk.
- **compliance/regulatory:** risks connected to failure to comply with the laws, regulations or provisions of the law and/or the regulatory and control authorities and unfavourable amendments to the legal framework (such as, for example, any privacy laws or laws applicable to importing and exporting or which affect the commercial activities and distribution in the markets of reference, in addition to occupational health and safety).

The compliance category encompasses issues and potential risks related to privacy (such as, for example, and in purely potential terms, violation, improper use and accidental or illegal destruction of personal data and unauthorised access or modification of personal or sensitive information processed within the company). TOD'S Group oversees issues relating to privacy in a systematic and structured manner and has adopted suitable organisational, operational and technological measures to ensure compliance with the provisions of the new European Regulation on the protection of personal data (GDPR - General Data Protection Regulation 679 of 2016), whose provisions became effective on May 25th, 2018.

All the risks included in the "health and safety at the workplace" risk category are identified and analysed by management, through preparation of the Risk Evaluation Documents by management pursuant to Legislative Decree 81 of 2008, including the assessment by task/work performed, the actions in place for the relative prevention and protection system, the procedures for responding to emergency and first aid situations, etc. The control activities carried out by the organisational figures required by the regulation also include monitoring activities carried out by the Supervisory Body pursuant to Legislative Decree 231 of 2001. The adequacy of working conditions in its production plants and workplaces is therefore constantly monitored and evaluated by the Group. To formalise this commitment, project activities were undertaken by the Group in order to adopt an ISO 45001 health and safety management system.

Since 2017, TOD'S Group, aware that handling of ESG issues (environmental, social and governance) is becoming a more and more integral part of its own business system and is necessary for creating value over time while concurrently ensuring ethical, responsible and transparent management of its activities, in addition to updating the risk factors identified previously and in line with best practices, has analysed:

- the correlation of the major “material issues” (in economic, social and environmental terms), whether for the Group or for the stakeholders, with the corresponding risk factors identified by its risk assessment activity;
- the risk factors with the most “reputation impact” in order to verify placement of each risk factor within the Group. With reference to ESG issues, the following risks have been mapped out: non-compliance with the laws on occupational health and safety, the administrative responsibility of entities pursuant to Legislative Decree 231 of 2001, corruption, non-compliance with applicable laws regarding sales and distribution, inadequate anti-counterfeiting measures, inadequate quality of raw materials, inadequate workmanship, inadequate management of contractors/the supply chain, adequacy of staff skills, localisation of markets/country risk and reputational risk. With particular reference to the risk of engaging in conduct that could potentially be linked to corruption (active and passive) in all the countries in which the Group operates, we note that the main risk factors that are theoretically applicable (mapped as part of the assessment activities pursuant to Legislative Decree 231 of 2001, as well as in the project activities aimed at the adoption, dissemination and implementation of the Group's Anti-Corruption Policy) refer to the following areas and company processes: activities connected with the procurement of goods and services and the management and development of real estate assets in regard to relations with public entities/local authorities for applications for permits, authorisations and measures, etc.

With particular reference to the social sphere, in order to manage human resource management risks, subject to the monitoring and control tools in place, the Group has declared its commitment to implementing human resource management policies and procedures. These policies and procedures will allow the Group to constantly monitor the management model's adequacy for the mitigation of associated risks.

With regard to environmental risks, we note that these risks are mapped as part of the assessment activities for offences included in the Legislative Decree. 231 of 2001. Given the reference sector and business model adopted, this risk should be considered negligible. However, as a further safeguard, the Group is initiating project activities aimed at implementing an ISO 14001 environmental management system in a selected and physical sample of its offices and production facilities. This management system will be part of a larger project that will lead the

Group to prepare and implement an Environmental Policy that will define the guidelines and best practices to adopt in this area.

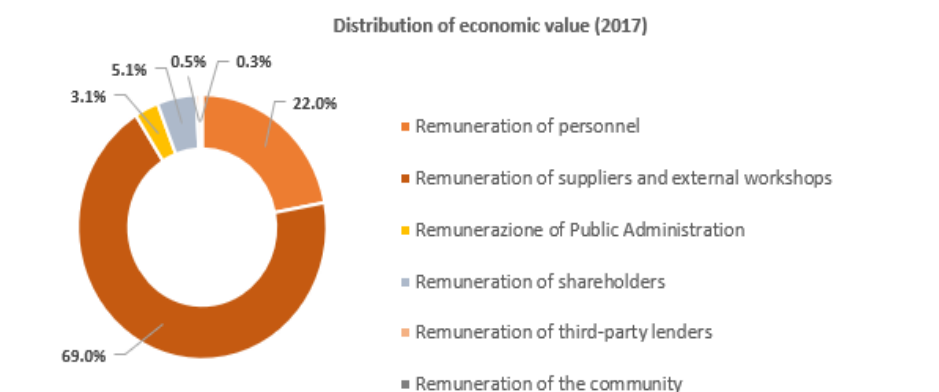
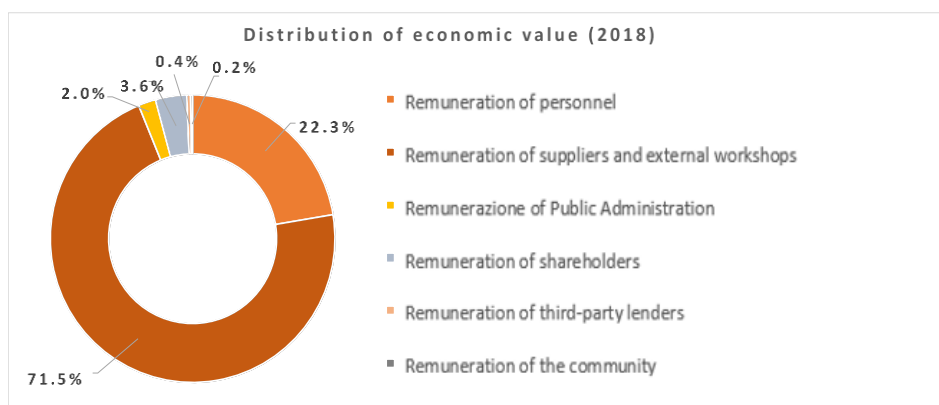
Finally, in relation to the potential exposure to risks inherent in the supply chain, given the typical nature of the sector in which the Group operates, there could be cases involving external individuals entering or who have entered into collaborations with TOD'S Group but do not comply with the regulatory requirements, in violation of the strict obligations contractually undertaken with TOD'S, and/or who do not respect their contractual obligations, including the principles contained in the Group's Code of Ethics.

In this regard, TOD'S Group is adopting numerous control tools, for example related to respect for human rights and the dissemination of responsible procurement practices along the supply chain. In particular, in 2018 the Group initiated a process to prepare, implement and disseminate a **Supplier Code of Conduct**, which will be formalised in 2019. Furthermore, in order to monitor the recipients' correct application of the principles contained in the Supplier Code of Conduct, the Group will proceed to implement an audit process along the supply chain.

In order to minimise the likelihood of potential risks related to material sustainability issues, the Group has started a process to structure and formalise its approach to sustainability. To this end, the Group's **Sustainability Policy** and **Sustainability Plan** were implemented and approved in 2018. These documents were developed with the aim of encouraging the dissemination of the social and environmental sustainability standards and promoting their application throughout the Group and among anyone who cooperates or collaborates with the TOD'S Group companies in any capacity.

Creation of economic value

The economic value statement is a restatement of the consolidated income statement, representing the wealth produced and distributed by TOD'S Group among its stakeholders. In 2018, the **economic value generated** by TOD'S Group was equal to €943.9 million, an increase compared to the economic value generated in 2017 of €934.8 million. The **economic value distributed** increased from €911.7 million in 2017 to €930.6 million in 2018. In particular, approximately 98.6% of the economic value created by TOD'S Group was distributed to the stakeholders, both internal and external, while the remaining 1.4% was kept within the Group. Among the stakeholders, in 2018 the suppliers and external workshops was the group to which the largest portion of the economic value was distributed (71.5% of the total value); this value has increased from 69% in 2017. Similarly to 2017, in 2018 in addition to suppliers and external workshops, the other stakeholder category to which a significant portion of the economic value was distributed was personnel, who received 22.3% (22% in 2017) of the economic value generated by the Group. The share of economic value distributed to the shareholders in 2018 was 3.6%, down from 5.1% in 2017.



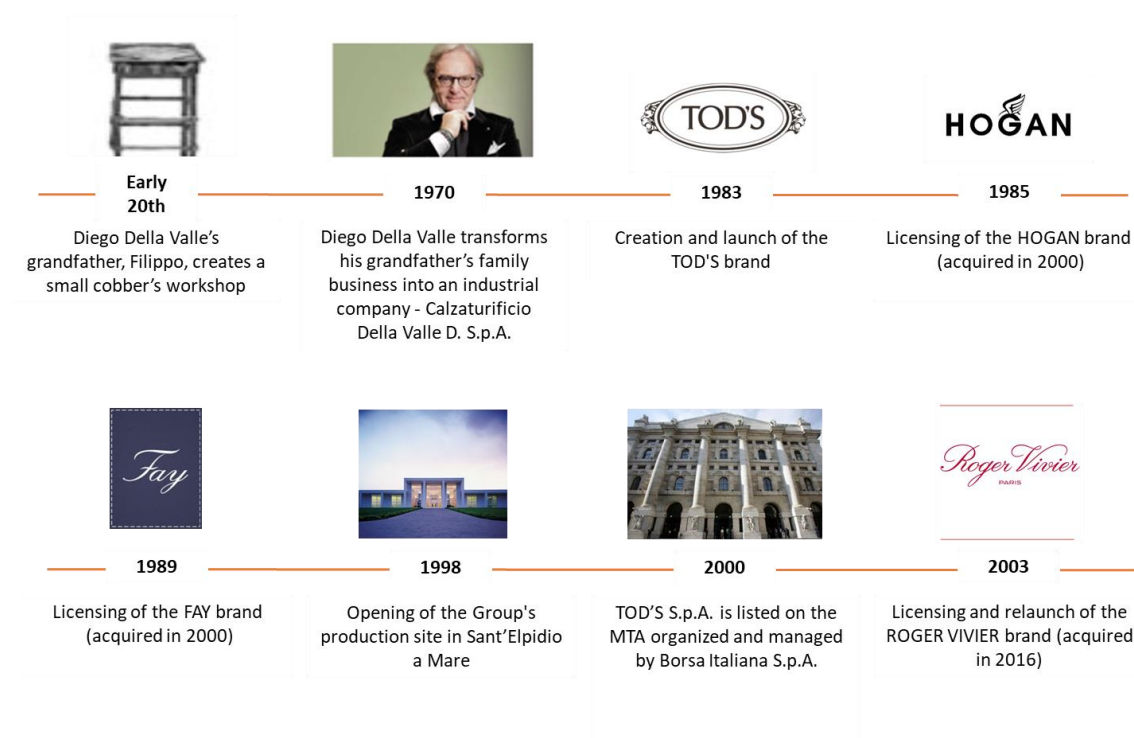
3.Tradition and innovation

TOD'S Group boasts a history based on solid, enduring foundations, on values that have been constantly strengthened for over 100 years, so much so that they constitute the essence of the brand and have brought it international recognition: these values are part of tradition, understood as quality, an inherent element of Made in Italy production that is evident in all its products, and expertise, understood as a set of artisan skills handed down from generation to generation. Bolstered by these values, the Group has always promoted their development and protection throughout the supply chain and encouraged their spread among its customers in order to create responsible value in the long term.

Though the Group has upheld its values over time, they have not remained static: they have developed in line with the needs of its stakeholders, according to the Group's desire to always respond in a new and original way to their needs, combining tradition and innovation and staying true to its mission: to offer a worldwide clientele products of the highest quality that meet their functional and aspirational needs.

3.1 The history of TOD'S Group

Tradition, quality, excellence, craftsmanship and Made in Italy: these values, on which TOD'S Group has built its history, continue to be passed down and preserved with extreme care. It all started at the beginning of the 20th century, when Filippo Della Valle, the grandfather of Diego Della Valle, created a small cobbler's workshop. His work and passion were handed down to his children, who created the outstanding footwear business which, since then, has always distinguished the Group.









Over the years TOD'S has expanded its product range, including through the launch and acquisition of prestigious brands, but this has never impacted the founding values of its identity, which, combined with the fundamental component of **innovation**, have enabled the Group to establish itself as one of the leading players in the production and marketing of footwear, leather goods, clothing and luxury accessories.

The TOD'S Group brands

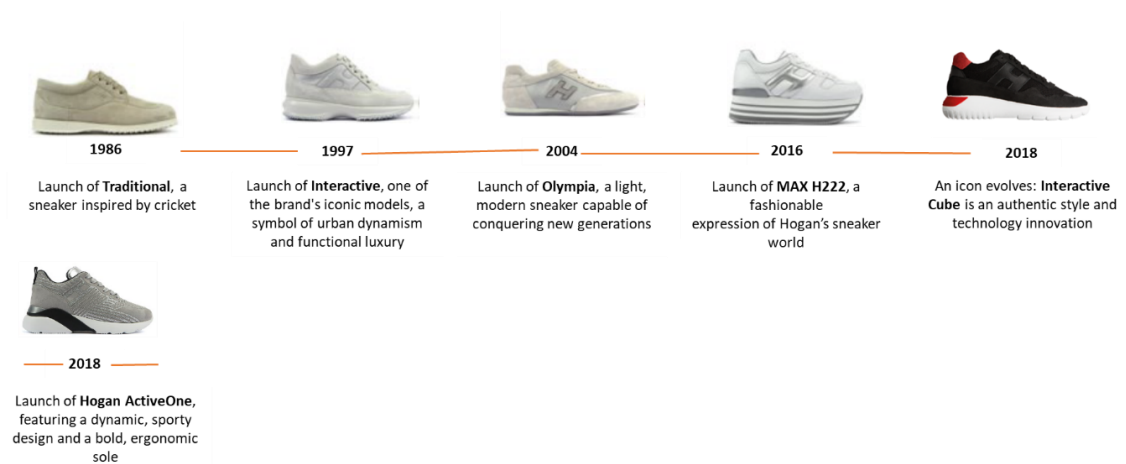
Today, TOD'S S.p.A. is an operating holding company of an internationally-renowned group that operates through the **TOD'S**, **HOGAN**, **ROGER VIVIER** and **FAY** brands.

Though they have their own distinct identity, the Group's brands share the same philosophy based on a balanced mix of tradition and modernity, high quality, creative content and broad product usability. The high quality of the products is guaranteed by the important role of manual work in all stages of the production chain:

The **TOD'S** brand is synonymous with luxury footwear and leather goods. Characterised from the outset by models that have become cult contemporary lifestyle items, in the world of luxury accessories it represents the perfect combination of tradition, high quality and modernity. Every product is made by hand with superior craftsmanship to become, after numerous steps and checks, an exclusive, recognisable, modern and functional item. Some of the designed products, such as the Driving Shoe or D-Bag, popular among celebrities and personalities worldwide, have become icons of a new style of masculine and feminine elegance. Each collection is a different take on "Contemporary Living", an iconic lifestyle imbued with Italian spirit, a value that the whole world recognises as synonymous with impeccable taste and elegance, handed down from generation to generation.

 <p>Anni '80</p> <p>Launch of the Gommino and a few years later of the Winter gommino, brand icons and authentic emblems of the values of tradition and innovation that TOD'S pursues in every product.</p>	 <p>Anni '90</p> <p>Launch of D-bag, inspired by Princess Diana, an example of outstanding artisan workmanship, made only with fine leathers, the perfect expression of luxury interpreted by TOD'S.</p>	 <p>2009</p> <p>Launch of the D-styling, a modern, functional bag with a contemporary silhouette that has been popular among celebrities and sophisticated consumers for years.</p>	 <p>2015</p> <p>Launch of the Wave bag, a true design object characterized by the trademark rubber on the patch, always made from high-quality materials and in special versions with outstanding style content.</p>	 <p>2016</p> <p>Launch of the Double T collection, the brand's diverse collection identified by the Signature accessory in metal or covered in leather</p>
 <p>2017 - 2018</p> <p>Tod's creates the No Code innovation workshop and presents the shoeker 01 and 02.</p>				

The **HOGAN** brand was founded in 1986 and is positioned in the luxury market, combining style, functionality and innovation. HOGAN translates the original vision of the concept of casual luxury suitable for any occasion into a contemporary lifestyle, in which quality and style are always appreciated. The brand offers footwear and accessories with a modern, essential design that perfectly balances versatility and elegance. HOGAN products, which are made from extraordinarily high-quality materials, are iconic objects designed to remain fashionable from season to season.






Roger Vivier, who created the first stiletto heel in the '50s, designed extravagant and luxuriously embellished shoes that he described as “sculptures”. A skilled artisan who loved feminine elegance, Vivier elevated shoes to art objects through the savoir-faire of French embroidery houses. The artistic heritage and traditional roots of the Vivier fashion house have now been given a new lease of life. Thanks to the Group's work, ROGER VIVIER's creativity and vision live on and new chapters are added to this unique story every season, going beyond footwear expertise to include bags, small leather goods, jewellery and sunglasses. Today, ROGER VIVIER's womenswear is sophisticated and elegant, yet slightly eccentric: it is designed for a woman who tries, through her clothes, to express her timeless elegance, without forgetting to add a cheeky, extravagant touch.



FAY, a brand launched in the second half of the '80s, boasts a range of high-quality clothing products distinguished by the brand's specific outerwear expertise, by the technical treatment of its fabrics and by the meticulous design and extreme functionality of its clothes, which stand out due to their excellence, comfort and durability, combining style, quality and versatility. Every season, the brand presents a menswear/womenswear collection and a junior collection consisting of both iconic garments, restyled according to current trends and technologies, and brand new additions to all its product categories. The brand, which is strongly anchored in Italian vintage fashion, is now taking on the challenge of communicating its distinct identity to new generations,

combining innovative and practical fabrics with the timeless characteristics of authentic Italian style.

					
'80s	1990	1992	2003	2006	2017
<p>Launch of "Quattro Ganci", the first Fay jacket in super-resistant Cordura nylon, which became a symbol of the brand. It was followed by other versions in new materials ranging from nylon to fleece to anti-tear fabrics</p>	<p>Launch of the "Stadium Jacket", an ultra-light, hyper-comfortable solution with two elements. A down inner and an outer jacket with large pockets and fleece hand warmers on the outside. A buttoned flap transforms into a seat cover</p>	<p>Launch of the "Double Coat", a perfect fusion of elegance and functionality. A garment with a simple, refined design, which can be worn in different weather thanks to its removable inner gilet.</p>	<p>Launch of the "Virginia Coat", a timeless coat with a classic allure, distinguished by its characteristic three-hook fastening and feminine, elegant silhouette</p>	<p>Launch of the "City Hunter" project, a successful idea in the women's collection, it meets the needs of metropolitan gentlemen fascinated by the elegance of the woman's wardrobe. British-style charm defines outerwear in shiny or matt nylon satin, padded with very light and very warm thermos material.</p>	<p>"The original 4 Ganci". Relaunch of the brand's historic jacket in its classic version, reinterpreted in a modern style with new shapes and materials. The hook is once again a distinctive detail in the Fay collections, a true cult object that celebrates the brand's origins.</p>

Hotel Vivier: A film tribute to Parisian elegance

The new Roger Vivier 2019 Spring-Summer collection of shoes and bags was presented during Paris Fashion week by new Creative Director Gherardo Felloni through the Hotel Vivier concept.

Hotel Vivier is an ode to women, in all their diversity and beauty, which began with an exploratory journey in the fashion house's archives, to inspire a new creative vocabulary for Vivier's womenswear.

Crossing the threshold of the 'Hotel Vivier' is like entering the scenes of a film. At the meeting point between fiction and reality, experience seems both familiar and unexpected. It is a fascinating place where visitors are invited to discover the Roger Vivier world, represented by six women and five rooms, which depict five artistic professions that reflect their work and lives. Contemporary, liberated and eclectic characters, filmed with cinematic quality in their intimate setting; a representation, yet a false reality. Before meeting some of them, the hostess welcomes her guests in this enchanting building, accompanying them in their discovery of its history. The Sculptress, the Photographer, the Ballerina, the Opera Singer and the Actress. Each plays a role in this incredible film and every room has its own camera that shoots scenes in real time and projects them on the screens at the hotel entrance, putting visitors at the centre of this cinematic experience.

"Hotel Vivier is an absolutely unique place, where women reveal all the richness, complexity, beauty and intensity of their personalities. Over the years I have embarked on a journey of discovery to capture their many facets and likewise my guests will make discoveries in every corner and in each room, meeting archetypes of characters who inspire me every day."

– **Gherardo Felloni**



“Cat Duet” by Roger Vivier: The French brand celebrated Christmas with an eccentric and ironic short film



To coincide with the launch of the new “Très Vivier” line for the Christmas season, Roger Vivier presented a short film starring French actress Catherine Deneuve along with other quirky characters. Inspired by Rossini's famous composition “Duetto buffo di due gatti” and directed by the writer and award-winning director of films and music videos, Michael Haussman, this film tells the story of the Christmas festivities of an eccentric Parisian family. Under the watchful eye of their mother, two twins turn a charming performance in front of the whole family into a dispute over a pair of Très Vivier pumps.

TOD'S FACTORY

TOD'S has launched a series of collaborations with authors from every creative field, who have been tasked to offer their perspective on TOD'S identity. Dialogue with the designers has resulted in in-season capsule collections and limited editions that are immediately available and presented several times a year, involving the media. The new calendar reflects the new creative structure.

Alessandro Dell'Acqua is inaugurating the project, the first in a series, creating a wardrobe with tactile, sensual elegance and accessories in which unmistakable TOD'S gomminos become loafers and ballet flats with a slim heel and velvet bow, or stretch boots. A vigorous and sophisticated synthesis, emphasised by the choice of only three colours: TOD'S leather and Alessandro Dell'Acqua's black and powder pink.

Italian lifestyle is the frame: innate good taste and savoir-vivre expressed in everything; true elegance; the search for things that are beautiful because they are well-made.

Italian excellence is the spirit that permeates everything. It passes through the expertise of unique hands and minds, capable of choosing the best materials and transforming them into products of unparalleled quality.

The process combines heritage, innovation and creativity, because innovation is only achieved by freeing creativity with an awareness of roots.

Signature Handmade is the distinctive feature: attention to finishes that lend personality to the union between metropolitan cool and Italian craftsmanship.

International appeal is the result. Italian style, when authentic, speaks a language without boundaries, composed of harmonies and subtle contrasts.

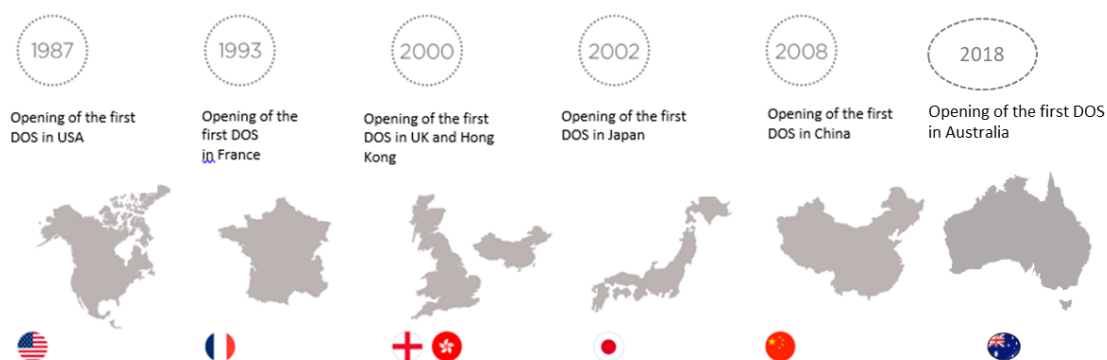
The encounter between Alessandro Dell'Acqua's imagination and TOD'S Italian excellence expresses a vision of nonchalant glamour. It is both a wardrobe and a way of life.

Distribution network and international expansion

The prestige of the distributed brands and the high specialisation required to present the relevant products to customers make it necessary to distribute products via a network of highly specialist stores. To this end, the Group mainly uses three channels: **directly operated single-brand stores (DOS)**, franchised stores and a series of independent multi-brand stores selected on the basis of their suitability to the brands' positioning, their location and the level of service offered to customers, as well as the visibility that they can provide for products (**wholesale distribution**).

The Group began its international expansion in 1987 with the opening of its first direct store in the United States, in New York. Following the consolidation of the market success of its products in Italy, the Group, in order to guarantee a direct presence on the strategic, respected markets, advanced its expansion strategy in foreign markets by opening its first boutique in France in 1993, in the prestigious Rue Faubourg Saint Honoré in Paris and, subsequently, in several European markets including in England in 2000.

After consolidating its presence in the European markets, the Group began to penetrate the Asian markets, opening its first store in Hong Kong in 2000, followed by openings in Japan and China, respectively in 2002 and 2008. Expansion in new markets also continued in 2018, with the opening of the first direct store in Australia, a market that is becoming increasingly important for the industry. New direct openings are also expected in this market in 2019.



The Group's strategic focus has historically centred on the development of the DOS and franchised store network, since these channels allow greater control of distribution and more faithful communication of individual brands' images.

Moreover, in some markets, the Group also has a presence in independent multi-brand stores, a channel that plays a central role for the Group. As of December 31st, 2018, the single-brand store distribution network consisted of a total of **284 DOS** and **120 franchised stores**, a marked

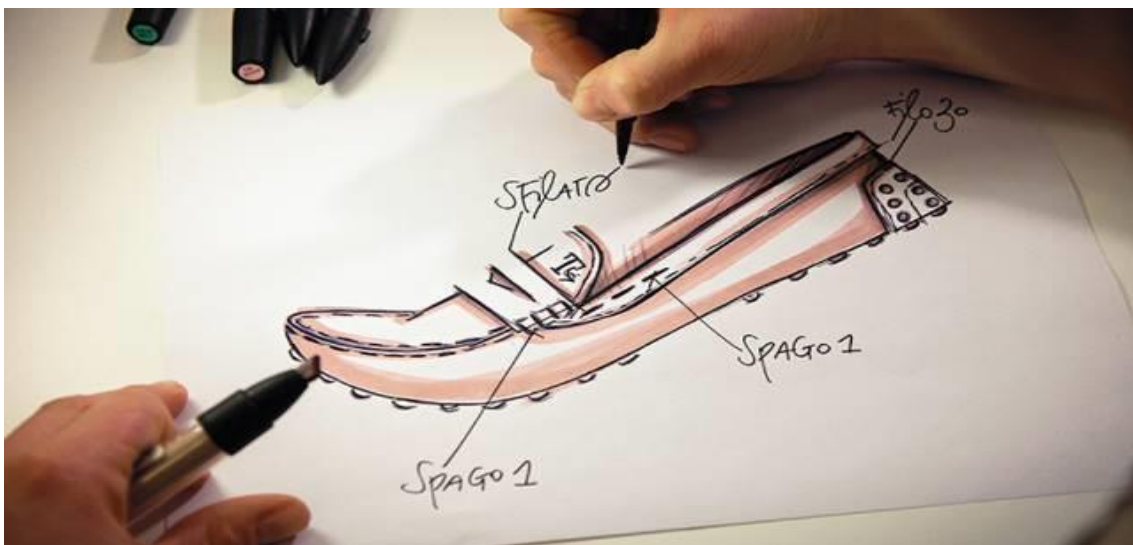
increase compared to the single-brand store distribution network as of December 31st, 2017, which consisted of 275 DOS and 112 franchised stores.

In addition to traditional sales channels, since 2012 the Group has used **e-commerce**, an online marketing channel for products in the current collection of all the brands managed by TOD'S Group; currently the Group's brands' e-commerce sites operate in 33 countries around the world (2 of which were added in 2018) with a main focus on the North American, European and Chinese markets.

3.2 Responsible management of the supply chain

TOD'S Group boasts a long history in the production and marketing of footwear, leather goods and clothing, distinguished by different brands, all equally characterised by high quality, exclusivity and a recognisable style.

A distinctive element of the Group's production processes, which guarantees the prestige and exclusiveness of the brands, is its careful internal control of the entire production chain from the creative stage to the production of prototypes, to the selection and procurement of raw materials and components, and finally to the creation of products. The production of footwear and leather goods is carried out in internal facilities and workshops owned by the Group or in specialised external workshops. The latter are entirely located in areas that have a historic tradition of footwear and leather goods production, a guarantee of professional workmanship and manual expertise. For the production of its clothing line, the Group relies on selected specialised external workshops. The uniqueness of the Group's products has always been based on values such as craftsmanship, design, creativity, tradition, innovation, quality and the promotion of Made in Italy. Over the years, the Group's product range has evolved in line with customer needs and the values inherent in each of the Group's brands. These values are combined with transparency along the supply chain, a value that is outlined in the **Supplier Code of Conduct** which the Group is preparing and which will be adopted in 2019. The document defines the principles and rules of conduct that must be respected in order to guarantee fair, equitable and responsible working conditions along the supply chain.



Supply chain quality

All the Group's commercial partners, whether they are suppliers or external workshops, from the raw material procurement stage to production management and product distribution, play a crucial role in the pursuit of qualitative excellence. To this end, TOD'S Group carefully selects its partners, favouring established collaborations and solid, long-lasting relationships aimed at maintaining the standards of excellence and quality that have always distinguished its products.

Craftsmanship: a value to pass down

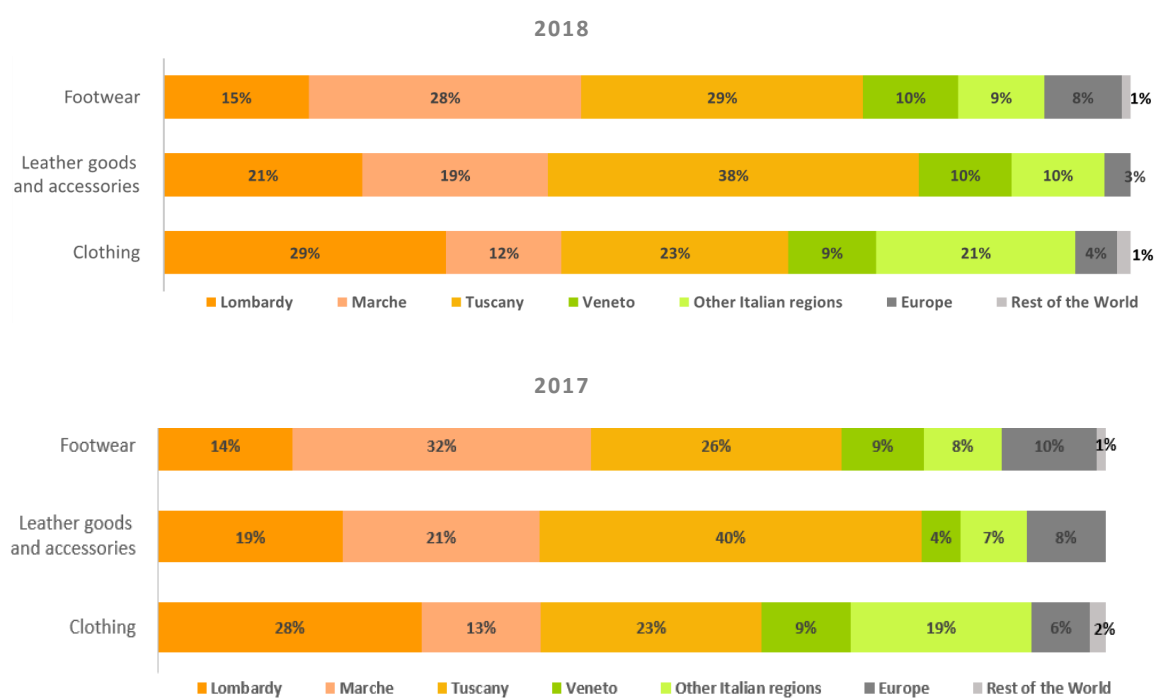
Artisan skills are not only key to the Group's creation of high-quality products, but also an important component of the technical and cultural heritage of Made in Italy production. For this reason, TOD'S Group is committed to preserving this value, encouraging young people to enter the world of craftsmanship, which still offers major employment opportunities in Italy, combining innovation and tradition. For this reason, it remains committed to the company's "Bottega" academy, which, since 2015, has trained and continues to train a large group of young people, offering them an insight into the world of craftsmanship in order to give them an interesting, prestigious training experience consisting of classroom activities and on-the-job training, which in most cases leads to them being hired at one of TOD'S Group's production plants.

This experience enables the transfer of skills from master craftsmen to younger generations, facilitating their dissemination and preserving the undisputed excellence of the Made in Italy tradition for new generations.

Outstanding raw materials and promotion of Made in Italy

In order to guarantee excellent products, structured processes are adopted to research and select the best raw materials (leather, accessories and fabrics), combining quality, tradition and innovation. In its constant pursuit of these values, the Group continues to collaborate with the best tanneries, as well as researching, where available, new developments and new stylistic trends at trade fairs. When selecting raw materials, the Group prefers to establish partnerships with the best suppliers in Italy. This preference is evidenced by the fact that in 2018 the total cost of the procurement of raw materials from Italian suppliers amounted to 98% of the total supply budget for the Footwear Division, 96% for the Clothing Division and 98% for the Leather Goods and Accessories Division. In 2018, the Group collaborated with a total of 495 suppliers, including 213 for the Footwear Division, 73 for the Leather Goods and Accessories Division and 209 for the Clothing Division. The overall figure is down by 7.6% compared to last year.

No. of suppliers by geographical area and product category



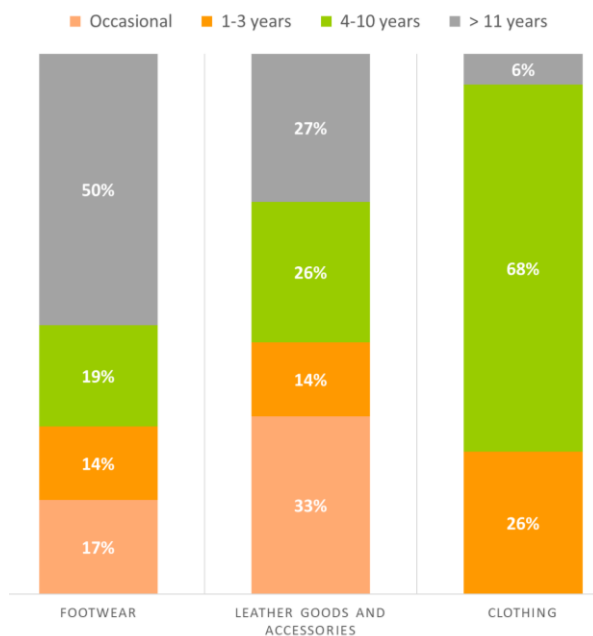
In 2018, there was a percentage rise in the number of Italian suppliers for all product categories, in particular Leather Goods and Accessories (from 91.6% in 2017 to 97.3% in 2018).

Only when the best raw materials for a single product category are not available in the local market, the selection process involves the best foreign suppliers (e.g. in France) that are able to meet the Group's quality and stylistic expectations, while guaranteeing the highest standards of

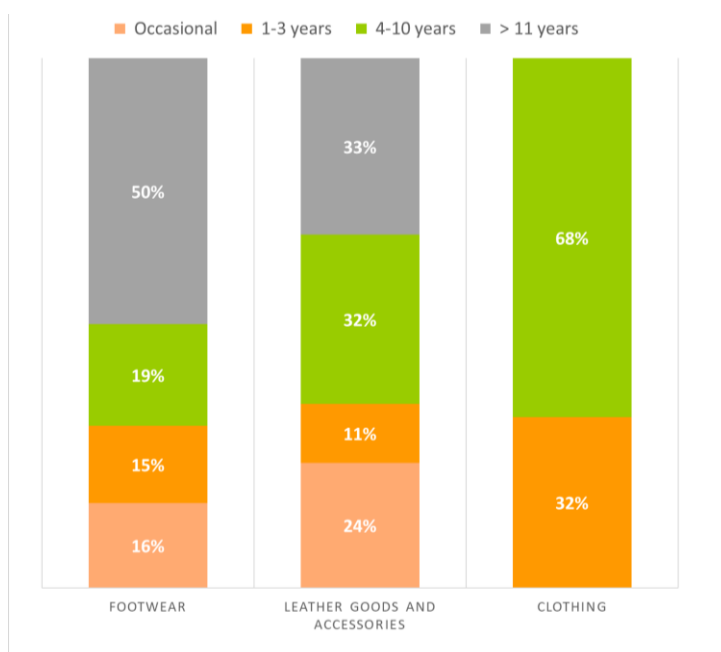
technical reliability. In order to ensure compliance with the common goals of Made in Italy excellence, quality and the fight against counterfeiting, the Group considers it essential to create and maintain long-lasting relationships with suppliers.

Suppliers by years of collaboration and product category

2018



2017



Raw materials purchased by type*

Type of raw material	Unit of measurement	2018	2017
		Quantity/000	Quantity/000
Hides	Pq/000	19,651	23,840
Metal accessories and other materials	Pieces/000	28,325	30,629
Fabrics for clothing	Metres/000	458	487
Lining fabrics for clothing	Metres/000	276	325
Bottoms	Pairs/000	2,111	2,143
Accessories	Pairs/000	1,054	1,278

* Purchases include the main raw materials supplied, according to the most representative measurement unit.

The purchased raw materials, rather than the raw materials consumed, were reported. 0% of the reported raw materials are renewable.

Some of the 2017 figures have been restated to facilitate comparison between the units of measurement used in 2018 and 2017. The 2017 figures that have not been restated can be found in the 2017 NFS.

TOD'S Group monitors substances deemed dangerous for the health and safety of the end user and harmful to the environment, putting environmental sustainability at the heart of its production processes.

At the same time, in order to protect and safeguard its image and that of its brands with regard to checks by the relevant authorities, TOD'S ensures that its products comply with its RSLs (Restricted Substances Lists), which were developed in accordance with the guidelines of the Italian National Chamber of Fashion (CNMI) regarding eco-toxicological requirements, based on current regulations on the protection of health and safety and respect for the environment.

To this end, TOD'S requires its suppliers to ensure compliance with the relevant standards regarding the materials supplied by signing special RSLs (Restricted Substances Lists), which list the obligations for each supplier and specify the substances and relevant regulatory restrictions by type of material and final destination.

In addition, TOD'S Group carries out random tests on supplied materials in order to verify their compliance with current regulations.

TOD'S *for* Ferrari: Top-quality Italian-made footwear

In 2018, TOD'S continued its ongoing collaboration with an outstanding Italian company, a Made in Italy global ambassador: Ferrari. The two brands share the values that lie at the heart of the Italian tradition: passion, creativity and craftsmanship. TOD'S *for* Ferrari is a collaboration that aims to create a collection of footwear and leather goods of unmistakable value through the use of fine materials, high quality and elegance. The main star of the collection is the Gommino model, the TOD'S brand's modern style icon. Every Gommino includes up to 35 pieces of different leather, which are treated and checked manually by a TOD'S craftsman before assembly. Every single stage of the production process is performed by a craftsman with specific skills and the TOD'S *for* Ferrari logo is only applied to the Gommino after meticulous checks.

Additionally, starting in 2018, the custom-made products project is also available for the TOD'S *for* Ferrari gommino.

High-quality production processes

Though they have their own distinct identity, the Group's brands share the same philosophy based on a balanced mix of tradition and modernity, high quality, creative content and broad product usability. The high quality of the products is guaranteed by the strong manual component that characterises all stages of the production chain: every product is made by hand with superior craftsmanship to become, after numerous steps and checks, an exclusive and recognisable item.

The production process for footwear, leather goods and leather accessories is carried out inside the Group's facilities and workshops or in specialised external workshops. The Group currently has five facilities for the production of footwear – four in Italy (one in Sant'Elpidio a Mare, one in Arquata del Tronto and two in Comunanza) and one in Albania –, a specialised workshop in Hungary where certain specific footwear processing sub-stages are conducted, and three leather goods facilities in Italy (two in Bagno a Ripoli - Loc. Vallina and one in Tolentino).

The processing stage in the Group's facilities is carried out by **expert craftsmen** who, thanks to their consolidated working relationships with the Group, possess authentic know-how and artisan skills that are essential to the quality of the products. The specialised external workshops are located in areas with a long-standing artisan tradition. To produce its clothing, the Group uses highly specialised external workshops that meet the requirements of technical and qualitative excellence necessary for the creation of the individual products that make up the clothing line.



In its continuous pursuit of high quality standards, the Group relies on long-term collaborations with the best, highly-specialised external workshops that ensure high quality standards. When researching new workshops, the Group adopts structured qualification processes that provide accurate technical and organisational analysis to evaluate the characteristics of the production structure, the level of specialisation achieved, the company organisation and any UNI-ISO certifications obtained.

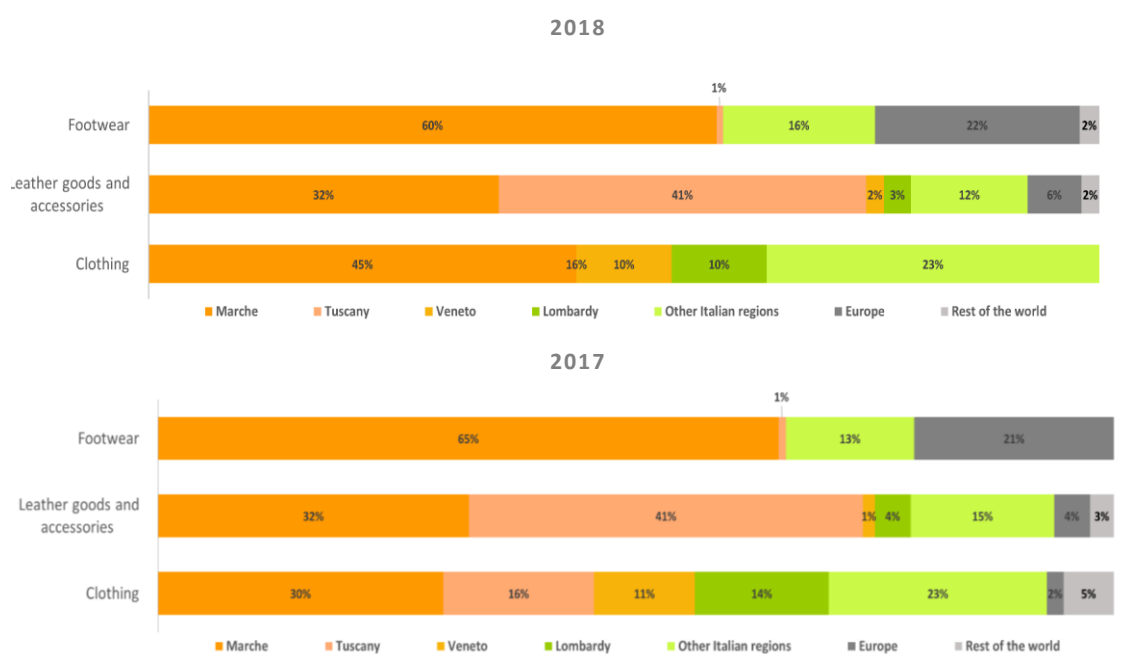
The external workshops that collaborate with TOD'S Group must operate in accordance with regulatory requirements regarding health and safety in the workplace and must possess all the qualifications and permits required by the relevant authorities.

When conducting their work, the workshops are required to apply, in their internal and external working relationships, the industry's National Collective Bargaining Agreement and to scrupulously observe its application with particular reference to regularity in the recruitment process, the level of wages, periods of rest and vacation, aspects of protection of individual and collective safety and health, the absolute prohibition of the use of child labour and staff who are not in compliance with all applicable regulations.

The external workshops are also required to comply with the Code of Ethics. Any violation of the aforementioned regulations and/or TOD'S Group's Code of Ethics may result in termination of the contractual relationship.

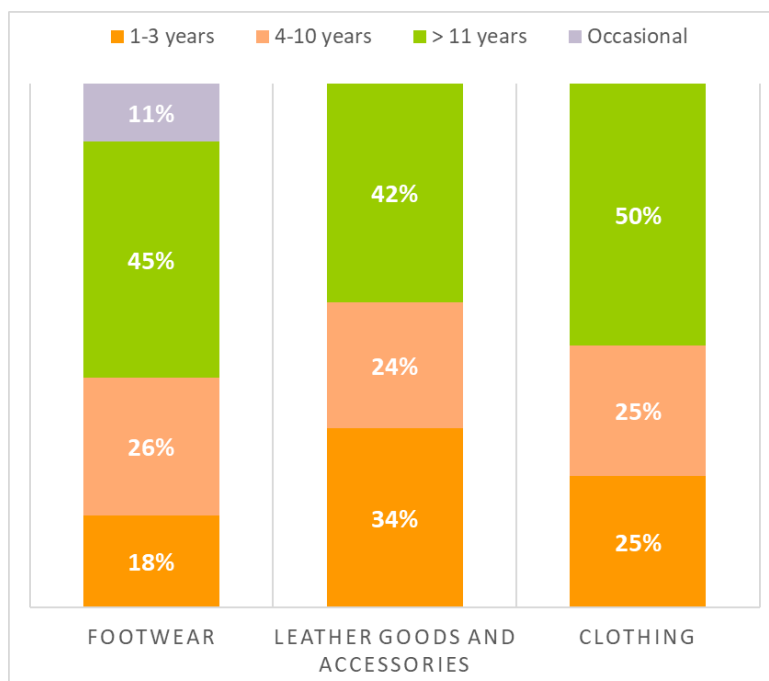
The qualification of the Group's external workshops and their position in the Group's register are periodically evaluated to assess whether they have complied with the requirements inherent in the production structure and satisfied the high quality standards required, which are certified by inspections by external inspectors, who carry out technical analysis, and by checks conducted by the Group's quality control division.

External workshops by geographical area and product category

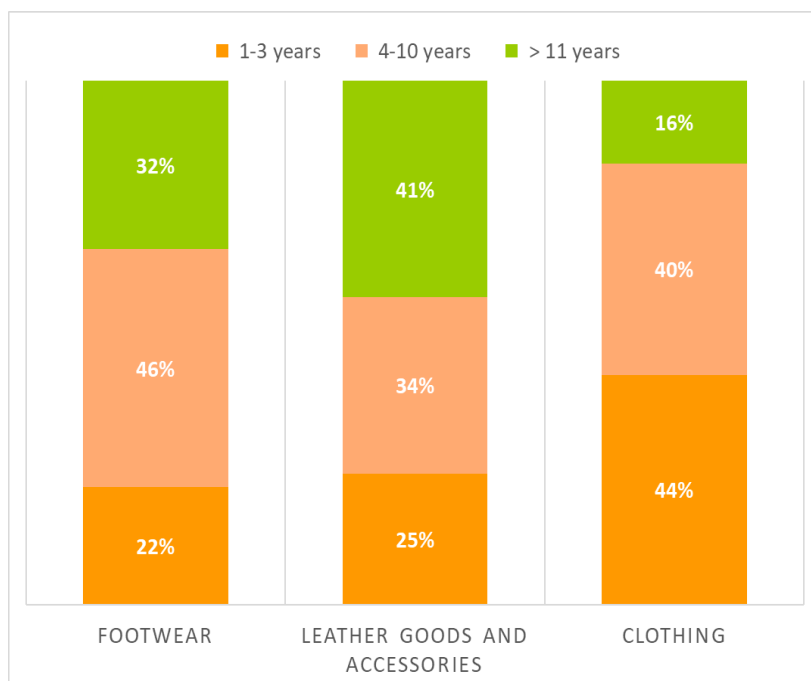


External workshops by years of collaboration and product category

2018



2017



Product quality and uniqueness

Quality checks



TOD'S Group is renowned throughout the world for the high quality standards of its products and for the image and prestige of its brands. It uses the best suppliers of raw materials and skilled artisans to guarantee the high standards of excellence for which the Group is known and appreciated.

The process aims to ensure customers the high quality standard traditionally guaranteed by TOD'S Group, which is based on structured process controls and systematic product checks. The process controls permeate the different stages of the design of a new product, from the choice of material requirements to construction techniques, to industrialisation, to inspections of the quality of the raw material, components and semi-finished products, and finally to product quality checks. The Group's quality management of its processes is aimed at ensuring compliance with technical parameters and identifying the risk of any hidden defects that may arise during the use of the product, which cannot be identified from a "visual" inspection.

During the product design phase, the controls and checks carried out by skilled technical experts concern the quality of the "product design" and therefore include selection and analysis of the requirements of the best raw materials and components potentially used in the collections and of the construction and industrialisation techniques suitable to guarantee the required standards.

In the raw materials selection stage, the materials are subjected to static analysis and laboratory tests in order to verify that their characteristics reflect the parameters set out in the company's standards, which are intended to ensure that products are suitable and durable. The static material qualification process is followed by a prototyping stage, in which the materials are subjected to further evaluations from a technical and aesthetic point of view, including with the help of specific tests that analyse their durability.

If the prototype passes the control stages described above, the raw materials identified are considered suitable for the production of the products and it is therefore possible to proceed to the product procurement and production stage.

To ensure compliance with the high quality standards required by TOD'S Group, structured processes of research, selection and qualification of suppliers, raw materials and components are adopted, in order to ensure that the selected raw materials have innovative elements and high-quality levels that guarantee durability and permanent aesthetic appeal, functionality and quality.

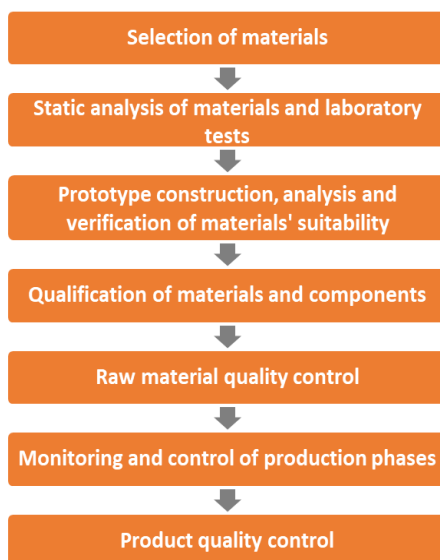
Every consignment of supplied leather and fabric is checked, based on specific criteria, when it is delivered in order to verify compliance with TOD'S requirements. These checks are carried out in compliance with the approved company procedures and computers are used to guarantee the traceability of the entire process.

After the raw material controls, the production process begins, involving, at specific key stages, the identification of control checkpoints.

At the end of the production process, quality controls are carried out on the product, ensuring that every product has reached the standards and requirements defined at Group level.

In the case of production carried out by external workshops, quality controls are directly carried out by Quality Inspectors at the external production units, as well as at the Group Logistics Centre.

Main stages of quality control



Chemical safety of products

The quality of products also depends on their chemical safety, ensuring above all customers' well-being. TOD'S Group monitors substances deemed dangerous for the end user and harmful to the environment, putting environmental sustainability at the heart of its production processes.

The RSLs (Restricted Substances Lists), which fully comply with the Guidelines of the National Chamber of Italian Fashion, are based on the one hand on the main relevant standards specific to each division and product category, and on the other, on the medium and long-term goal of gradually eliminating certain chemicals, even though they are permitted by law.

The RSLs, drawn up for the leather/fabrics and footwear, plastic materials and accessories and clothing leather/fabrics product categories were prepared based on the following criteria:

1. Compliance with the main international regulations:

- European Union regulation no. 1907 of 2006, called REACH, concerning the registration, evaluation and restriction of chemical substances;
- Chinese national standards (GB standards), specific to each raw material (leather, textiles, accessories);
- Korean Safety Quality Mark Act (KC mark);
- US Consumer Product Safety Improvement Act (CPSIA) of 2008, which establishes limits with respect to the levels of hazardous materials imported or produced in the United States, especially in relation to their recipients;
- principles of the "Proposition 65 Settlement" in California.

2. Gradual elimination of certain chemicals from the production process, even though they are permitted by law. In this respect, many reference parameters, expressly referred to by TOD'S RSLs, have significantly lower values than those permitted by current regulations.

It should be noted that, in 2018, TOD'S prepared a new release of the RSLs, with the aim of simplifying the process of verifying and integrating regulatory changes regarding the use of chemical substances.

Chemical checks

TOD'S Group carries out random tests on supplied materials in order to verify their compliance with its RSLs.

Further specific checks on finished products

During the product quality control stages, TOD'S pays particular attention to compliance, focusing on the requirements of Chinese and American regulations, which are considered

the most restrictive and exacting. Even on its own products, TOD'S Group carries out specific tests based on the main global safety and quality standards: QB/Standard, CPSIA (Consumer Product Safety Improvement Act).

Finally, the Group follows structured and codified processes for the management and transmission of correct information to the consumer with regard to product safety in compliance with current regulations in the relevant markets.

Protection and authenticity of products

TOD'S Group, which firmly believes in the uniqueness and quality of its brands' products, has always devoted abundant resources and energy to the fight against the rampant phenomenon of counterfeiting.

Over the years, alongside activities aimed at combating counterfeits in the offline world, it has also implemented measures to counter the phenomenon in the online world. In addition to constant dialogue with law enforcement agencies and support of their work to seize counterfeit products, with regard to **offline anti-counterfeiting** initiatives, a widespread customs monitoring system has been introduced with a focus on the main European countries and on those where counterfeiting is notoriously prevalent (such as China and Turkey), as well as a targeted program in China to identify factories that produce counterfeit products and the definition of subsequent, necessary corrective actions. These law enforcement initiatives are supported by preventive actions, such as training for customs officers and law enforcement agents, as well as a worldwide trademark surveillance service, which allows TOD'S Group to intercept any counterfeit goods in order to take action to prevent the registration of those brands deemed to violate their rights. Since 2012, TOD'S Group, conscious of both the potential and the dangers of the internet, which enables the communication, in a short time and to an indefinite number of users, of the sale of counterfeit products, has designed and operated an **online anti-counterfeiting** program, which has been improved year after year in response to new data.

In this regard, to protect users, TOD'S guarantees:

- a web watching service that enables the interception and subsequent take-down of web pages that publish activities that infringe trademark rights, or the launch of administrative reassignment procedures in the most difficult cases;
- a monitoring service focused on the main online auction platforms, with a particular emphasis on the Asian markets, aimed at removing advertisements for the sale of counterfeit versions of products by the Group's brands;
- a service to constantly monitor the main social media channels (Facebook, Instagram, etc.), with the consequent removal of posts, advertisements and profiles that infringe trademark rights. In 2018, the Group remained committed to its anti-counterfeiting activities, which led to the achievement of significant results.

Anti-counterfeiting results

	2018	2017
Abusive sites removed	≈ 1,800	≈ 1,100
Abusive auctions removed	> 36,500	≈ 64,700
Social media pages removed	≈ 7,200	≈ 1,000
Domain names recovered	5	N/A
Finished goods seized by law enforcement	> 8,100	≈ 35,000
Finished goods seized during raids in China	≈ 2,100	> 6,800

With regard to the goods seized, there was a significant reduction in the number of cases in 2018 compared to the previous year. In the case of the raids in China, the around 70% reduction is consistent with a declining trend due to over ten years of strict law enforcement activity in the country, which has continually produced significant results over the past few years. The Group is considering implementing further actions in 2019, including the diversification of the anti-counterfeiting program in China, in order to further counter the phenomenon's evolution, as well as the expansion of anti-counterfeiting monitoring activities in emerging Asian markets (such as South Korea and Taiwan) and Turkish markets, including through a focus on social networks that can be used for purchase transactions (e.g. WeChat). In the case of goods seized by the police, although the 2018 data cannot yet be considered definitive (since requests for reports often do not coincide with the seizures and can even be deferred for months), the current reduction is in line with the strategic priorities established annually by the various commands. The significant decrease in offline seizures is also correlated with the increase in results achieved by online activities. In fact, in recent years the counterfeiting phenomenon has been increasingly shifting onto the internet, with an increase in counterfeit sites on which the shown availability of goods is often "false" or "virtual". By removing a growing number of counterfeit sites, it was possible to block the potential sale of counterfeit goods at the source. TOD'S Group's commitment in this field is not limited to the activities described above, but takes the form of membership of associations, as well as participation in specific round tables focused on the fight against counterfeiting, which are often organised in synergy with other luxury sector companies. One of the organisations that the Group is a member of is **INDICAM** (Centromarca institute for the fight against counterfeiting), which has always been on the front line in the battle against counterfeit products, with the aim of promoting, from an intersectoral and interprofessional perspective, an anti-counterfeiting culture. In addition to the fight against counterfeiting, the Group is committed to preserving the quality and uniqueness of its products by guaranteeing greater traceability along the entire production chain: with this goal, the Group has also launched various project initiatives in recent years to incorporate the use of **RFID** (Radio Frequency Identification) **labels** on orders for samples of leather goods and footwear by the TOD'S, HOGAN and ROGER VIVIER brands.

The central importance of the customer

Customers are among TOD'S Group's main stakeholders: understanding their expectations – from the most obvious to the unexpressed –, customer satisfaction and the desire to build lasting and trusting relationships with customers are essential objectives for the Group. The central importance of customers, which underpins the company's approach, is evident in its most concrete form when the Group directly interfaces with them. Consequently, TOD'S Group carefully conducts all the stages of interaction with its customers: from the sales ceremony in boutiques to the shopping experience on the e-commerce platform, from digital communication – webmail and website – to after-sales services, product customisation services and the creation of content on social media, all experiences designed for customers must represent unique, outstanding moments that are in line with the values on which the Group has built its identity.

In order to maximise the benefits of the brand-customer interaction for both parties, it is essential to have an effective contact strategy, planned on the basis of careful analysis aimed at identifying prevalent purchasing behaviour and placing customers in a specific stage of the life cycle of the relationship. With this in mind, in 2015, the Group launched an important project aimed at the introduction and development of specific tools and processes for the various customer categories identified. The project involved the collaboration of several departments, who shared their knowledge and experience in relation to customers, under the guidance of the Corporate CRM Division. This collaboration resulted in the launch of the CRM Project, which, since 2016, has enabled the collection of personal and contact information and the comparison of customers' data with sales information, leading the Group to develop new personalised contact opportunities with the customers of each of the brands, responding more effectively to their tastes and personal habits. The Group has adopted an authentic contact strategy involving initiatives aimed at its best customers, who are true ambassadors of the various brands.

These initiatives include Customer Delight, which aims to offer non-purchasable experiences and services, while also responding to the needs of its customers through unique, personal experiences, such as the ability to purchase items in an exclusive preview, private appointments, including outside opening hours, personalisation services, dedicated customer service, etc.

It has also organised important internal CRM training for sales assistants, which involved all the Group's brands on a global level. This training programme covered the following topics: customer recognition, the introduction of CRM during the sales ceremony and the collection of customer data, the use of systems and information related to the customer, and the promotion of true self-efficacy when interacting with customers. In order to facilitate widespread implementation of the new strategy, the Group has also provided various software to disseminate and preserve the culture of CRM and the central importance of the customer within the company. Special clienteling software has been implemented within each individual store, where a CRM Specialist has been appointed, who is responsible for managing the software. Other campaign management,

reporting and analytics tools are centrally implemented and customised for brands, regions, stores and Retail, Marketing and Digital offices.

In this last case, it is important to emphasise CRM's role as "glue" between the online and offline channel, digital and retail, with a focus on omnichanneling increasingly aimed at the needs of the end customer. CRM data and tools available to date allow digital to create web-mails according to many variables that can be selected for different needs and to have updated and timely information on the progress of the various campaigns (open rates, unsubscribe, etc.).

The brands and sales ceremony: customer-oriented differentiation

The Group's careful attention to the purchasing experience is evidenced by the fact that the different brands offer different sales ceremonies that reflect their core values, positioning and peculiar characteristics. **TOD'S** views its sales ceremony as a distinctive art that conveys the values of the brand in the different stages of the relationship with the customer, a unique approach that aims to recognise the specific characteristics of individual customers and their desires. In defining the characteristics of the new sales ceremony, the role of sales staff, recognised as brand ambassadors, was enhanced: to complete the experience in perfect TOD'S style, the "Ambassadors" can offer interesting ideas to customers, such as suggestions to spread their knowledge of Italian lifestyle, of which the brand is a proud representative.

For **HOGAN**, the sales ceremony is based around taking care of customers. It is not simply a guideline, but a way to accompany them in their shopping experience, receiving them in the stores as a welcome guest and making them feel at home. Sales staff are therefore required to convey their passion and engagement with the brand's values, combining professionalism and competence and creating an empathic relationship by adapting to individual customers.

Within **ROGER VIVIER** boutiques, the creation of contact with the customer takes place even before the actual sales phase. Through an empathetic approach and dialogue, elements that characterise a visit to the boutiques, the customer is accompanied on a journey to discover the brand. After initial contact with rare, exclusive luxury, the other distinctive elements of **ROGER VIVIER**'s womenswear are gradually brought to light, allowing the customer to progressively identify with it: womenswear with a highly feminine, impertinent and extravagant attitude that boasts the timeless elegance of Parisian inspiration. For the **FAY** brand, although sales are mainly focused on the wholesale channel, in selected stores the customer is accompanied by a dynamic shopping experience that highlights the peculiar characteristics of the brand's style, such as versatility and excellence.

Since 2014, TOD'S Group has developed targeted training modules in order to align the skills and attitude of sales staff with the essence and exclusivity of the brands.

The corporate app is available for all the brands and contains the history of the company and of the individual brands, allowing you to travel virtually within the headquarters and production units.

All new employees and sales assistants in the most distant regions can thus learn about and appreciate the quality expressed throughout the production chain and inform themselves about the selection and processing of the hides. The corporate app is currently available in six languages.

In addition to this tool, we also constantly organise Italian Orientation weeks to accompany new directors and a selection of the rest of the store teams to a visit to the headquarters, the production units and selected stores between Rome and Milan. The programme also includes visits to monuments and insights into Italian culture, enabling the retail team to more effectively communicate values related to quality, tradition and Made in Italy.

The mission of the TOD'S brand's training activities, on a global level, is to be **customer centric**, always putting the customer first. Consequently, in order to improve the professionalism of the sales staff, including in 2018, the Group has focused its attention on the following areas:

- a) Knowledge (knowing): with the aim of helping to improve the sales approach by providing more details on the inspiration of products and collections, using an increasingly evocative and emotional language. The following training modules were provided in this area: menswear and womenswear collection mood, "our leather culture", the culture of men's footwear, etc.
- b) Professionalism (know-how): with the aim of emphasising the natural elegance that distinguishes TOD'S style, which is in line with the brand's values and is consistent throughout the world. The sales ceremony suggests several ideas to involve the customer by offering a unique approach in order to further develop brand loyalty. The following training modules were provided in this area: the art of selling - TOD'S loves Italia, selling to generations to effectively approach different generations, etc. During 2018, the first omnichannel, buy on line & return in store and Endless Aisle modules were introduced in order to integrate new opportunities in line with the desired style. TOD'S Group has also developed various activities designed to strengthen the behavioural part of the CRM project.
- c) Brand identity (knowing how to express the brand's values): with the aim of introducing the company's characteristics and brand identity to enhance the team's approach, promoting the Italian lifestyle and the Made in Italy philosophy with determination and passion.

ITALIAN JOURNEY with ROBERTO BOLLE

Italian excellence embarks on a journey.

The talent of **Roberto Bolle** and the outstanding quality of the TOD'S brand.

A meeting of culture and craftsmanship, stored in a suitcase, about to depart.

Roberto Bolle's destination is the world of big capitals and their theatres.

An impeccable representative of the most sophisticated Italian lifestyle, Bolle, with his lifestyle as a global citizen, embodies and thus reveals the style secrets that will accompany his every step on his journey around the world.

Elegance means knowing how to choose. The **Winter Gommino** for facing the cold of a New York winter, the **Sneaker** for exploring the rapidly transforming city of Tokyo and the iconic **Loafer** for walking around sophisticated London.

A global traveller who moves accompanied by his talent, feelings and accessories that perfectly represent his idea of beauty, high quality and cosmopolitan Italian lifestyle.

The following training modules were provided in this area: Italian orientation, Corporate App, digital expert and "welcome breakfast", a welcome module designed to involve new employees by immersing them in a complete overview of the company and its brands.

In order to promote sharing of the values that distinguish the brand and to optimise the training and learning process for retail and corporate personnel, the Group has developed online tools/platforms:

1. **TOD'S Retail Sharepoint**: a constantly updated platform containing all the information related to the world of retail, operations and training.
2. **Corporate app**: a reference point for the training world, this app is focused on the company's history and values and on the brands' characteristics. It explores issues relating to iconic products with the aim of enriching the brand's storytelling for customers.
3. **Retail app**: a reference point for the seasonal training modules containing presentations and videos. This app allows employees to keep up to date with production phases, fashion shows and special projects.
4. **Intranet**: an archive of updated documentation for the provided training modules, the collections of the previous seasons and the company policies and procedures ("Store Handbook") regarding retail operations.

In particular, the additional goal of training is, on the one hand, to make sales staff aware of the **Group's values**, thus guaranteeing their adequate transmission to customers, and on the other hand, to provide the **social skills** necessary to excel in the international context in which the Group operates. Learning to adapt communication style based on the cultural differences in the

behaviour, traditions and expectations of global customers is fundamental in order to remain competitive.

As evidence of its commitment in this regard, it should be noted that in 2018 the Group provided over 20,200 hours of retail training.

With a view to continuous improvement of the experience offered to customers, since 2014, the Group has carried out assessments of the level of assistance offered in boutiques through **Mystery Shopping** surveys. This initiative enables, through mystery shoppers (“professional customers” who make incognito purchases), the observation and analysis of the strengths and areas of improvement of sales staff. The activity ends with the completion of a questionnaire by the mystery shoppers regarding the purchasing experience and the level of assistance that they received. Based on the results of the questionnaires, the Group identifies targeted training plans for sales staff, aimed at enhancing skills through training programmes that are as customised as possible to individual needs.

Over 3,300 visits have been carried out during the last five years; the results of the investigations have also allowed the Group to plan the sales ceremony in the best possible way, differentiating it for the different brands in order to better enhance the distinctive characteristics of each brand.

The Group’s attention to customer needs is also reflected in its focus on **after-sales services** and **return management policies**. For some years, customers have had the opportunity to exchange goods at any single-brand boutique, regardless of where the purchase was made. Moreover, in the case of returns due to product defects, company policies have been defined that offer, following an objective assessment of the defect, the ability to make a return without the need to present a receipt, or, if the customer does not live near a single-brand boutique, the goods can be collected free of charge from the customer and they can make a purchase on the Group’s website.

Finally, to further improve the level of service and to minimise waiting times for customers who have made a return, a company policy has been defined that requires customers to be contacted if the estimated **repair time** is longer than two working weeks. Customers can therefore choose whether to wait for the repair of the product or, alternatively, to receive a voucher to purchase a new product.

TOD'S NO_CODE EVOLUTION SHOE + SNEAKER = SHOEKER

There is a movement that is speeding towards the future: it is an agile, evolving, hybrid and fluid universe, which started in recent years in California, then arrived in Scandinavia and is now spreading around the world. It is a vanguard led by designers, thinkers and all those capable of introducing a new vision to their profession. To accompany this movement of thought, TOD'S has created **No_Code: an innovation workshop dedicated to experimenters and to anyone who feels part of this current, which is rewriting the rules.** No_Code embraces maximum lightness and elasticity, ranging without codes between seasons and combining the luxury of technology with high-quality Made in Italy production, as the video presented in Milan on November 14th, 2018, in the spaces of the Riva Calzoni mechanical workshops, reveals. An evening that explains the philosophy of Tod's No_Code and of its product, including through speeches by visionaries whose experiences correspond to the No_Code approach. An interview with Chris Bangle, Chief Designer of the BMW Group for 20 years, and an interview with design curator Angela Rui, director of the Ljubljana Biennial of Design in 2017, focus on changes in society in order to effectively represent the No-Code project and its philosophy. TOD's new approach leaves room for maximum experimentation, having triumphed in the field of research and raw materials, processed with indisputable expertise, as well as in terms of innovation.

NO_CODE PRESENTS SHOEKER

A new product philosophy that stems from the union between shoe and sneaker, between the highest quality craftsmanship and technological innovation. A third way in which TOD'S is revolutionising the way we move around the world.

A blend that combines the best features of both in order to forge ahead with innovation, including product innovation. **No_Code Shoeaker** goes beyond style codes, making them impeccable at all times of day. New materials and treatments result in surprising lightness and in a clean, essential design, combined with high-quality leathers. Shoeaker is a new sign of belonging to a world that ranges from business meetings to weekends, suitable for every event, time and season, accompanied by a free, impeccable quality.

SHOEKER/02 CREATOR: YONG BAE SEOK

TOD'S entrusted the No-Code Shoeaker/02 project to Korean designer Yong Bae Seok, the first designer in the new footwear category, who was tasked to reinterpret the philosophy of No_Code products. Shoeaker/02 has a reticulated foam rubber sole, a special blend that stabilises your stride. It also features light leather and neoprene uppers or uppers intersected by special meshes, signed with the iconic lacing.

The J.P. Collection TOD'S FACTORY

The **J.P. Collection TOD'S Sartorial** is both a tribute to TOD'S history and a reinterpretation of its past designs with a contemporary twist: the J.P. monogram. TOD'S is an exclusive collection of men's shoes and bags that can be customized with a choice of different leather and with your own monogram.

The buying experience takes place in sophisticated J.P. Clubs, which are only present in some of the world's main cities. Currently the J.P. TOD'S Sartorial Collection is available in TOD'S boutiques in Milano Spiga, Paris Faubourg, Tokyo Omotesando, Shanghai IAPM and Los Angeles Beverly Hills. The shopping experience is focused on refinement and attention to detail, embodied by environments, furnishing objects, works of art and dedicated consultants, guiding customers in the customisation and purchase of TOD'S J.P. products.

The sophisticated selection of fine leathers in the J.P. TOD'S Sartorial Collection and its colour range is collected in three volumes that allow you to directly touch these high-quality, elegant leathers.

The first volume is dedicated to crinkled leathers, an exclusive TOD'S creation that is the result of a skilful process involving several stages of hand buffing.

The second volume is dedicated to the material named English, traditional English split leather, available in five colour versions.

Your initials can be stamped on the shoes and bags made with exclusive crinkled leather to make the J.P. TOD'S Sartorial Collection product even more personal.

With the support of two books dedicated to the process, customers will be able to discover the customisation variants: from one to four letters – with or without punctuation – stamped or painted in silver, which can be affixed to the shoes' upper, counter or insole and to the bag's handles and binding.

Digital's increasingly central role in the TOD'S brand experience

A sales ceremony that lives up to the Group's values and customer expectations is just one of the ways in which TOD'S focuses on its customers: the Group's primary objective is, in fact, to accompany the customer throughout their journey, offering an increasingly evolved and rewarding brand experience. Consequently, the Group is working to achieve ever greater integration of digital in its strategies, reducing physical distances in its interaction with customers, allowing them to feel closer and closer, indeed at the very centre of the brand.

Customisation: the offer of unique products

The utmost expression of the customer's central importance in the Group's strategies is represented by the ability to offer customers the possibility to design the products they wear: feeling part of the creation process, the customers enjoy a unique experience, leading them to identify themselves with the brand. With this in mind, TOD'S Group offers its customers the possibility to customise certain products, increasing their intrinsic value and making the shopping experience even more special.

MyGommino

The iconic Gommino loafer is one of the stars of the TOD'S brand customisation service. Available in TOD'S boutiques and online, the "**My Gommino**" programme allows customers to create their own versions from millions of available combinations. In addition to the material and colour, they can also choose details such as stitching, the strap or toecap and can even customise shoes by changing the colour of the gomminos or adding their own initials. The product is handmade with care and passion by TOD'S artisans and can be picked up at any of the brand's single-brand stores or sent directly to the customer's home.

HOGAN By You

HOGAN By You is a made-to-order service that allows you to customise iconic models and new projects by choosing their distinctive elements and adding exclusive details such as symbols, numbers and letters.

From season to season, new talents are involved and invited to express their personality with HOGAN By You.

The customisation service is available on the hogan.com website and in all the brand's single-brand boutiques thanks to a dedicated web app.

In particular, in order to maximise the business opportunities from the digital channel and its integration in the Group's strategies, in the final part of the year just ended, the Parent Company TOD'S S.p.A. finalised the acquisition of the associated company Italiantouch S.r.l., an e-commerce company which, since late 2012, has sold the products of the Group's four brands online through its technological platform.

The digital channel, which is being constantly renewed and is able to perfectly combine the brands' storytelling with the presentation of products from the latest collections, is currently active in 33 countries (2 of which were activated in 2018), with a main focus on the North American, European and Chinese markets. New important openings of the Group's brand's e-commerce websites are also planned in Asia over the next 2019-2020 two-year period.

Moreover, the Group's integration of the digital channel in its distribution strategies will accelerate the implementation of the multi-channel project and will lead to the progressive release of initiatives aimed at creating a more fluid customer experience between the physical and digital channels, for example by offering customers the possibility to view online products in the nearest boutique and to reserve products at the most convenient store, or to buy online from the boutique.

However, the Group is increasingly focused on the mobile experience and on providing customers with impeccable assistance through internally managed customer service.

HOGAN

The new Hogan.com site has paved the way towards the Group's new digital approach, aimed at improving customer experience, according to the new **Omnichannel** criteria.

Firstly, the brand has worked on implementing a mobile-first strategy to facilitate navigation from smartphones and tablets, which accounts for over 70% of traffic.

The most experiential part of the site has been strategically integrated with the e-shop, through a new innovative look and feel, in line with the brand's characteristics and philosophy.

The Hogan.com site has become a flexible, versatile container that can host dynamic and storytelling content to increase awareness about the brand and its iconic products.

The marketing and merchandising strategies have also turned their attention to the digital channel, launching the "**online limited edition**" project, special models exclusively available on hogan.com.

At the same time, the purchasing process has been simplified, guiding and facilitating the user experience through an intuitive interface to improve conversion rates and the acquisition of new registered users.

The launch of the new site has led to the implementation of the first Onmichannel services:

- **Check availability in Store:** offers online users the ability to view the availability of

products in the nearest boutiques.

- **Endless Aisle:** offers customers the option to purchase online from the boutique if the desired product is not physically available in store.
- **Return in Store:** allows customers to buy online and to make returns in the boutique.

The brand's online growth project continued with the opening of a new e-commerce market, Hong Kong, which has been active since May 2018.

TOD'S

As part of the digital experience, the new TOD'S site was launched in 2018, leading to important results, such as:

- Effective synergy between communication and product, through the creation of integrated areas designed to enhance the shopping experience with brand content.
- Smoother browsing on mobile devices thanks to the optimised interface.
- The use of omnichannel services in some countries: store availability check from the site, purchase from the site in stores, in-store returns and exchanges of purchases made on the site.
- The opening of new markets such as Canada and Hong Kong and the ability to browse the site in different languages for each country.

4. Ethics

Ethics is the value underlying all TOD's Group business operations, and is understood as the set of standards followed in the pursuit of company objectives. Ethical principles are of fundamental importance for the Group and its stakeholders and represent a vital element in day-to-day internal and external relations.

These principles enable the Group to operate transparently and safeguard and protect all people with whom it interacts and indeed the environment in which it operates.

4.1 Human resources

TOD'S Group is well aware of the importance of its people and recognises that the most influential factor in the success of any company is the people that show hard work and commitment in contributing to the development of the Group and the creation of value in the medium and long term.

TOD'S has developed a working environment in which the well-being and professional development of its employees play a vital role in building a relationship founded on trust and mutual respect - a bond that goes beyond the standard professional relationship.

For this reason, TOD'S works hard to provide a stimulating, professional, meritocratic, healthy and safe working environment that allows employees to freely express their talent and feel valued and appreciated.

Information on employees and other workers

As of December 31st, 2018, **TOD'S Group employed 4,705 people**, a slight increase (1.7 %) on the previous financial year. The percentage of employees based in Italy stood at around 47%, confirming the Group's strong bond with Italy.

TOD'S Group staff divided by region

No. of employees per region	12.31.18				12.31.17			
	Men	Women	Total	Percentage	Men	Women	Total	Percentage
Italy	980	1,216	2,196	46.7	944	1,191	2,135	46.1
Europe	286	731	1,017	21.6	297	747	1,044	22.6
Americas	112	109	221	4.7	119	103	222	4.8
Greater China	228	633	861	18.3	214	604	818	17.7
Rest of the world	88	322	410	8.7	82	326	408	8.8
Total	1,694	3,011	4,705	100.0	1,656	2,971	4,627	100.0

Given the very nature of the Group's activities, the percentage of employees working in retail activities stood at 47% of the total at the end of 2018.

Women represent **64% of the total workforce**, generally outnumbering men in almost all professional categories.

The professional category of "**white-collar workers**" has the largest number of staff members (3,030), followed by blue-collar workers (1,292). These proportions are to be expected given the Group's sector of operation.

The age range into which most employees fall is the **30-50** bracket, which encompasses **65%** of the total workforce. This is followed by the **<30** bracket (around 22%), in line with the Group's focus on investing in young talent.

Attracting talent

Attracting talented people is an objective of fundamental importance for TOD'S Group, given that this is the only way to ensure that the standard of the company's day-to-day activities is maintained. For this reason, the Group takes great care in recruiting and selecting talent, adopting consolidated company processes designed to clearly define every stage of the recruitment process.

Over the course of 2018, **1,492 new recruits joined TOD'S Group**, roughly 54% of whom were under the age of 30. A total of 1,467 employees left the Group, meanwhile, equating to **outbound turnover** of 31.2% (a slight increase on the 30.6% registered in 2017). This figure rises to 51.2% considering solely staff members under the age of 30. In terms of outgoing staff members, there were 805 **voluntary resignations** in 2018, equating to a resignation rate of around **17%**. The size of these percentages is largely attributable to retail staff joining and leaving the company, which is an inevitable part of company life given the Group's sector of operations.

Recruitment and departures of TOD'S Group staff - 2018

Gender	New employees 2018				Outgoing employees 2018			
	<30 years	30-50 years	>50 years	Total	<30 years	30-50 years	>50 years	Total
Men	285	184	9	478	258	178	21	457
Women	515	458	41	1,014	494	452	64	1,010
Total	800	642	50	1,492	752	630	85	1,467
%	53.6	43.0	3.4	100	51.3	42.9	5.8	100

Attracting young talent: working with schools and universities

Every year, TOD'S Group's Human Resources department plans its participation in career days and job fairs in the main Italian and international universities in order to attract and engage the best talents from academic institutions. More specifically, the HR People Excellence department maintains strategic relationships and partnerships with the academic world and with the main social recruiting platforms, focusing on geographic areas and corporate departments crucial for business development, anticipating their needs in terms of necessary skills.

During 2018, the Group met numerous graduate and undergraduate students at specially organised events at a number of prestigious Italian and international universities including Bocconi University, Marche Polytechnic University, the University of Bologna, the University of Camerino, the Università Cattolica and LUISS. Overall, these events helped to spread employer branding and to present the Group to a large audience of potential candidates, arranging, with a smaller group of candidates, group or individual interviews that led to curricular or extra-curricular internships.

In 2018, the Group maintained and further developed a number of important agreements with academic institutions. In Italy, the multi-year partnership with Bocconi University continued. This aims to support research, educational and institutional activities in the Fashion and Luxury Management sector and features a number of opportunities for dialogue. This agreement, as well as seeing TOD'S participate in all the events organised by the university, both at its Milan site and abroad, allows the Group to plan special visits and meetings at the company offices for a group of selected students and to involve them in employer branding activities, project work or exchange and mutual study sessions.

In this context, TOD'S Group participated in the Bocconi & Jobs Career Day both in Italy and in Asia, in partnership with some of the most important local universities such as Fudan University, allowing several students to undertake an internship experience in the offices of the Group's Chinese branch.

In line with last year, in 2018 TOD'S Group organised "In company training" days in order to introduce a few students to the Group's brands and to give them an insight into TOD'S through meetings with company managers, illustrating company opportunities and internal career development. This programme was organised both in the most representative Italian headquarters and in a number of overseas offices, focusing on the most important markets such as Hong Kong, Shanghai and Paris.

In 2018, in Italy, a collaboration was established with the Università Cattolica in Milan, through the participation of some of the Group's managers in the Technical Committee created in the Communication degree courses. In addition, TOD'S has provided support for a number of degree and Master's courses with various company lectures on current issues and the luxury sector.

The collaboration with the University of Camerino (UNICAM) continued through the Group's participation in the Supporters' Committee, a technical body that supports project activities and fosters the connection between the academic and business world, directing and anticipating company needs, above all in the digital environment (e.g. computer engineering faculty).

Through these initiatives, the Group has had the opportunity to interface with numerous young people, offering some of them the opportunity to undertake a training and internal development course: in 2018, 91 internships were initiated in Italy at the various local units, 82 of which were extra-curricular, with a subsequent possibility of admission. Of these, 76% were subsequently hired by the company with a stable employment contract.

The Group supports important collaborations not only in the area of business management, but also in the field of fashion, design and luxury. A notable example is the MAFED (Master in Fashion Experience and Design Management), SDA Bocconi's flagship Master's degree.

This collaboration allows the Group to come into contact with students from every continent and a new work project is carried out every year with some of these students, who are carefully selected. In 2018, for example, the focus was on developing the business of one of the Group's brands within the children's products segment, with a final presentation made to the company board.

2018 also saw continued active participation in the school-work project, which was met with mutual satisfaction from both the students and the company tutors involved. In order to consolidate this project, an internal procedure has been established over the years with the aim of facilitating collaborations with target schools in areas adjacent to the Group's local units and with students.

TOD'S Group continues to be one of the major sponsors of a prestigious training institution in Le Marche, the Adriano Olivetti Institute in Ancona (ISTAO). Among the courses promoted by the institution, the Group participates, in particular, in the Executive courses, including "Living Operation dalla Lean production all'I4.0", and in numerous annual meetings, of various kinds, which offer interesting insights into the academic and business worlds.

In terms of more creative professionals sought after by the Group, in 2018 an important event was organised involving the creation of an "innovation workshop" called NO-CODE. The event was conceived as a label-container, a space dedicated to experimenters and to 200 students from the world's most prestigious creative and design faculties such as Stanford University, Brera Academy, Istituto Europeo di Design, Marangoni and Central Saint Martins University of The Arts London, in which to express different forms of creativity with the support of internationally renowned designers such as Korean Yong Bae Seok, Chris Bangle, Angela Rui and Yoji Tokuyoshi.

With regard to the Group's search for excellence and new talent in technical fields, TOD'S has important partnerships with Arsutoria in Milan and the Fondazione Cologni dei Mestieri d'Arte. Notably, the "Una Scuola, un Lavoro. Percorsi d'Eccellenza" project was developed in collaboration with the latter, in order to give talented young people the chance to enter the working world in the trades of the Made in Italy tradition.

2018 saw the successful continuation of the Group's "Bottega" academy, which involves six months of classroom training and mentoring from the Group's master craftsmen to develop the artisans that the Group needs in its plants dedicated to Italian-made leather goods and footwear production.

The training activities were designed to train new employees for the launch of the new production plant in Arquata, implemented as a social responsibility project in an area devastated

by the 2016 earthquake, with the goal of preventing depopulation in the area. The training also aimed to facilitate generational change in the Group's production facilities.

The Group also identified and trained other figures from the artisanal side of the business, using a Train the Trainer scheme designed to help them plan and create a training plan, thus optimising the learning process for new interns or apprentice artisans. The main aim of these activities was to share the required qualitative standards in terms of processing raw materials and semi-finished products. This also helped to keep the company processes up to date.

TOD'S Group believes that it is vitally important to help new recruits as they settle into the Group, particularly as a way of conveying the core values necessary to uphold the high qualitative standards the Group demands.

One of the distinctive features of TOD'S identity is Made in Italy, a value that is inextricably linked to the Group's image and permeates its approach, guiding all corporate and retail activities. All employees are offered special induction programmes designed to share these values and to strengthen the staff's sense of belonging to the Group.

Promoting the Group's values among new recruits

The challenge of preserving the values of Italian spirit and Italian manufacturing in the markedly international environment in which the Group operates is a significant one. In order for these values to be equally internalised and promoted by all employees, regardless of their geographical origin, a few years ago TOD'S launched the Italian Orientation programme, which offers a number of new hires in the retail world an opportunity for corporate training combined with a cultural itinerary.

For Italian employees, the three-day programme includes visits to the TOD'S production site in the Marche region and the corporate offices in Milan, while employees of the Group's international offices begin with a visit to Rome - including a trip to the Colosseum - before visiting the Marche production site and Milan corporate offices and rounding the trip off with a visit to Villa Necchi in Milan.

This initiative is offered to all store managers and the most deserving store manager assistants and sales assistants. By alternating cultural activities with opportunities for fun and relaxation, international employees thus have the chance to completely immerse themselves in the Italian culture and lifestyle, gaining first-hand experience of the values that define the TOD'S approach to its own activities and how it tackles relationships with customers.

The programme also represents a unique experience for Italian staff, who get the chance to interact with colleagues from all over the world, promoting mutual cultural exchange. It is an initiative that underscores the ongoing TOD'S commitment to creating an increasingly cohesive, international team.

Equal opportunities and non-discrimination

The Group bases its approach to managing staff around the principles of diversity and multiculturalism. The chance to work with people of different nationalities, with diverse cultural and professional backgrounds, is of vital importance to an international organisation like TOD'S Group. By promoting these principles, the Group boosts its staff's ability to interact effectively, optimising their day-to-day performance. At the same time, the Group's diversity is a precious tool to help the organisation understand and respond to the unique needs of different markets.

The Group's desire to respect these values is underscored in the **Code of Ethics**, in which the Group commits to ensuring that **diversity** and **equal opportunities** are respected at every level of the organisation, with the principles of meritocracy upheld and all forms of discrimination rejected, including those linked to age, gender, sexual orientation, race, language, nationality, political opinions, trade union affiliations and religious beliefs. As of December 31st, 2018 **64% of the entire Group workforce** was made up of women. This strong female presence is seen in all regions in which the Group operates. In the most senior professional categories (executives and managers), the split between men and women is more equal, although there are slightly more women here too (57.2%).

The offer of **part-time** contracts also confirms the Group's commitment to equal opportunities: as of December 31st, 2018, 7.4% of the Group's employees benefited from these contracts. Moreover, the Group offers its employees the chance to take **parental leave**, in accordance with laws and regulations in the various countries. Finally, as of December 31st, 2018 the Group employed 108 people belonging to **legally protected** status (up from 104 as of December 31st, 2017). The Group has also signed a number of agreements with Employment Centres in order to progressively incorporate these people into the Group's companies.

Remuneration and benefits

TOD'S Group's **remuneration policies** are also centred around the values of equal opportunities and equity. All policies are designed to reward the skills of each employee.

Every year, the Group companies set out meritocratic remuneration policies, with direct involvement from managers, who are asked to identify staff deserving of a pay rise. Moreover, in addition to standard salaries, the Group also sets out variable retribution plans (Management by Objectives or MBO) on an annual basis. These are assigned to management staff on the basis of targets achieved over the course of the year. As regards the **salaries of new recruits**, TOD'S Group offers salaries in line or above the minimums set out by law or collective bargaining agreements in the various countries in which it operates. This applies to both men and women.

Ratio between base salary of new recruits³ and minimum local salary⁴, by significant operational location

Significant location	2018		2017*	
	Men	Women	Men	Women
Albania	1.07	1.07	1.17	1.17
Austria	1.12	1.09	1.12	1.09
Australia	1.16	1.16	n.a.	n.a.
Belgium	1.21	1.21	1.23	1.23
China	1.24	1.24	1.30	1.30
Korea	1.27	1.27	1.22	1.22
France	1.26	1.26	1.26	1.26
Germany	1.28	1.28	1.22	1.22
Japan	1.62	1.62	1.64	1.64
Hong Kong	2.23	2.23	2.17	2.23
India	4.18	4.35	5.41	5.36
Italy	1.23	1.23	1.27	1.26
Macau	2.24	2.24	2.32	2.34
Netherlands	1.03	1.03	1.06	1.05
United Kingdom	1.29	1.29	1.34	1.34
Singapore	2.17	2.17	2.27	2.41
Spain	1.75	1.75	1.96	1.96
Switzerland	1.07	1.07	1.07	1.07
United States of America	1.75	1.73	1.87	1.86
Hungary	1.00	1.00	1.00	1.00

* 2017 data refers to 99.9% of the Group workforce.

There are slight differences in the salaries and remuneration of male and female staff in certain professional categories (albeit an improvement on the previous year). This is inevitable given the different roles and responsibilities held by employees.

While there are some anomalies in individual regions in terms of both base salary and overall remuneration, the analysis reveals no particular disparity between men and women (neither in 2017 nor 2018).

In Europe, the USA and Greater China, the reports for both years show that women earn slightly more than men in the professional category of “white collar workers”. Finally, as regards the benefits offered, the Group strives to minimise inequality and standardise its offering for all staff

³ “Base salary of new recruits” refers to the lowest salary paid to new recruits in the year in question.

⁴ “Minimum local salary” refers to the minimum salary permitted according to the collective agreement (where applicable) or regulations valid in the various countries in which the Group operates.

members, regardless of their contract type or area of expertise. In a limited number of cases regarding some of the Group's companies, additional benefits of a social and financial nature are available only to full-time staff. These include health insurance, life insurance and pension contributions.

Talent development

Employee training has a crucial role in the present and future success of the Group. On the one hand, training is an important means of professional development and enhancement for employees.

On the other, it represents a valuable way of spreading the Group's values, furthering its strategies and ensuring its workforce has the necessary skills. In addition to induction programmes offered to new recruits, the Group has always invested in developing the technical and professional skills of all its employees, offering training courses tailored as closely as possible to the specific needs of both employee and company.

In 2018, TOD'S Group delivered over 34,200 hours of training (a decrease of around 7% on the total for 2017). Of this, around 41% was made up of corporate training, with the other 59% consisting of retail training.

Hours of training delivered, by employee gender and type of training (corporate/retail) 2018 and 2017

No. of Hours	2018			2017		
	Men	Women	Total	Men	Women	Total
Corporate	7,380	6,600	13,980	8,154	6,280	14,434
Retail	5,267	15,015	20,282	6,365	15,919	22,284
Total	12,647	21,615	34,262	14,519	22,199	36,718

Retail training

In the retail field, the Group has created training courses named Sales Efficacy & Self Efficacy in CRM with the aim of strengthening staff's ability to make things happen. Training is delivered via a coaching-style approach to strategic figures such as retail operation managers, store managers and assistant store managers, with the aim of supporting their management activities and developing the resources available to them. Individual action plans are created for each employee, with shared objectives set and space for feedback.

The issue of multiculturalism has also been tackled in the retail forum through activities designed to optimise staff's ability to accommodate international customers. The objective of

such activities is to improve staff's linguistic abilities within the context of the selling ceremony and – more importantly – to help staff understand cultural rules better, thus allowing them to build a closer relationship with customers, with beneficial consequences for both sales and customer loyalty. These training programmes have been particularly successful in building understanding of Chinese, Russian and Arabic cultures, with our salespeople gaining a greater understanding of customer expectations.

In the area of **corporate** training, in 2018 the Group continued training activities designed to align the technical and managerial skills of its staff through the enhancement of skills that are useful not only to increase productivity and efficiency, but also to improve interpersonal relationships and the corporate climate. The distinctive features of soft skill training were: Cross cultural, team management, team building, communication and assertiveness. Particular attention is given to technical training at all levels in order to align company processes with new market demands, such as the Omnichannel approach to the customer, e-commerce and seasonal adjustment of collections with the release of new products in a shorter time frame than in the past, etc.

Much of the Group's technical training activities in 2018 focused on IT, with the dual objective of boosting knowledge of IT equipment used within the business while improving company performance through more widespread sharing of data and targets to be achieved.

By way of example, various workshops related to digitalisation were planned and organised, including in the field of Industrial Management and logistic processes, in order to meet new demands in terms of timing, product customisation and logistics related to the world of digital and e-commerce.

In order to monitor the ability of retail employees and to ensure constant improvement, the Group regularly assesses employee performance so as to be able to set individual targets and ensure necessary development.

In 2018, approximately 55% of employees underwent a **performance appraisal** (more or less in line with the previous year). The percentage was particularly high for management staff and employees, 92% and 66% of which respectively underwent appraisals. In this regard, the Group has confirmed its commitment to the implementation of an integrated assessment system, which will be applied as a pilot for the Italian management and will then be extended to the entire company (excluding the workers). This means that around 80% of employees will undergo performance appraisals. In addition to these formal performance appraisals, the Group strives to promote continuous dialogue between management and employees, in order to encourage an ongoing flow of information designed to facilitate constant qualitative improvement.

In relation to the performance of retail employees in particular, the Group has adopted an incentive programme split by region. The aim of this is to create a fair remuneration system for store staff. The plan features two incentive tools. Sales assistants are entitled to commission, which is paid every month and dependent on them hitting sales target as set by the regional management. In addition to this, store management staff are eligible for bonuses, which are awarded on a weekly basis and are linked to performance appraisals and qualitative and quantitative indicators.

Employee well-being

TOD'S Group's success is closely linked to the happiness of its workforce and, for this reason, one of its main objectives is to ensure the **well-being of its employees**, in order to generate value in the long term. Employee well-being is not just about professional fulfilment, but also about the ability to ensure a good work-life balance that never oversteps the mark. The Parent Company TOD'S S.p.A. supports a number of initiatives in this field. Firstly, TOD'S offers its employees a large range of services at the Group headquarters, including:

- a free nursery for employees with children between the ages of two and six. Access is reserved for the first 28 children who qualify based on a ranking system drawn up every year according to specific criteria;
- a free gym that can be accessed by employees between set hours (during the lunch break and after 18:00), with the option of attending courses running on a weekly schedule;
- a company restaurant serving subsidised meals, using organic and km-0 products;
- a free media library offering books and DVDs. In 2008, the Group launched its Welfare programme in Italy, with the aim of improving the well-being of employees and their families. In 2018, the project featured a range of initiatives providing economic support to employees, including:
 - an annual gross contribution of €1,400 for employees belonging to the Footwear Industry collective bargaining agreement (CCNL);
 - a contribution towards employee costs relating to the purchase of school and university books for children ranging from primary school to university age⁵;
 - insurance for employees and their immediate families covering the cost of major specialist operations, dental treatment, contact lenses and glasses, diagnostic tests, specialist visits and paediatric preventative healthcare⁶.

⁵ This contribution was not paid to employees of Del. Pav. S.r.l.

For part-time employees, the €1,400 contribution is paid on a pro-rata basis depending on the number of hours worked.

In order to continuously improve the well-being of employees, a goal that has always been dear to the TOD'S Group, it should be noted that, in 2018, the Parent Company launched an assessment program to monitor, improve and develop staff management practices in place at the Group.

The Group used the results of the first analysis conducted to identify the areas of greatest interest on which to focus a company survey; this initiative was launched in January 2019, through a first round of interviews involving a selected sample of top managers. These interviews will continue and will be expanded in 2019. The assessment for the 2019-2020 two-year period is also expected to continue.

The results of these interviews, together with continued analysis conducted as part of the assessment programme, will guide TOD'S in defining an action plan aimed at the continuous optimisation of staff management and development practices (with a direct or indirect impact on the improvement of the corporate climate).

⁶ This cover is not applicable to employees on fixed-term contracts or employees of Del. Pav. S.r.l., who are covered by the insurance provided by the relevant collective bargaining agreement.

Health and safety

Employee well-being is also dependant on the provision of **adequate health and safety conditions at the workplace**, across all the Group's facilities.

TOD'S therefore places great importance on overseeing these issues, in order to prevent and minimise accidents and injuries. The entire Group adheres to all health and safety laws and regulations, adapting to the specific legislation in force in the various countries in which it operates. In order to improve the way it deals with this issue, the Parent Company TOD' S S.p.A. has internal reporting systems regarding Health and Safety in the Workplace. These are regularly sent to control bodies. As part of the Group's commitment to transparency, the Prevention and Protection Service Manager is interviewed by control bodies every half year.

In 2018, 57 accidents were reported (down compared to the 77 cases reported in 2017). Of these, 36 occurred at the workplace and 21 occurred during travel. TOD' S S.p.A. works hard to provide guidance and training around health and safety. All employees benefit from training programmes focusing on the prevention of accidents and occupational diseases and split between classroom learning and e-learning.

"There is a still a lot of appreciation for the idea, which was implemented years ago in the main plant, of designing a company on a human scale, with spaces dedicated not only to work, but also to the well-being of our employees and their children."

Diego Della Valle

4.2 Environment

TOD'S Group is committed to respecting and protecting the environment by reducing the environmental impact of its activities, through the optimisation and rationalisation of all processes that may have some impact on the ecosystem.

Every year, TOD'S undertakes a wide range of initiatives in this field. More specifically, the Group is active in devising and developing projects designed to energy saving and efficiency in its production and commercial sites. This commitment is accompanied by further ambitious objectives such as the responsible management of water resources, controlling waste production and the use of recycled materials for the furnishings of its stores.

Energy efficiency measures in Information Technology services

TOD'S Group has long been active in the identification, selection and monitoring of energy efficiency projects in the field of Information Technology services.

In recent years, the Group has also continued to **consolidate, rationalise and virtualise its servers**. To date, approximately 90% of physical servers have been converted into virtual servers, with appreciable benefits in terms of energy consumption and related CO₂ emissions.

TOD'S also actively promotes the use of meeting rooms with video conferencing systems in order to limit business trips: on the one hand, this reduces environmental impact associated with travel and, on the other hand, it improves employees' quality of life.

To date, in all its main global offices (from Milan to Tokyo), TOD'S Group has 12 meeting rooms equipped with modern video conferencing systems. In recent years, employees have become increasingly aware about the use of these systems.

In this regard, the "Skype for Business" application has been installed on most of the company's devices. As of December 31st, 2018, over 1,750 employees are authorised to use this application (a sharp increase compared to 770 in the previous year).

Furthermore, over the last few years certain best practices have been shared with employees in order to promote positive behaviour from an environmental point of view.

In line with this process, TOD'S Group has reduced the number of printers by providing dedicated print centres, as well as by streamlining the systems by installing multi-function devices, each of which can print, copy and scan, which naturally leads to energy savings and simplification of maintenance activities. The existing equipment is also being gradually replaced with devices with lower energy consumption.

In 2018, TOD'S implemented numerous initiatives relating to the **digitalisation and optimisation of business processes**, in order to reduce environmental impact and to minimise the use of resources and consumable materials, including, but not limited to:

- procedures for issuing purchase orders by customers at the Milan showroom relating to the Tod's brand;
- digitalisation of reporting activities downstream of quality control of finished products for the footwear and leather goods divisions;
- digitalisation of reporting activities downstream of quality control of leather raw materials;
- procedures concerning the entire business travel process at the Parent Company;
- procedures for digitalising, at a global level, coupons for the collection of customer contact data by the boutiques.

The digitalisation and optimisation of processes will also continue in the following years through the implementation of additional project initiatives.

Responsible management of resources⁷

Energy consumption

Over the course of 2018, TOD'S Group's **electricity** consumption was 131,908 GJ (a slight increase on the previous year), while **consumption of natural gas** was equal to 26,847 GJ (an increase of around 10% compared to 2017). The causes of the slight increase in consumption reported in 2018 include the full operation of the Arquata del Tronto production plant, opened in late 2017.

In addition to optimising energy consumption, the Group's commitment has been focused on the **use of energy from renewable sources** for several years: in fact, it should be noted that together with the headquarter's photovoltaic system, launched in 2011, the photovoltaic system at the Arquata del Tronto plant became operational in 2018. The Brancadoro system has an installed power of 956.88 kWp, while the Arquata del Tronto system has an installed power of 50 kWp. In 2018, the systems produced a total of around 3,825 GJ of energy (a 6% decrease compared to the previous year), respectively meeting around 14% of the headquarters' energy requirements and around 19% of the Arquata del Tronto plant's requirements. In 2018 **diesel** consumption totalled 1,315 GJ. The recorded increase is mostly attributable to the continuous optimisation of the monitoring of this data.

TOD'S also has geothermal facilities at its headquarters which are used to provide sustainable power for its air-conditioning systems.

Energy consumption by type (2018 - 2017)

Type of energy consumption (GJ)	2018	2017
Natural gas *	26,847	24,456
Diesel fuel consumption **	1,315	444
Electricity ***	131,908	126,509
Energy internally produced by photovoltaic system ***	3,825	4,088

* For natural gas 1 m³ = 0.035253 GJ.

** For diesel 1 kg = 0.042877 GJ.

*** For electricity 1kWh = 0.0036 GJ.

In 2018, the Group's commitment to reducing energy consumption was once again illustrated by a range of initiatives focusing mainly on Italy, the location of the Group's headquarters and main production and logistics facilities. This process is the natural consequence of the application and structured management of the energy efficiency action plan produced following an energy audit

⁷ With reference to the availability and materiality of the data, the sample taken into consideration – which equated to 4,705 employees in 2018 – has the following limitation: the production and disposal of waste refers to 98.9% of the sample evaluated.

Where data was not readily available, estimates have been used.

carried out in 2015. In addition to the requirements set out in Legislative Decree 102 of 2014, this audit also analyses the energy consumption of all production and logistics sites owned by the Group. This action allowed the Group to obtain two results of great importance. The first was the production of a detailed site-by-site energy overview, achieved through regular checks and documentation of electricity usage and resource consumption. The second was the production of a general overview of energy consumption and management, which allowed the group to plan and adopt strategic steps designed to achieve increasingly impressive energy efficiency and optimisation objectives.

At its Italian headquarters, the Group oversees a range of initiatives in line with **design guidelines** designed to increase the energy performance of company buildings, including measures such as:

- equipping buildings with high-efficiency insulation;
- installing photovoltaic systems;
- using geothermal systems for air-conditioning and heating;
- replacing traditional light bulbs with LED bulbs.

These design guidelines, which were already used in the construction of a building within the complex encompassing the headquarters, were again adopted in the construction of the new facility in Arquata del Tronto in the Marche region (completed in December 2017). This facility was built according to the latest energy sustainability principles:

- only LED lighting used (internal and external);
- movement sensors for turning lights on and off;
- high-performance heat pumps used for heating, plus high-efficiency condensing boilers powered by methane for added support during colder periods;
- air treatment and aspiration systems fitted with inverter motors;
- implementation of a surveillance and monitoring system for lighting and heating systems;
- creation of a 50 KwP photovoltaic system.

Furthermore, in 2018, at the Montepandone logistics centre and the Comunanza production sites, measures were also carried out to improve the efficiency of the internal lighting system by replacing the lighting fixtures with fluorescent tubes with new LED lighting fixtures.

The Group is working to reduce its energy consumption in stores by introducing LED technology to light rooms and display cases in sales areas.

Reducing energy consumption: a long-term commitment

The Group's commitment to reducing energy consumption is further illustrated by the continuation of energy efficiency initiatives in 2018.

One of the Group's most important projects is focused on **monitoring energy consumption** at industrial sites through special measuring equipment (MID multimeters). These tools allow the Group to quickly monitor and analyse energy consumption, in order to identify appropriate optimisation work to be carried out. In 2018, this initiative reached almost all of the Group's production sites, with the exception of the Bagno a Ripoli (FI) - Loc. Vallina plant, for which monitoring systems are expected to be installed and operational within the first half of 2019.

At its headquarters, in 2018 the Group again confirmed its commitment to increasing the efficiency of its external lighting system concluding the initiative of replacing all light bulbs in all buildings in the complex with LED bulbs. Energy efficiency initiatives have also been extended to internal lighting systems by replacing part of the ceiling lights in one of the headquarters buildings with LED lighting systems.

Water consumption

With regard to **water consumption**, TOD'S Group has always worked hard to ensure that it is constantly monitored and plans technical checks in the event of significant changes to past consumption levels. Thanks to this analysis, the Group was able to identify and remove the hidden losses affecting some plants, significantly reducing the amount of water drawn from aqueducts. In 2018, therefore, the Group's water consumption levels were equal to 159,912 m³, a drop of around 10% compared to 2017. Furthermore, the installation of a closed-circuit utensil washer at the Tolentino production facility contributed to this reduction.

Considering the range of activities undertaken by the business, the Group's water consumption levels are almost entirely attributable to its headquarters and production sites, where the majority of employees, who use water for hygienic/sanitary purposes, are based, with only a small percentage attributable to the DOSs and showrooms. In terms of water sources used, around 60% of water resources come from the subsoil, with the remainder drawn from aqueducts. The Group's commitment to responsible water management is formalised in guidelines adopted by its headquarters. This is further underpinned by the decision to use water from the subsoil for all irrigation systems (where present). Over the course of 2018, the overall quantity of water released back into the environment was estimated at 31,025 m³, in line with the previous year. These releases relate to water that is drawn from the subsoil and used as a heat carrier for the operation of the high-efficiency reversible heat pumps necessary for the buildings' air conditioning. This water, used in a closed cycle, returns to a technical tank which is both a water supply for irrigation and for fire fighting; when this tank reaches maximum capacity, the excess water is released back into the ground.

Water used by source type⁸ (2018 - 2017)

Type of source (m ³)	2018	2017
Water from subsoil	76,650	71,723
Water from aqueduct	83,262	105,048
Total	159,912	176,771

With reference to the sanitary hot water needed for the headquarters' services (children's centre, company restaurant, toilets, etc.), the Group, in order to reduce methane gas consumption, has planned an energy efficiency project for 2019 that involves the installation of solar panels and electric heat pumps.

⁸ Given that water used for the condensation process does not have its properties altered, it is therefore not considered waste water and thus the quantity of such water released back into the ground is not included in the sample. The figure in the table relating to the quantity of water drawn from the subsoil has had the quantity of water released back into the ground in m³ subtracted from it.

Production and disposal of waste

The Group recognises the importance of ensuring the responsible management of the **waste** produced as a result of its activities. Where possible, it tries to promote recycling in order to reduce the quantity of waste requiring disposal.

During 2018, TOD'S Group produced approximately 1,887 tonnes of waste, which was again mainly derived from production sites in Italy and abroad. The increase of around 10% compared to 2017 is largely due to the scrapping of vehicles and to a lesser extent to the production plant at Arquata del Tronto, which became fully operational in 2018, compared with a month of activity in 2017. Non-hazardous waste accounts for almost all – 99.56% – of the total waste generated.

As regards disposal methods, over 57% of the waste produced by the Group has been stored with a view to recycling in the future. Waste disposed of in landfills was generated by stores and showrooms in other countries.

Type of waste produced (2018-2017) **

Type of waste produced (in tonnes)	2018			2017		
	Dangerous	Not dangerous	Total	Dangerous	Not dangerous	Total
R13*	5.695	1005.362	1,011.1	0.4	919.8	920.2
D15*	1.745	98.925	100.7	2.3	118.6	120.9
D8 e D9*		38.328	38.3		24.3	24.3
R4*		1.765	1.8		1.9	1.9
R5*		0.605	0.6		0.7	0.7
Landfill		618.0	618.0		517.0	517.0
Total	7.4	1,763.0	1,770.4	2.7	1,582.3	1,585.0

* R13: storage for recycling at a later date; D15: preliminary deposit ahead of disposal operations; D8 and D9: biological treatment and chemical/physical treatment; R4: metal recycling; R5: recycling/reuse of other non-organic substances.

** 2018 data does not include Italian Touch S.r.l, Italian Touch Shanghai trading Co. Ltd and Italian Touch USA Inc, companies which were all acquired in 2018.

Data for 2017 and 2018 shown in the table does not include the waste produced at the production sites in Albania and Hungary. However, these figures are reported in the paragraph below the table.

Aware of the importance of reducing waste production, even before identifying strategies for the reuse and recycling of waste, TOD'S Group committed itself in an increasingly practical manner to reducing the quantity of waste produced in the course of its daily activities, not only in the production cycle. In particular, in order to reduce the consumption of paper towels, a pilot project was launched to install a hot-air hand drying system in some of the areas in the

headquarters. Monitoring of electricity and paper consumption is currently underway to assess the environmental and economic sustainability of this change.

To reduce the quantity of plastic waste, large plastic drinking water bottles were replaced with filtered water dispensers in some refreshment areas in the Brancadoro headquarters. At the same time, filtered water dispensers were also installed in the company restaurant in order to minimise the use of disposable plastic and glass bottles.

Furthermore, the installation of separate waste collection systems in some areas of the Brancadoro site is nearing completion.

In addition to the quantities shown in the above table, 2018 saw around 0.79 tonnes of hazardous waste and around 116.4 tonnes of non-hazardous waste generated in the Group's production sites in Albania and Hungary (compared to a quantity generated for the same production sites, in 2017, of around 0.2 tonnes of hazardous waste and around 124 tonnes of non-hazardous waste). Considering the activities undertaken at these sites, the quantities of waste generated mainly consist of leather and packaging waste.

Material consumption

Given the Group's area of operations, significant quantities of **office materials and product packaging materials** are used. The Group therefore places great importance on carefully managing the consumption of such materials as part of its strategy to minimise and rationalise environmental impacts linked to this. The Group prioritises sustainable materials, particularly those that can be recycled and that come from responsible sources. It also checks whether its suppliers hold relevant certifications.

Main materials used by type (2018 - 2017)

Type of materials	Kilos	
	2018	2017
A4 Paper	57,156	64,610
<i>of which FSC/PEFC</i>	<i>8,820</i>	<i>7,060</i>
A3 Paper	2,228	2,012
<i>of which FSC/PEFC</i>	<i>979</i>	<i>634</i>
Shopping bag	220,439	235,299
<i>of which FSC</i>	<i>126,300</i>	<i>127,026</i>
Cardboard Box	516,500	531,000
A5 Paper (FSC)	830	1,166
B5 Paper (FSC)	12	16
Total	797,167	834,103

0% of the reported materials is renewable.

Greenhouse gas emissions

The main objective of the Group's strategy as regards environmental protection and reducing the impact of its activities is to reduce polluting emissions in the atmosphere. The Group recently began to monitor its greenhouse gas emissions. This enables the Group to plan future initiatives and projects to ensure ongoing reductions in environmental impacts.

The table below details the main emissions generated by the Group. In compliance with the Greenhouse Gas (GHG) protocol, the principal emissions reporting standard, the Group's emissions have been divided up by type. Scope 1 emissions derive from the Group's direct resource consumption, Scope 2 emissions are associated with electricity generation and Scope 3 emissions are linked to employee mobility.

CO₂ emissions (2018 - 2017)⁹

CO ₂ footprint (Tonnes of CO ₂)	2018	2017
Scope 1	2,538	2,189
Scope 2	14,883	15,288
Scope 3	3,326	3,340
Total CO₂ footprint	20,747	20,817

As can be seen from the table above, the Group's greatest impact in terms of CO₂ emissions, for both years, is produced by Scope 2¹⁰, amounting to 72% in 2018 and 73% in 2017.

As regards production facilities, an external body was used to calculate other emissions. In particular the amounts of Volatile Organic Compounds (VOC), nitrogen oxides (NOx) and sulfur oxide (SOx) were calculated combining channelled emissions and emissions released. For the

⁹ Factors used:

- for diesel and natural gas (Scope 1), conversion factors developed by the *European Environment Agency [EMEP/EEA Air Pollutant Emission Inventory Guidebook - 2016]* were used.
- for petrol and diesel (Scope 1 and Scope 3), conversion factors developed by the *European Environment Agency [EMEP/EEA Air Pollutant Emission Inventory Guidebook - 2016]* and conversion factors calculated by DEFRA [*ghg-conversion-factors-2018 update*] were used.
- for electricity (Scope 2) conversion factors by Terna [*Confronti internazionali - 2016*] were used for calculation with the location-based method. With reference to the market-based method, emission factors related to the "residual mix" were used (Source: AIB - 2017 *European Residual Mix*) where available; elsewhere, the same emission factors used for calculation with the location-base method were used.
- for air and rail transport (included in Scope 3), conversion factors calculated by DEFRA were used [*ghg-conversion-factors-2018 update*].

¹⁰ CO₂ emissions calculated with the "Location-based method". However, for the calculation of Scope 2 CO₂ emissions, both the methods provided by the *GRI Sustainability Reporting Standards* were used. With reference to the "Market-based method", the total Scope 2 emissions amount to 17,472 tonnes for 2017 and 17,609 tonnes for 2018.

purposes of this calculation, the body analysed all Italian production sites included in the mass balance sheets, which are used to create the Solvent Management Plan. The 2018 figure amounts to around 27.3 tonnes of VOCs, up from 26.6 tonnes in 2017. With reference to the nitrogen oxide, the total amount for 2018 is 5.5 tonnes of NOx (5.1 tonnes in 2017), while for sulfur oxide, the total amount for 2018 is 0.9 tonnes of SOx (0.5 tonnes in 2017).

Transport and logistics¹¹

Given the highly international nature of the Group, whose extensive distribution network encompasses all the main countries in the world, **transport and logistics** play an essential role in product procurement and distribution activities. The Group works hard to minimise the environmental impact associated with these aspects, while striving to ensure the standard of the service offered remains constant given that this area has a significant bearing on customer satisfaction.

As regards the distribution of finished products, in 2018 the overall amount of goods dispatched was equal to around 10,000 tonnes, an increase of approximately 7% on the 2017 figure. The Group works with leading logistics partners for product deliveries via air, sea and – most extensively – road.

In order to plan more precise measures to increase consumption efficiency in the area of transport and logistics, TOD'S Group is working hard to intensify its monitoring of environmental impact stemming from transport and logistics, partly in collaboration with its logistics partners. Where possible, these efforts include a greater focus on vehicles with reduced environmental impact.

¹¹ Where data was not readily available, estimates have been used.

5. Solidarity and Italian spirit

More than anything else, the idea of Italian spirit – italianità – has always been intrinsic to the very essence of the Group. TOD'S has forged its world-renowned reputation by drawing values from the country of Italy, using care and skill to make them its own. The Group is hugely grateful for what Italy has given it and thus strives to give back to local areas, providing support for local communities, particularly the most vulnerable in our society, and promoting art and culture in Italy.

*The Group's **solidarity** efforts are not just limited to the Italian peninsula, however, despite this being the place in which its roots are firmly set. Given the strong international dimension of the Group, TOD'S is passionate about the well-being of people all over the world and thus works hard to share the excellence it has achieved and the value it has generated over so many years through a range of global projects and initiatives.*

5.1 Supporting local areas and the country as a whole

TOD'S Group has always played an active role in supporting the local areas in which it operates and indeed the country as a whole and both of these elements are inextricably linked to its history and values.

The many initiatives in which TOD'S Group has participated have always been characterised by the following themes, which continue to have a significant influence over the spirit behind such projects:

- a sense of responsibility to give back part of its profits to the local community through participation and acts of gratitude. TOD'S constantly relies on local areas for resources, energy and artisanal skills;
- a commitment to take an active role in the promotion and protection of the Italian spirit and Italian culture around the world, both of which are essential factors in Italian manufacturing and the handmade feel that defines the craftsmanship behind TOD'S products;
- a sense of responsibility deriving from the feeling of belonging to a broad collective and of knowing that it is in a position to help those most in need by supporting organisations and associations operating in Italy and around the world.

Supporting local areas

The Group has supported a range of initiatives designed to make a tangible contribution and to strengthen its strong bond with local communities. A particularly important measure was the decision made at the Shareholders' Meeting of Parent Company TOD'S S.p.A. in 2012 to use **1% of the Group's net profits** to support initiatives designed to help the most vulnerable sections of local society. Through this initiative, launched in 2012, the Group has been able to collaborate with a range of volunteer associations, providing financial and operational support for their projects and participating actively and passionately in order to promote their work over time. These associations show profound dedication and work ceaselessly to deliver projects across a wide range of areas, including promoting the education and training of young people, helping disadvantaged population sectors and supporting families. The main projects launched or continued in 2018 with help from TOD'S Group are set out below.

Family initiatives

Since 2015, the Group has launched a series of initiatives designed to support **families in difficult situations** through partnerships with local religious and non-religious associations and regional institutions, who have taken part in the Group's "solidarity meetings". The Group organises "poverty meetings" in local areas in order to coordinate the work of all participating associations

working to help citizens or families experiencing situations of difficulty. Tutoring services are also provided.

This initiative is active in Fermo, Civitanova Marche, Comunanza, Comunità Montana dei Sibillini, Tolentino and San Severino Marche. The Group is active in a range of fields, including food support, covering medical expenses, purchasing medicines, paying domestic bills, contributing to rent costs and providing support in emergency situations such as evictions, as well as initiatives designed to help young people and promote social and professional integration.

20,000 BENEFICIARIES OF DONATIONS OF BASIC FOODSTUFFS IN 2018

In the area of **food support**, the Group helps to finance a fund whose aim is to help the “Banco delle opere di carità Marche” (Marche charity food bank) association, which has been present in the Marche region since 2013.

The charity food bank, which brings together a range of volunteer associations (over 100 in the Marche region), helps needy families by providing a monthly supply of basic foodstuffs.

In 2018, a total of over 1,040,000 kg of foodstuffs and around 235,000 kg of fruit and vegetables were distributed.

In the field of **healthcare**, TOD’S supports associations working to cover the medical costs of families in difficult situations. The Group has set up a fund with the objective of helping disadvantaged local families to maintain an adequate standard of health and, more importantly, to deal with exceptional and sudden situations. The Group has signed a memorandum of understanding with the local public ASUR health facility designed to cover the minimum costs of all healthcare services, with free participation from medical staff on a freelance basis. The aim of this is to ensure that healthcare is effectively supplied to those most in need. The associations are the parties responsible for identifying and proposing the beneficiaries of the initiatives.

Total services offered since 2017

135 MEDICAL TESTS AND TRANSPORT SERVICES

20 ORTHODONTIC APPLIANCES

50 SPECIALIST VISITS

10 DIAGNOSTIC RADIOLOGY TESTS

Planned measures for healthcare support

The “Il volo delle farfalle” (Flight of the Butterflies) project, meanwhile, is oriented towards disabled people and their families. The project encompasses a series of measures designed and run in partnership with the local “La Crisalide” association”. The association provides support to around 160 families residing largely in the areas around the Group’s headquarters in Sant’Elpidio a Mare.

The Group’s work with the association – which was launched in 2002 – includes the organisation of a range of activities, all of which are focused on promoting the **social integration** of disabled people. The initiative organises a range of activities, including music therapy, courses encompassing reading and writing, acting, IT, dancing, cooking, singing, rhythmic, music, creative painting and bricolage. The project also helps disabled people create allotments and gardens and organises group outings at weekends, in addition to offering occupation therapy and appointments with pedagogical specialists

Social integration - disabled people: main results achieved (period: September 2017 - September 2018)

250 PEOPLE INVOLVED BY ACTIVITY

540 MEETINGS BY ACTIVITY

4,050 SERVICES SUPPLIED

With regard to **gender-based violence**, the Group financed a range of activities promoted by the “Percorsi Donna” anti-violence centre in the province of Fermo in 2018. The centre’s sites in Sant’Elpidio a Mare, Porto Sant’Elpidio and Fermo took part in the project, in collaboration with the On The Road association. With the help of a number of regional funds, the Group’s support made it possible to reinforce and broaden the scope of existing services.

The main objectives of all initiatives designed to combat gender-based violence is to support women and to encourage them to report abuse, to listen to them and to provide tangible legal, psychological and economic support. The centres also work to facilitate, where necessary, contact between victims of violence and local services and law enforcement agencies.

A shelter was set up in 2017 to offer protection and accommodation to women who are suffering from violence and find themselves forced to leave their homes and live in situations of danger that endanger both themselves and their children. The Group helps to organise a number of measures designed to raise awareness of issues around gender-based violence through activities in companies and schools.

Measures against gender-based violence in 2018

57 WOMEN RECEIVED LEGAL SUPPORT

115 WOMEN RECEIVED PSYCHOLOGICAL SUPPORT

8 SERIOUS EMERGENCIES DEALT WITH AT THE SHELTER

45 HOURS OF MEETINGS IN COMPANIES AND SCHOOLS ON GENDER-BASED VIOLENCE

59 WOMEN RECEIVED AT THE ANTI-VIOLENCE CENTRE

Initiatives designed to help young people and the elderly

Since 2014, the Group has been the sole backer of a community centre in Casette D'Ete and an afternoon education centre in Comunanza, both of which offer free courses and activities for all sections of the population. **Activities dedicated to the elderly** such as postural gymnastics are organised during the morning, while afternoon activities are reserved exclusively for young people and encompass art, music, movement, creativity, help with homework and use of the games room. In the evenings, the centre organises a range of **adult courses** including English, IT, drama, book club, pilates, zumba and yoga.

The facility is used throughout the year to organise events in partnership with local schools and cultural associations, including conferences, debates, meetings with authors, training events for teachers and young people, themed parties and parental support activities.

Support for young people and adults: main results in 2018

80 ELDERLY PEOPLE INVOLVED IN MORNING ACTIVITIES

100 YOUNG PEOPLE INVOLVED IN AFTERNOON ACTIVITIES

170 ADULTS INVOLVED IN EVENING ACTIVITIES

The Group is particularly passionate about the **needs and development of young people** and has thus launched two further projects designed to help young people move into the world of work. The first project offers the **most deserving students** from a hospitality institute the chance to perfect the skills they have obtained in the classroom by spending a few weeks working in prestigious restaurants and hotels in a number of European capitals.

The Group covers 100% of the students' travel and accommodation costs. In addition to academic training in the classroom and on-the-job training, the young people are also able to take part in workshops and exercises designed to ensure the ongoing development of their abilities.

30/35 STUDENTS UNDERTAKE EXPERIENCES ABROAD EVERY YEAR

The same students also take part in a second project, which includes **cooking workshops** teaching them how to make authentic, healthy food that they then serve up for lunch at the institute to vulnerable elderly people who have been flagged by Sant'Elpidio a Mare social services.

TOD'S purchases all the raw ingredients needed to prepare the food and covers all costs relating to equipping the room used to accommodate the elderly people. In addition to representing a great training opportunity for the young people, this project ensures that guests have a healthy diet thanks to special menus prepared by the young people and their teachers.

50 MEALS PREPARED BY STUDENTS PER DAY

With regard to school projects, during the 2017/18 school year a number of students and teachers from the hospitality institute helped to prepare meals for students of other courses attending afternoon lessons. On average, 50 meals were provided every day. The aim of the project was to give the students as realistic a taste of the restaurant industry as possible while at the same time providing a useful service to the school.

Providing **support to the elderly** is another important objective which the Group continues to pursue through a series of projects designed to make a tangible contribution to the elderly across a number of areas including: information, communication, services, assistance and promotions.

The Group organises initiatives in this area in collaboration with Senior Italia Federcentri, working in close partnership with the provincial and regional coordination centres and with public bodies such as ASUR and INCRA (National Institute for the Rest and Care of the Elderly). Over the course of 2018, the Group took part in a project involving many of the 75 social centres in the province of Ascoli Piceno and Fermo. The project saw a range of initiatives organised in order to promote the physical and psychological well-being of the elderly, to raise awareness in local communities of issues relating to the elderly and to encourage social activities.

The Group not only provided economic support to the social centres, but also purchased means of transport to help elderly people travel to and from the centres and to make it easier for them to take part in the organised activities.

1,500 ELDERLY PEOPLE INVOLVED IN THE "MISSIONE BENESSERE" PROJECT IN 2018

70 ACTIVITIES ORGANISED FOR ELDERLY PEOPLE INCLUDING COURSES, WORKSHOPS AND CONFERENCES IN 2018.

The “La fattoria sociale Montepacini” (Montepacini Social Farm) project is a multi-year social experiment that sees participation from parents, volunteers and a range of associations operating in the areas of biodiversity, short-chain systems and food sustainability. The Group co-funds the project, ensuring that many of the initiatives can go ahead, including a rehabilitative social/educational centre working with 16 disabled young people and adults, a summer centre in the countryside for over 200 children, agricultural activities and farmyard livestock rearing, work to salvage and preserve ancient and rare seeds and efforts to get young political asylum seekers involved in the activities (10 young people from SPRAR, the “Protection System for Asylum Seekers and Refugees”). Among the many activities organised, there is also a football team made up of youngsters from the centre. The team competes in a league.

The initiative represents a way of bringing people together, promoting socialising while celebrating the values of collaboration and volunteering.

Tangible support: the Arquata del Tronto facility

Another concrete example of TOD’S Group’s commitment to supporting the local community lies in its decision to help the population of the town of Arquata del Tronto and the surrounding areas in the Marche region affected by the 2016 earthquake.

As a way of sending out a clear message of hope and possibility, TOD’S chose to build a new factory in Arquata and to get local young people involved. The factory was built on a site of around 5,000 sq m and was inaugurated on 20 December 2017. It can accommodate around 100 units. Constructed in less than a year, it immediately employed 30 people, who were thus able to rebuild a future in their homeland. 43 people are currently employed at the factory.

The young people began training activities at the TOD’S factories well before the official opening of the factory. The project has enabled the Group to make a tangible contribution to efforts to keep the local community alive, while also sending out a message of hope to local people, who are still living with the consequences of the earthquake.

Aware of its role in this area, the Group has placed particular importance on this project. One of its objectives was to set an example for other businesses and to show that it wants to invest in the local area.

In addition to providing a positive response to a terrible situation like the one affecting these communities, the project is a way of sending out a strong message to the world that it is an economy that is reacting and bouncing back from adversity.

Initiatives supporting Italy's artistic and cultural heritage

Supporting Italian culture, celebrating the Italian spirit and promoting the image of Italy around the world are further important objectives for TOD'S Group, which is active in a range of initiatives designed to protect and promote Italian historical and cultural heritage. The aim of such projects is to consolidate the country's wonderful reputation, to promote its image and to spread its values.

In 2011, the Group teamed up with the Ministry of Cultural Heritage and Activities and the Special Superintendency for the Archaeological Heritage of Rome to fund a series of restoration measures involving the **Colosseum**, with a total value of €25 million.

In 2016, the first phase of the measures came to a close with the completion of the restoration of the north and south sides and the installation of perimeter fences. These measures saw the ancient splendour of one of the most important and well-known symbols of Italy's artistic and cultural heritage restored.

The approval of an allocation, totally financed by the Ministry and intended to turn the Colosseum back into an arena, was followed by the establishment, with Ministerial Decree 15 of January 12th, 2017, of the Archaeological Park of the Colosseum, where the actions relating to the second phase of the planned interventions, regarding the conservative restoration of the hypogeums, were focused. In late 2018, work began on this second phase, which will conclude, based on the last work plan announced by the Ministry, by December 2019.

The work will continue, presumably starting in 2020, with the start of the last part of the planned interventions, which include the construction of a Service Centre and the conservative restoration of the ambulatories.

As part of its attempts to celebrate Italian culture, manufacturing and contemporary art, TOD'S Group supports two emblems of Italian culture in Milan: the **Teatro alla Scala** and the **Padiglione di Arte Contemporanea (PAC)**.

The Group is proud to be a Permanent Founding Member of the Fondazione Teatro alla Scala, a prestigious and vitally important international institution working to celebrate the historical and cultural heritage of the opera house. The foundation also provides an opportunity to support an outstanding calendar of artistic events and to contribute to the objective of promoting musical culture around the world. With regard to the Padiglione di Arte Contemporanea (PAC), the Group has a four-year agreement with the Municipality of Milan designed to support the completion and promotion of research activities and projects run by the Padiglione, a vital institution in the international contemporary art panorama in Milan, which attracts an average of 25,000 visitors to every exhibition.

In March 2018, for the fourth consecutive year, TOD'S Group supported the creation of the **"Riscatti - Da Zero" photographic exhibition** at the PAC. Through photographs of 13 teenagers, the exhibition allowed visitors to witness the post-earthquake reconstruction through the eyes of those who experienced it. The proceeds from the sale of the photographs helped to finance the reconstruction of their youth centre, which was destroyed by the earthquake in Central Italy in August 2016.

By renting out Milan's Villa Necchi to present its collections, in 2018 TOD'S continued to support the **Fondo Ambiente Italiano (FAI)**. Launched in 1975, the non-profit organisation invests great passion and enthusiasm in order to save some of the most important parts of Italy's artistic heritage and natural wonders from decline. The fund also undertakes restoration work and ensures the Italian public can enjoy these assets, while raising awareness among institutions and the general public on how to protect them.

Solidarity with the community

Another important partnership is with the San Patrignano rehabilitation community, which welcomes young men and women for free. TOD'S Group been working with the community since 2016 to create special collections. The Group provides free raw materials and sends skilled artisans to give the young people a chance to create collections of bags and leather goods at their workshops. The project was a wonderful opportunity to underline the importance of professional development, which is one of the community's primary objectives.

All the proceeds of the initiative, which were collected through the sale of products developed as a result of this collaboration, marketed both through the community e-commerce site and at the company outlet, were donated to the Community. Finally, in addition to organising numerous initiatives, TOD'S Group continued to support fundraising dinners in 2018, including through donation of its products to charity auctions. The Group worked with around 30 charitable organisations in this way, including the Fondazione Veronesi, Fondazione Marcegaglia, Fondazione Anlaidis, ANT Italia Onlus, Charity Star, Dynamo Camp, Save the Children and Telethon.

6. Appendixes

Breakdown of employees by professional category and gender

No. of people	12.31.18			12.31.17		
	Men	Women	Total	Men	Women	Total
Executives	37	21	58	33	19	52
Managers	127	198	325	128	186	314
White-collar workers	1,021	2,009	3,030	948	1,940	2,888
Blue-collar workers	509	783	1,292	547	826	1,373
Total	1,694	3,011	4,705	1,656	2,971	4,627

Breakdown of employees by professional category and age range

No. of people	12.31.18				12.31.17			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Executives	1	29	28	58		24	28	52
Managers	6	279	40	325	7	271	36	314
White-collar workers	814	1,999	217	3,030	853	1,885	150	2,888
Blue-collar workers	222	736	334	1,292	239	762	372	1,373
Total	1,043	3,043	619	4,705	1,099	2,942	586	4,627

Breakdown of employees by contract type and gender

No. of people	12.31.18			12.31.17		
	Men	Women	Total	Men	Women	Total
Permanent contract	1,430	2,483	3,913	1,397	2,436	3,833
Fixed-term contract	264	528	792	259	535	794
Total	1,694	3,011	4,705	1,656	2,971	4,627

Breakdown of employees by professional category and gender

No. of people	12.31.18			12.31.17		
	Men	Women	Total	Men	Women	Total
Full-time	1,627	2,730	4,357	1,582	2,688	4,270
Part-time	67	281	348	74	283	357
Total	1,694	3,011	4,705	1,656	2,971	4,627

Breakdown of employees by type (corporate/retail) and gender

No. of people	12.31.18			12.31.17		
	Men	Women	Total	Men	Women	Total
Corporate	996	1,508	2,504	966	1,487	2,453
Retail	698	1,503	2,201	690	1,484	2,174
Total	1,694	3,011	4,705	1,656	2,971	4,627

Breakdown of employees by type (corporate/retail) and age range

No. of people	12.31.18				12.31.17			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Corporate	361	1,596	547	2,504	368	1,564	521	2,453
Retail	682	1,447	72	2,201	731	1,378	65	2,174
Total	1,043	3,043	619	4,705	1,099	2,942	586	4,627

Employees covered by collective bargaining agreements*

Employees	12.31.18	12.31.17
	Total	Total
Covered by collective bargaining agreements	63.5%	60.8%

* These percentages are calculated on the basis of the total number of employees as of December 31st, 2017 and December 31st, 2018, and must be considered net of countries where local legislation does not provide for the establishment of collective bargaining agreements.

New employees - 2018

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	73	158	63	172	7	33	143	363	14.6%	29.9%
Europe	95	186	51	112		4	146	302	51.0%	41.3%
Americas	25	24	11	16	2	3	38	43	33.9%	39.4%
Greater China	69	121	50	118		1	119	240	52.2%	37.9%
Rest of the world	23	26	9	40			32	66	36.4%	20.5%
Total	285	515	184	458	9	41	478	1,014	28.2%	33.7%

New employees - 2017

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	63	135	62	186	10	30	135	351	14.3%	29.5%
Europe	142	191	60	127		14	202	332	68.0%	44.4%
Americas	24	24	19	14	1	2	44	40	37.0%	38.8%
Greater China	83	121	36	85	2		121	206	56.5%	34.1%
Rest of the world	15	36	16	58			31	94	37.8%	28.8%
Total	327	507	193	470	13	46	533	1,023	32.2%	34.4%

Outgoing employees - 2018

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	57	135	53	171	19	53	129	359	13.2%	29.5%
Europe	96	193	53	128		6	149	327	52.1%	44.6%
Americas	32	19	12	17	1	4	45	40	40.2%	36.7%
Greater China	59	117	45	100		1	104	218	46.1%	34.4%
Rest of the world	14	30	15	36	1		30	66	34.1%	20.5%
Total	258	494	178	452	21	64	457	1,010	27.0%	33.5%

Outgoing employees - 2017

Region	<30		30-50		>50		Total		Turnover	
	Men	Women	Men	Women	Men	Women	Men	Women	Men	Women
Italy	37	107	35	179	19	38	91	324	9.6%	27.2%
Europe	99	181	51	113		16	150	310	50.5%	41.5%
Americas	21	17	18	25	1	7	40	49	33.6%	47.6%
Greater China	66	123	46	112		2	112	237	52.3%	39.2%
Rest of the world	10	27	20	45	1		31	72	37.8%	22.1%
Total	233	455	170	474	21	63	424	992	25.6%	33.4%

Type of accidents recorded - 2018*

Region	Workplace accidents			Accidents on the way to or from the workplace		
	Men	Women	Total	Men	Women	Total
Italy	13	8	21	2	12	14
<i>of which fatal</i>	-	-	-	-	-	-
Europe	2	3	5	3	2	5
<i>of which fatal</i>	-	-	-	-	-	-
Americas	2	5	7	-	-	-
<i>of which fatal</i>	-	-	-	-	-	-
Greater China	-	3	3	-	2	2
<i>of which fatal</i>	-	-	-	-	-	-
Rest of the World	-	-	-	-	-	-
<i>of which fatal</i>	-	-	-	-	-	-
Total	17	19	36	5	16	21

* This data does not include external associates.

Type of accidents recorded - 2017*

Region	Workplace accidents			Accidents on the way to or from the workplace		
	Men	Women	Total	Men	Women	Total
Italy	6	14	20	8	16	24
of which fatal	-	-	-	-	-	-
Europe	3	11	14	-	1	1
of which fatal	-	-	-	-	1	1
Americas	3	4	7	-	-	-
of which fatal	-	-	-	-	-	-
Greater China	1	9	10	-	1	1
of which fatal	-	-	-	-	-	-
Rest of the World	-	-	-	-	-	-
of which fatal	-	-	-	-	-	-
Total	13	38	51	8	18	26

* This data does not include external associates.

Recorded accident rates - 2018*

Region	Severity index (a)			Accident rate (b)			Occupational disease rate (c)			Absenteeism rate (d)		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Italy	31.12	68.25	51.40	1.83	2.17	2.01	0.24	-	0.11	0.03%	0.01%	0.02%
Europe	180.78	17.37	64.12	1.98	0.79	1.13	-	12.05	8.61	4.87%	4.46%	4.60%
Americas	-	4.65	2.32	1.97	5.42	3.61	-	-	-	-	0.87%	0.48%
Greater China	-	0.89	0.65	-	2.29	1.59	-	-	-	0.15%	2.30%	1.73%
Rest of the world	-	-	-	-	-	-	-	-	-	-	-	-

* The Group's absenteeism rate refers to 98.4% of the sample considered, while the other rates refer to 99.9% of the sample analysed. Where data was not readily available, estimates have been used.

(a) The severity index is the ratio between the total number of days lost due to accidents and occupational diseases and the total number of eligible work hours in the same period, multiplied by 200,000.

(b) The accident rate is the ratio between the total number of injuries and the total number of hours worked in the same period, multiplied by 200,000.

(c) The occupational disease rate is the ratio between the total number of cases of work-related illnesses and the total number of hours worked in the same period, multiplied by 200,000.

(d) The absenteeism rate is the ratio between the total number of days' absence and the total number of eligible work days in the same period, expressed as a percentage.

This data does not include external associates.

Recorded accident rate - 2017*

Region	Severity index (a)			Accident rate (b)			Occupational disease rate (c)			Absenteeism rate (d)		
	Men	Women	Total	Men	Women	Total	Men	Women	Total	Men	Women	Total
Italy	43.23	61.17	53.19	1.80	3.33	2.62	0.13	-	0.06	0.04%	0.06%	0.05%
Europe	-	0.85	0.69	-	0.56	0.45	-	-	-	2.89%	1.34%	1.64%
Americas	2.61	-	1.33	2.95	4.63	3.72	-	-	-	-	-	-
Greater China	52.14	7.63	18.88	0.48	1.63	1.34	-	-	-	0.60%	2.85%	2.28%
Rest of the world	-	-	-	-	-	-	-	-	-	-	-	-

* The Group's accident rate refers to 89.4% of the sample analysed.

(a) The severity index is the ratio between the total number of days lost due to accidents and occupational diseases and the total number of eligible work hours in the same period, multiplied by 200,000.

(b) The accident rate is the ratio between the total number of injuries and the total number of hours worked in the same period, multiplied by 200,000.

(c) The occupational disease rate is the ratio between the total number of cases of work-related illnesses and the total number of hours worked in the same period, multiplied by 200,000.

(d) The absenteeism rate is the ratio between the total number of days' absence and the total number of eligible work days in the same period, expressed as a percentage.

This data does not include external associates.

The Group will deepen its analysis with respect to the significance of other non-employee workers, in order to assess the need to collect data from employers of external collaborators and suppliers operating at the Group's sites and/or under the Group's control, evaluating the quality and accuracy of this data over which it has no control.

Ratio between base salary for men and women - 2018

Base Salary	Ratio Women to Men 2018				
	Italy	Europe	Americas	Greater China	Rest of the world
Executives	0.84	1.07			
Managers	0.97	0.97	1.33	1.06	0.68
White-collar workers	0.89	1.04	1.07	1.05	0.94
Blue-collar workers	0.93	0.92			

Ratio between base salary for men and women - 2017

Base Salary	Ratio Women to Men 2017				
	Italy	Europe	Americas	Greater China	Rest of the world
Executives	0.74	0.95			
Managers	0.98	0.98	1.32	0.94	0.68
White-collar workers	0.86	1.05	1.06	1.16	0.90
Blue-collar workers	0.97	0.94			

Ratio between total remuneration for men and women - 2018

Average total remuneration	Ratio Women to Men 2018				
	Italy	Europe	Americas	Greater China	Rest of the world
Executives	0.75	1.15			
Managers	0.96	0.99	1.39	0.96	0.72
White-collar workers	0.89	1.03	1.07	1.00	0.92
Blue-collar workers	0.93	0.92			

Ratio between total remuneration for men and women - 2017

Average total remuneration	Ratio Women to Men 2017				
	Italy	Europe	Americas	Greater China	Rest of the world
Executives	0.66	0.92			
Managers	0.95	1.01	1.37	0.76	0.69
White-collar workers	0.88	1.05	1.06	1.14	0.87
Blue-collar workers	0.97	0.94			

Average training hours per head, divided by gender and professional category

No. of people	2018			2017		
	Men	Women	Total	Men	Women	Total
Executives	7.2	6.5	7.0	9.8	7.5	9.0
Managers	20.9	29.0	25.9	18.4	19.4	19.0
White collars	5.9	6.0	6.0	9.3	8.2	8.6
Blue collars	7.2	4.8	5.7	5.5	3.0	4.0
Total	7.5	7.2	7.3	8.8	7.5	7.9

Employees belonging to legally protected status, divided by professional category and gender

No. of legally protected status people	12.31.18			12.31.17		
	Men	Women	Total	Men	Women	Total
Executives	-	-	-	-	-	-
Managers	1	1	2	1	2	3
White collars	11	22	33	12	19	31
Blue collars	38	35	73	41	29	70
Total	50	58	108	54	50	104

7.Scope and impact of material topics

Material topics	Correlation with topics – specific disclosures	Scope of material topics	Type of impact
Customer satisfaction	N/A	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Ethics and integrity	Anti-corruption; Environmental compliance; Non-discrimination	TOD'S Group	Caused by the Group
Health and safety	Occupational health and safety	TOD'S Group staff	Caused by the Group
Product quality and uniqueness	N/A	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Economic performance	Economic performance	TOD'S Group	Caused by the Group
Brand identify and enhancement	N/A	TOD'S Group	Caused by the Group
Support for local communities	Local communities	TOD'S Group	Caused by the Group
Respect for human rights	Supplier social assessment	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Well-being of employees and their families	Employment	TOD'S Group	Caused by the Group
Raw materials and responsible manufacturing	Materials	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Training and enhancement	Training and education	TOD'S Group	Caused by the Group
Risk management	N/A	TOD'S Group	Caused by the Group
Sustainable procurement practices	Procurement practices	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Environmental responsibility	Environmental compliance	TOD'S Group	Caused by the Group
Presence on the market	Presence on the market	TOD'S Group	Caused by the Group
Production and disposal of waste	Effluents and waste	TOD'S Group, suppliers, external workshops, end customers, wholesale customers	Caused by the Group and directly connected to its activities
Equal opportunities and non-discrimination	Diversity and equal opportunities; Non-discrimination	TOD'S Group	Caused by the Group
Protecting art and culture	Local communities	TOD'S Group	Caused by the Group
Responsible consumption	Materials; Energy; Water	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Sustainable business strategy	N/A	TOD'S Group	Caused by the Group
Greenhouse gas emissions	Emissions	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Responsible marketing	Marketing and labelling	TOD'S Group, suppliers, external workshops	Caused by the Group and directly connected to its activities
Labour management relations	Labour management relations	TOD'S Group	Caused by the Group

8. GRI Content Index

TOD'S Group's 2018 Non-Financial Statement was produced in accordance with GRI Standards: *Core option*. The following table shows Group data based on GRI Standards, with reference to the materiality analysis. For each piece of data shown, the relevant page number in the Non-Financial Statement (NFS) and/or Annual Financial Report (AFR) is shown.

GRI Standard	Disclosure	Page
GENERAL DISCLOSURE 2016		
Organisation profile		
102-1	Name of organisation	NFS pp. 31-33
102-2	Primary brands, products and services	NFS pp. 56-59
102-3	Location of headquarters	NFS pp. 31-33; AFR p. 1
102-4	Location of operations	NFS pp. 63-64; AFR pp. 4-5
102-5	Ownership and legal form	NFS pp. 46-49; AFR pp. 3-5
102-6	Markets served	NFS pp. 63-64; AFR p. 6
102-7	Scale of the organisation	NFS pp. 56, 63,90; AFR pp. 6-8
102-8	Information on employees and other workers	NFS pp. 90-91, 95, 121
102-9	Description of the supply chain	NFS pp. 65-68
102-10	Significant changes to the organisation's size, structure, ownership, or supply chain during the reporting period	NFS pp. 31-33; AFR pp. 11-12
102-11	Application of precautionary approach to risk management	NFS pp. 50-53
102-12	Adherence to or adoption of codes of conduct, principles and charters developed by external bodies/associations relating to economic, social and environmental performance	NFS pp. 69,78
102-13	Membership of associations or organisations promoting sustainability in Italy or around the world.	NFS pp. 38, 69,78
Strategy		
102-14	Statement from senior decision-maker	NFS p. 30
102-15	Description of key impacts, risks and opportunities	NFS pp. 50-53
Ethics and integrity		
102-16	Values, principles, standards and norms of behaviour	NFS pp. 30, 34, 42-45, 49, 76-78

102-17	Descriptions of mechanisms for advice about unethical or unlawful behaviour	NFS pp. 44-45, 49
Governance		
102-18	Governance structure	NFS pp. 46-48; AFR p. 3
Stakeholder engagement		
102-40	List of stakeholder groups engaged	NFS pp. 36-39
102-41	Collective bargaining agreements	NFS p. 122
102-42	Identifying and selecting stakeholders	NFS pp. 36-39
102-43	Approach to stakeholder engagement	NFS pp. 36-39
102-44	Key topics and concerns raised through stakeholder engagement	NFS pp. 36-39
Profile of Non-Financial Statement		
102-45	Entities included in the consolidated financial statements	NFS pp. 31-33; AFR pp. 4-5
102-46	Defining Non-Financial Statement content and scope	NFS pp. 40-41, 127
102-47	Material topics identified	NFS pp. 40-41, 127
102-48	Restatements of information	NFS p. 69
102-49	Significant changes from the previous reporting period	NFS pp. 31-33
102-50	Reporting period	NFS pp. 31-33
102-51	Publication date of the most recent Non-Financial Statement	NFS pp. 31-33
102-52	Reporting cycle	NFS pp. 31-33
102-53	Contact point for questions regarding the financial statements and their content	NFS p. 33
102-54	Indication of the selected “in accordance” option	NFS pp. 31-33
102-55	GRI content index	NFS pp. 128-135
102-56	External assurance	This Non-Financial Statement has undergone external assurance.

<i>GRI Standard</i>	<i>Disclosure</i>	<i>Page</i>	<i>Omission</i>
MATERIAL TOPICS (All the material topics were reported through topics – specific disclosures relating to 2016).			
Economic performance			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS p. 54; AFR pp. 7-8	

103-3	Evaluation of the management approach	NFS p. 54; AFR pp. 7-8	
201-1	Direct economic value generated and distributed	NFS p. 54	
Presence on the market			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 90, 95, 121	
103-3	Evaluation of the management approach	NFS pp. 90, 95- 96, 121	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	NFS p. 96	
202-2	Proportion of senior management hired from the local community	In 2018, 84.5% of senior managers in the Group's companies were hired from local communities (down from 82.7% in 2017)	
Procurement practices			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 35, 65-77	
103-3	Evaluation of management approach	NFS pp. 35, 40- 41, 65-77, 127	
204-1	Proportion of spending on local suppliers	NFS p. 67	
Anti-corruption			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 43-45, 51	
103-3	Evaluation of management approach	NFS pp. 43-45, 51	
205-3	Confirmed incidents of corruption and actions taken	The Group reported no incidents of corruption in 2017 and 2018	
Materials			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 53, 67-69, 109	
103-3	Evaluation of management approach	NFS pp. 53, 67-69, 109	

301-1	Materials used by weight or volume	NFS pp. 69, 109	The raw materials analysed (on p. 69) refer to raw materials purchased and not raw materials consumed. This information is not available due to confidentiality issues.
Energy			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 52-53, 102-106	
103-3	Evaluation of management approach	NFS pp. 52-53, 102-106	
302-1	Energy consumption within the Group	NFS p. 104	
Water			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 52-53, 102, 107	
103-3	Evaluation of management approach	NFS pp. 52-53, 102, 107	
303-1	Total water withdrawal by source	NFS p. 107	
Emissions			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 52-53, 102, 110-111	
103-3	Evaluation of management approach	NFS pp. 52-53, 102, 110-111	
305-1	Direct (Scope 1) GHG emissions	NFS p. 110	
305-2	Energy indirect (Scope 2) GHG emissions	NFS p. 110	
305-6	Emissions of ozone-depleting substances (ODS)	NFS pp. 110-111	
305-7	NOx, SOx and other significant air emissions	NFS pp. 110-111	
Effluents and waste			
103-1	Explanation of material topics	NFS pp. 40-41,	

		127	
103-2	Management approach	NFS pp. 102, 108-109	
103-3	Evaluation of management approach	NFS pp. 102, 108-109	
306-2	Waste by type and disposal method	NFS pp. 108-109	
Environmental compliance			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS p. 102	
103-3	Evaluation of management approach	NFS p. 102	
307-1	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	The Group received no significant fines or non-monetary sanctions deriving from non-compliance with environmental laws and regulations during 2017 and 2018	
Employment			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 90-95, 99-100	
103-3	Evaluation of management approach	NFS pp. 90-95, 99-100	
401-1	Total number of new employee hires and turnover rate	NFS pp. 91, 122-123	
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	NFS pp. 95-97, 99-100	
Labour management relations			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 90, 122	
103-3	Evaluation of management approach	NFS pp. 90, 122	
402-1	Minimum notice periods regarding operational changes	The minimum notice period is set out in collective bargaining	

		agreements, where present, and by laws in force in the countries in which the Group operates.	
Occupational health and safety			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 51, 90, 101	
103-3	Evaluation of management approach	NFS pp. 51, 90, 101, 123-125	
403-2	Types of accident, accident rate, occupational diseases, lost days and absenteeism, and number of work-related fatalities, divided by region and employee gender	NFS pp. 123-125	A system of data collection for accidents and the main accident indicators will be developed by the end of the 2019 reporting period
Training and education			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 79, 90-94, 97-99	
103-3	Evaluation of management approach	NFS pp. 79, 90-94, 97-99, 126	
404-1	Average hours of training per year per employee	NFS pp. 97, 126	
Diversity and equal opportunities			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 90, 95	
103-3	Evaluation of management approach	NFS pp. 48, 90, 95, 125-126	
405-1	Diversity indicators in governance bodies and employees	NFS pp. 48, 90, 126	
405-2	Ratio of basic salary and remuneration of women to men	NFS pp. 125-126	
Non-discrimination			
103-1	Explanation of material topics	NFS pp. 40-41, 127	

103-2	Management approach	NFS pp. 90, 95	
103-3	Evaluation of management approach	NFS pp. 90, 95	
406-1	Total number of incidents of discrimination and action taken	NFS pp. 90, 95	Confidentiality: The Group does not communicate this type of data to external parties.
Local communities			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 112-120	
103-3	Evaluation of management approach	NFS pp. 112-120	
413-1	Operations with local community engagement, impact assessments, and development programmes	NFS pp. 112-120	
Supplier social assessment			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 65-77	
103-3	Evaluation of management approach	NFS pp. 65-77	
414-1	New suppliers that were screened using social criteria	NFS pp. 65-77	By the end of 2019, the Group will begin planning and carrying out audits of third parties in its production chains in relation to issues relating to the environment, society, human rights, health and safety and ethical principles
Marketing and labelling			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 77-78	
103-3	Evaluation of management approach	NFS pp. 77-78	
417-2	Total number of incidents of non-compliance	During 2017 and 2018, the Group	

	with regulations and/or voluntary codes concerning product and service information and labelling	registered no cases of non-compliance with regulations or voluntary codes as regards product/service information and labelling	
417-3	Total number of incidents of non-compliance with regulations and/or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship	During 2017 and 2018, the Group registered no cases of non-compliance with regulations or voluntary codes as regards marketing activities	
Product quality and uniqueness			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 70-75	
103-3	Evaluation of management approach	NFS pp. 70-75	
Brand identify and enhancement			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 34, 57-59	
103-3	Evaluation of management approach	NFS pp. 34, 57-59	
Sustainable business strategy			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 34-35	
103-3	Evaluation of management approach	NFS pp. 34-35	
Customer satisfaction			
103-1	Explanation of material topics	NFS pp. 40-41, 127	
103-2	Management approach	NFS pp. 79-85	
103-3	Evaluation of management approach	NFS pp. 79-85	

TOD'S Group

TOD'S Group

**Independent auditor's report
on the consolidated non financial statement**

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

To the Board of Directors of TOD'S SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of TOD'S SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree, presented in a specific section of the Annual Report and approved by the Board of Directors on 11 March 2019 (hereafter the "NFS").

Responsibility of the Directors and of the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 (hereafter the "GRI Standards"), identified as the reporting standards.

The Directors are responsible, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or unintentional errors.

The Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

The Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhler 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the *Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with *ISAE 3000 Revised ("reasonable assurance engagement")* and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with those reported in the Group's Consolidated Financial Statements;
4. understanding of the following matters:
 - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
 - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
 - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;

5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of TOD'S SpA and we performed limited analysis of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at holding level
 - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
 - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the plant of Sant'Elpidio a Mare (Italy), which was selected on the basis of its activities, its contribution to the performance indicators at a consolidated level and its location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of TOD'S Group as of 31 December 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Bologna, 27 March 2019

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(Partner)

Signed by

Paolo Bersani
(Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the NFS 2018 translation.

TOD'S Group

TOD'S Group

TOD'S Group

Annual Report **as of December 31st, 2018**

TOD'S Group

TOD'S Group

Financial Statements

Consolidated Income Statement

euro 000's	Note	Year 18	Year 17
Revenues			
Sales revenues	24	940,499	963,287
Other income	24	9,706	19,451
Total revenues and income		950,205	982,738
Operating Costs			
Change in inventories of work in progress and finished goods		47,033	12,871
Cost of raw materials, supplies and materials for consumption		(272,656)	(255,290)
Costs for services		(257,158)	(237,871)
Costs of use of third party assets	19	(117,444)	(118,229)
Personnel costs	25	(198,368)	(191,540)
Other operating charges		(33,275)	(32,188)
Total operating costs		(831,870)	(822,245)
EBITDA		118,335	160,492
Amortisation, depreciation and write-downs			
Amortisation of intangible assets	7	(9,073)	(8,814)
Depreciation of tangible assets	8	(34,001)	(35,405)
Other adjustments	9	(1,402)	(2,453)
Total amortisation, depreciation and write-downs		(44,475)	(46,672)
Provisions	14-19	(2,100)	(2,060)
EBIT		71,760	111,760
Financial income and expenses			
Financial income	26	21,818	17,341
Financial expenses	26	(27,827)	(26,541)
Total financial income (expenses)		(6,009)	(9,199)
Income (losses) from equity investments	27		(664)
Profit before taxes		65,751	101,897
Income taxes	11-28	(19,293)	(32,535)
Profit/(loss) for the period		46,458	69,362
Non-controlling interests		688	1,645
Profit/(loss) of the Group		47,146	71,007
EPS (in euro)	29	1.42	2.15
EPS diluted (in euro)	29	1.42	2.15

Consolidated Statement of Comprehensive Income

euro 000's	Note	Year 18	Year 17
Profit (loss) for the period (A)		46,458	69,362
Other comprehensive income that will be reclassified subsequently to profit and loss:			
Gains/(Losses) on derivative financial instruments (cash flow hedge)	18	(81)	750
Gains/(Losses) on currency translation of foreign subsidiaries	18	7,518	(19,992)
Gains/(Losses) on net investments in foreign operations	18	(2,508)	4,275
Total other comprehensive income that will be reclassified subsequently to profit and loss (B)		4,929	(14,967)
Other comprehensive income that will not be reclassified subsequently to profit and loss:			
Cumulated actuarial gains/(losses) on defined benefit plans	20	183	(12)
Total other comprehensive income that will not be reclassified subsequently to profit and loss (C)		183	(12)
Total Comprehensive Income (A) + (B) + (C)		51,570	54,383
Of which:			
Attributable to Shareholders of the Parent company		52,247	56,123
Attributable to non-controlling interests		(677)	(1,739)

Consolidated Statement of Financial Position

euro 000's	Note	12.31.18	12.31.17
Non current assets			
<i>Intangible fixed assets</i>			
Assets with indefinite useful life	7	565,934	565,934
Key money	7	13,510	14,427
Other intangible assets	7	25,264	21,644
Total intangible fixed assets		604,708	602,005
<i>Tangible fixed assets</i>			
Buildings and land	8	112,587	109,966
Plant and machinery	8	12,169	13,124
Equipment	8	11,498	10,800
Leasehold improvement	8	33,867	34,259
Others	8	33,769	32,783
Total tangible fixed assets		203,890	200,932
<i>Other assets</i>			
Investment properties	10	18	22
Equity investments			
Deferred tax assets	11	56,151	50,411
Others	12	19,598	18,547
Total other assets		75,767	68,979
Total non current assets		884,364	871,916
Current assets			
Inventories	13	362,168	312,263
Trade receivables	14	101,222	107,471
Tax receivables	14	11,577	18,241
Derivative financial instruments	15	1,998	2,763
Others	14	64,326	50,271
Cash and cash equivalents	16	191,268	221,609
Total current assets		732,559	712,618
Total assets		1,616,923	1,584,534

To be continued

continuing

euro 000's	Note	12.31.18	12.31.17
Equity			
Share capital	18	66,187	66,187
Capital reserves	18	416,588	416,588
Treasury stock	18		
Hedging and translation reserves	18	11,348	6,360
Other reserves	18	523,882	526,130
Profit/(Loss) attributable to the Group	18	47,146	71,007
Total Equity attributable to the Group		1,065,151	1,086,272
Non-controlling interests			
Share capital and reserves		236	2,526
Profit/(loss) attributable to non-controlling interests		(688)	(1,645)
Total Equity attributable to non-controlling interests		(452)	880
Total Equity		1,064,699	1,087,152
Non-current liabilities			
Provisions for risks	19	5,476	5,385
Deferred tax liabilities	11	47,740	37,968
Employee benefits	20	14,189	13,157
Others	22	14,569	15,795
Derivative financial instruments	15	672	1,197
Bank borrowings	21	77,804	147,617
Total non-current liabilities		160,450	221,119
Current liabilities			
Trade payables	23	148,989	158,388
Tax payables	23	5,851	5,575
Derivative financial instruments	15	3,170	2,459
Others	23	43,850	40,563
Banks	21	188,715	64,654
Provisions for risks	19	1,200	4,626
Total current liabilities		391,774	276,263
Total Equity and liabilities		1,616,923	1,584,534

Consolidated Statement of Cash Flows

euro 000's	Note	Year18	Year17
Profit/(Loss) for the period		46,458	69,362
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Amortizat., deprec., revaluat., and write-downs	7-8-9-13-14	47,448	48,274
Other non monetary expenses/(income)	15-18-19	(7,528)	1,756
Income taxes for the period	28	19,293	32,535
Changes in operating assets and liabilities:			
Trade receivables	14	6,011	9,898
Inventories	13	(52,640)	(21,200)
Tax receivables and tax payables	14-23	(3,237)	1,006
Trade payables	23	(18,101)	27,584
Other assets and liabilities	12-14-22-23	(8,330)	(1,808)
Change in reserve for employee	20	1,266	(1,641)
Cash flows from operating activities		30,640	165,764
Interests (paid)/collected		(124)	(1,189)
Income taxes (paid)/refunded		(5,085)	(16,380)
Net cash flows from operating activities (A)		25,431	148,195
Net investments in intangible and tangible assets	7-8	(41,116)	(35,868)
Acquisition of Italian touch group		(19,350)	
Acquisition of other subsidiaries		(1,150)	
Other changes in fixed assets			
Cash flows generated (used) in investing activities (B)		(61,615)	(35,868)
Dividends paid	18	(46,331)	(56,259)
Capital increase			
Others change in Equity			
Changes in other financial liabilities			
Repayments of financial liabilities	21	(48,883)	(49,713)
Proceeds from financial liabilities		100,000	
Cash flows generated (used) in financing (C)		4,786	(105,972)
Translation differences (D)		(956)	(12,648)
Cash flows from continuing operations (E)=(A)+(B)+(C)+(D)		(32,355)	(6,293)
Cash flow from assets held for sale (F)			
Cash flows generated (used) (G)=(E)+(F)		(32,355)	(6,293)
Net cash and cash equivalents at the beginning of the period		205,699	211,993
Net cash and cash equivalents at the end of the period		173,344	205,699
Change in net cash and cash equivalents		(32,355)	(6,293)

Consolidated Statement of changes in equity

Year 2018 euro 000's							
	Share Capital	Capital reserves	Hedging and reserve for translation	Retained earnings	Group interests	Non- controlling interests	Total
Balances as of 01.01.18	66,187	416,588	6,360	597,137	1,086,272	880	1,087,152
Change accounting standards (IFRS 15)				(4,334)	(4,334)		(4,334)
Balances as of 01.01.18	66,187	416,588	6,360	592,803	1,081,938	880	1,082,818
Profit & Loss account				47,146	47,146	(688)	46,458
Directly in equity			4,988	113	5,101	11	5,112
Total Comprehensive Income			4,988	47,259	52,247	(677)	51,570
Dividend paid				(46,331)	(46,331)		(46,331)
Capital increase							
Share based payments							
Other (1)				(22,704)	(22,704)	(655)	(23,359)
Balances as of 12.31.18	66,187	416,588	11,348	571,027	1,065,150	(452)	1,064,699

Year 2017 euro 000's							
	Share Capital	Capital reserves	Hedging and reserve for translation	Retained earnings	Group interests	Non- controlling interests	Total
Balances as of 01.01.17	66,187	416,588	25,505	578,932	1,087,212	3,269	1,090,481
Profit & Loss account				71,007	71,007	(1,645)	69,362
Directly in equity			(19,145)	4,261	(14,884)	(94)	(14,978)
Total Comprehensive Income			(19,145)	75,268	56,123	(1,739)	54,383
Dividend paid				(56,259)	(56,259)		(56,259)
Capital increase							
Share based payments							
Other				(804)	(804)	(649)	(1,453)
Balances as of 12.31.17	66,187	416,588	6,360	597,137	1,086,272	880	1,087,152

Notes:

⁽¹⁾ They mainly include the use of the specific reserve for promoting territorial solidarity projects, the effects of the acquisition of 100% of quotas representing the share capital of the company Italiantouch S.r.l., and its subsidiaries, and the effects of a further acquisition of 50% of quotas representing the share capital of Delpav S.r.l. (already consolidated in accordance with the global integral method).

TOD'S Group

Notes to the Consolidated Financial Statements

1. General notes

The TOD'S Group operates in the luxury sector under its proprietary brands (TOD'S, HOGAN, FAY and ROGER VIVIER). It actively creates, produces and distributes shoes, leather goods and accessories, and apparel. The firm's mission is to offer global customers top-quality products that satisfy their functional requirements and aspirations.

The parent company TOD'S S.p.A., registered office in Sant'Elpidio a Mare (Fermo) at Via Filippo Della Valle 1, is listed on Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A.

At December 31st, 2018 TOD'S S.p.A. share capital is owned by DI.VI. FINANZIARIA of DIEGO DELLA VALLE & C. S.r.l. for 50.291%.

The consolidated financial statements has been prepared by the Board of Directors of TOD'S S.p.A. on March 11th, 2019 and it is subject to PricewaterhouseCoopers S.p.A. audit.

2. Basis of preparation

The Consolidated Financial Statements were prepared in accordance with IAS/IFRS (International Accounting Standards – IAS -, and International Financial Reporting Standards – IFRS) issued by IASB, based on the text published on the Gazzetta Ufficiale of European Union (G.U.C.E.). IAS/IFRS refers also to all revised *International Accounting Standards* (IAS) and all interpretative documents issued by the IFRIC (International Financial Reporting Interpretations Committee), previously nominated Standing Interpretations Committee (SIC).

The Notes have been supplemented by the additional information required by CONSOB and its implementing measures of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, pursuant to Article 114(5) of the Consolidated Law on Finance-TUF), Article 78 of the Issuer Regulation, the EC document of November 2003 and, when applicable, the Italian Civil Code. Consistently with the financial statements for the previous year, certain information is provided in the Report by the Board of Directors on Operations.

The Consolidated Financial Statements has been prepared on the going concern basis, and it includes the statement of financial position, the income statement, statement of comprehensive income, the statement of cash flows and the statement of changes in equity of TOD'S S.p.A. and its Italian and foreign subsidiaries, which are jointly referred to as the TOD'S Group. The consolidated financial statements is prepared in euro currency, on the basis of draft Financial Statements at December 31st, 2018 (January 1st – December 31st) approved by the respective boards of directors or, if there was no board of directors, by the sole directors, of the legal entities included in the consolidation scope. Because the closing date of its fiscal year does not coincide with the reference date of the consolidated financial statements, Tod's Retail India Pte.

Ltd was included on the basis of interim financial statements for twelve months, referring to the date of the consolidated financial statements.

For presentation of its operating income, the Group adopted the presentation of the profit and loss by nature. The format of representing revenues and costs by nature is followed, indicating the EBITDA and EBIT results as in the past, since they are considered representative indicators of company performance. In addition, it has been prepared the statement of comprehensive income which include transactions that are outside the income statement but they produce their effects directly to equity. Transactions represented in the statement of comprehensive income are net of tax effects, if applicable.

The statement of financial position shows current items, for which it is supposed that they will be realized or closed during the normal operating cycle, separately from non-current items (both assets and liabilities).

The financial statements schemes, joined with both report on operations and supplementary notes, are considered to be the those that provide the best organized representation of the Group's financial position and income. If it proves necessary or appropriate to amend items in the financial statements as a result of the application of a new accounting standard, a change in the nature of a transaction or an accounts review, in order to provide reliable and more relevant information for the users of the financial statements, the comparative data will be reclassified accordingly in order to improve the comparability of the information between one financial year and another. In this case, if the changes are significant, they will be suitably disclosed in the notes to the financial statements.

3. Evaluation methods and accounting standards

The accounting standards and principles of consolidation applied to the preparation of these Consolidated Financial Statements are consistent with those applied to the preparation of the Consolidated Financial Statements at December 31st, 2017, also taking into account the information reported below in relation to any amendments, interpretations and new accounting standards applicable from January 1st, 2018.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2018 and which were first adopted in the TOD'S Group's consolidated financial statements at December 31st, 2018

- IFRS 15: Revenue from Contracts with Customers. On May 28th, 2014 the IASB published a document, which was endorsed by the European Union on September 22nd, 2016 and which requires an entity to recognise revenue at the time the control of goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. In order to achieve this purpose, the new revenue recognition model sets out a process in five steps: i) identifying the contract with a customer, which is defined as an agreement between two or more parties that creates enforceable rights and obligations; ii) identifying the performance obligations (PO) in the contract; iii) determining the transaction price, i.e. the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer; iv) allocating the transaction price to the performance obligations, on a standalone selling price basis; v) recognising revenue when the entity satisfies a performance obligation through the transfer of goods or services. The standard sets specific indicators to allow the identification of the method to satisfy a PO: a) "Over a period of time": specific methods of measuring progress; b) "At a point in time": the entity satisfies the PO at a point in time.

The new standard also requires additional disclosures regarding the nature, amount, timing and uncertainty relating to revenues and cash flows arising from these contracts with customers.

Furthermore, on April 12th, 2016 the IASB published amendments to the standard: Clarifications to IFRS 15 Revenue from Contracts with Customers, which are also applicable as from January 1st, 2018. These amendments are aimed at clarifying the procedures to identify an entity as a "Principal" or as an "Agent" and to establish whether revenues from licences must be deferred throughout the term thereof.

- IFRS 9: Financial Instruments. On July 24th, 2014 the IASB published the final document constituting the conclusion of the process, divided into three phases: Classification and Measurement, Impairment and General Hedge Accounting, entirely revising IAS 39. The document introduces new requirements for classifying and measuring financial assets and liabilities. Specifically, as regards financial assets, the new standard adopts a single approach based on how the financial instruments are managed (business models) and on the contractual cash flow characteristics (SPPI, Solely Payments of Principal and Interest) of the financial assets themselves in order to determine the related valuation method, aiming at eventually replacing the various rules laid down under IAS 39.

The three new categories of financial assets introduced by the new standard are: i) hold to collect (HTC), which includes financial instruments measured at amortised cost that the management hold to collect contractual cash flows; ii) fair value through other comprehensive income (FVTOCI): the management's objective is both to hold the instrument in order to collect

contractual cash flows and to sell financial assets; iii) fair value through profit or loss (FVTPL) is a residual category under which the management adopt a business model that involves the creation of a trading portfolio.

As regards financial liabilities, the main amendment concerns the method of accounting for fair value changes in a financial liability designated as at fair value through profit or loss, which are due to own credit of the financial liability itself. According to the new standard, these changes must be recognised in the statement of comprehensive income (OCI), without affecting profit or loss.

The main developments relating to hedge accounting are:

- a) Changes in the type of transactions that qualify for hedge accounting; specifically, a more extensive range of risks has been introduced for non-financial assets/liabilities that qualify for hedge accounting;
- b) Change in the method of accounting for forward contracts and options included in a hedge accounting relationship, in order to reduce profit or loss volatility;
- c) Changes in the effectiveness test by replacing the current methods based on the 80-125% range with the principle of the “economic relationship” between the hedged item and the hedging instrument; furthermore, entities are no longer required to perform an assessment of the retrospective effectiveness of the hedging relationship.

A greater flexibility of the accounting methods is offset by improved disclosures on the risk management activities carried out by entities.

The new document includes a single model for the impairment of financial assets based on expected losses. On January 1st, 2018 the additions to Amendments to IFRS 9, Financial instruments on general hedge accounting became applicable, which amend some paragraphs of IFRS 9, adding chapter 6 “Hedge accounting”, in order to simplify the understanding of the new standard.

The adoption of this standard has not had any significant impact on the Group's financial statements.

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. These amendments were issued by the IASB on September 12th, 2016, endorsed by the European Union on November 3rd, 2017. The amendments were intended to address concerns about the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. Furthermore, the amendments provide two options for entities that enter into insurance contracts within the scope of IFRS 4: i) an option that would permit entities to reclassify, from profit or loss to comprehensive income, some of the income or expenses arising from designated financial assets; and (ii) an optional temporary exemption

from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.

The adoption of this standard has not had any impact on the Group's financial statements.

- Amendments to IFRS 2: Clarifications of Classification and Measurement of Share-based Payment Transactions. These amendments, which were published by the IASB on June 20th, 2016, provide some clarifications relating to the method of accounting for the effects of vesting conditions in the case of cash-settled share-based payments, the classification of share-based payments on a net settlement basis and any change in the terms and conditions of a share-based payment implying its reclassification from cash-settled to equity-settled items.

The adoption of this standard has not had any impact on the Group's financial statements.

- Amendments to IAS 40: Regarding transfers of investment property, issued by the IASB on December 8th, 2016. The amendment provides as follows: i) paragraph 57 of IAS 40 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use; ii) the list of evidence in paragraph 57(a) – (d) is designated as non-exhaustive list of examples.

The adoption of this standard has not had any impact on the Group's financial statements.

- Amendment to IFRIC 22: Foreign Currency Transactions and Advance Consideration. This document, which was issued by the IASB on December 8th, 2016, covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation need not be applied to income taxes, insurance or reinsurance contracts.

The adoption of this interpretation has not had any significant impact on the Group's financial statements.

- "Annual improvements to IFRSs: 2014-2016 Cycle", issued by the IASB on December 8th, 2016. This session concerned the following topics: i) IFRS 1: short-term exemptions provided for in paragraphs E3-E7 are eliminated, since the reasons for their provision have ceased to exist; ii) IFRS 12: it has been clarified that the information required by the standard, except for paragraphs B10-B16, must be applied to the entities listed in paragraph 5, which are classified as "held for sale", "held for distribution" or "discontinued operations" in accordance with IFRS 5; iii) IAS 28: it is clarified that it is possible to make the decision to measure, at fair value through profit or loss, any investment in a subsidiary or a joint venture held by a venture capital company, in relation to each investment in subsidiaries or joint ventures since their initial recognition; iv) amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures, according to which IFRS 9 must be applied to long-term receivables from an associate or a joint

venture that in practice form part of the investment in the associate or joint venture.

The adoption of this standard has not had any impact on the Group's financial statements.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2019 or later and which have not been adopted early by the TOD'S Group.

- **IFRS 16: Leases.** In January 2016 the IASB published a document for the initial recognition, measurement, presentation and disclosure of lease agreements for both the parties to a contract, aimed at replacing IAS 17 Leasing. The document is not applicable to service contracts but only to lease agreements or to the leasing components of other contracts. The standard defines the lease as an agreement that transfers the right of use of an asset to the customer (lessee) for a certain period of time and in exchange for a consideration. The new standard eliminates the classification based on finance and operating leases and introduces a single accounting method that provides for the recognition of assets and liabilities for all the leases with a term of more than 12 months and the separate recognition of amortisation, depreciation and interest expense through profit or loss. As regards the lessor, no significant changes were made to the accounting method with respect to the provisions that are currently set out under IAS 17.

IFRS 16 was endorsed by the European Union on October 31st, 2017 and will become effective from January 1st, 2019.

Based on the current state of progress of the internal analysis, still in progress, conducted on the main existing contracts, aimed at finding the information base necessary to outline the economic and financial effects of this new principle, it emerges that, according to a first estimate of the impact of the transition, the value of the initial financial liability, to be recognized as at January 1st, 2019, would be in a range between 420 and 460 million euros.

- **Amendments to IFRS 9: Financial instruments on prepayment features with negative compensation.** On October 12th, 2017 the IASB issued Amendments to IFRS 9 to clarify the classification of certain financial assets, whose early repayment is permitted when IFRS 9 applies. Specifically, if the financial asset contains a contractual clause that might change the timing or amount of contractual cash flows, the entity must determine whether the contractual cash flows that might arise during the life of the instrument under said clause exclusively consist of payments of principal and interest accrued on the capital amount to be repaid. The IASB has set the date of first-time adoption of the amendments at January 1st, 2019, with early adoption permitted. After having consulted the European Financial Reporting Advisory Group (EFRAG), the Commission has concluded that the amendments to IFRS 9 meet the adoption

requirements set out in Article 3.2 of Regulation (EC) 1606/2002.

The European Union endorsed these amendments by Regulation (EU) 2018/498 of March 22nd, 2018, which makes amendments to Regulation (EC) 1126/2008.

Based on a preliminary analysis, the adoption of these amendments will not have any impact on the Group.

- IFRIC 23: Uncertainty over Income Tax Treatments. On June 7th, 2017 the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments", providing instructions to account for (current and/or deferred) tax assets and liabilities relating to income tax as a result of uncertainties in the application of tax regulations.

The provisions of IFRIC 23 will be effective for periods beginning on or after January 1st, 2019. This standard was endorsed in October 2018.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures. On October 12th, 2017 the IASB issued Amendments to IAS 28 to clarify the application of IFRS 9 'Financial Instruments' for long-term interests in subsidiaries or joint ventures for which the equity method is not applied. The provisions of Amendments to IAS 28 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union.

- IFRS 17: Insurance Contracts. On May 18th, 2017 the IASB issued IFRS 17 "Insurance contracts", which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts, in order to give a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. On June 21th, 2018 the IASB provided clarifications concerning the standard in order for the related interpretation to reflect the decisions made by the Board. The board has accepted to clarify some issues concerning the contracts subject to variable rates and issues correlated to IFRS 3 "Business combinations". The provisions of IFRS 17 will become effective from periods beginning on or after January 1st, 2021.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- Amendments to IAS19: Employee benefits'- Plan amendment, Curtailment or settlement. On February 7th, 2018 the IASB issued these amendments to clarify how to calculate pension costs when there is a change in defined-benefit plans. The provisions of Amendments to IAS 19 will become effective from periods beginning on or after January 1st, 2019.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- IFRS 14: Regulatory deferral accounts. On 30 January 2014 the IASB published IFRS 14 that only allows entities which are first-time adopters of IFRS to continue to recognise the amounts subject to rate regulation according to the accounting standards previously adopted. The standard has not yet been endorsed by the European Union.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- "Annual improvements to IFRSs 2015-2017 cycle". In December 2017 the IASB published these improvements, which included the major amendments to IFRSs: a) IAS 12 Income Taxes. The proposed amendments clarify that an entity should recognise any and all tax effects (tributary relative) concerning the distribution of dividends; b) IAS 23 Borrowing Costs: the proposed amendments clarify that if the specific loans required for the purchase and/or construction of an asset remain outstanding even after that the asset is ready for use or sale, these loans cease to be regarded as specific and therefore are included in the entity's general financing items for the purposes of determining the capitalisation rate of loans; c) IAS 28 "Investments in Associates and joint ventures – Long-term interests in an associate or joint venture". The proposed amendments clarify that IFRS 9 "Financial Instruments", including impairment requirements, also applies to other financial instruments held for a long period of time and issued to an associate or joint venture. The amendments will become effective from January 1st, 2019, with early adoption permitted.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Asset between an Investor and its Associate or Joint Venture. On September 11th, 2014 the IASB published these amendments, firstly setting the effective date at January 1st, 2016, and subsequently postponing the date of first-time adoption to a date to be determined. These amendments were issued to resolve a conflict existing between the provisions laid down under IFRS 10 and those under IAS 28. Furthermore, the IASB and the interpretations committee have concluded that it is necessary to

recognise a full gain or loss arising from the loss of control over an entity, regardless of whether the entity is hosted in a subsidiary company or not.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- Amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendment was published by the IASB on October 31st, 2018 and provides for a different definition of "material", i.e. "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

The amendments will be effective for annual periods beginning on or after January 1st, 2020, with early adoption permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- Amendment to IFRS 3 - Business combinations. On October 22nd, 2018 the IASB issued the document named "Definition of a Business (Amendments to IFRS 3)" aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments will be effective for business combinations for which the date of acquisition falls on or after January 1st, 2020, with early adoption permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Group's financial statements.

- On March 29th, 2018 the IASB published its revised Conceptual Framework for Financial Reporting.

The major amendments with respect to the 2010 version concern: i) a new chapter on measurement; ii) improved definitions and guidance, with specific reference to the definition of liability; iii) clarifications of important concepts, such as stewardship, prudence and uncertainty in measurements.

A document has been published which updates the IFRS references to the former Conceptual Framework. The amendments, where they consist of actual updates, will be effective for annual periods beginning on or after January 1st, 2020.

The standards listed herein are not applicable since they have not yet been endorsed by the European Union, which, during the endorsement process, may adopt only partially these standards or not adopt them at all.

3.1 Use of estimates. Preparation of the financial statements and notes in conformity with IFRS requires that management make judgments, estimates and assumptions which impact on the

values reported for assets and liabilities, as well as disclosures relating to contingent assets and liabilities at the balance sheet date. Estimates and assumptions are based on historical data and other elements deemed significant, as at the end of the accounting period of reference.

3.2 Consolidation principles. A subsidiary is an investee over which the TOD'S Group has i) power over the investee ii) exposure, or right, to variable returns from its involvement with the investee and iii) the ability to use its power over the investee to affect the amount of the investor's returns, in accordance with IFRS 10 Consolidated Financial Statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date when control is acquired until such control terminates.

Acquisitions of subsidiaries are recognized according to the acquisition method. The considerations transferred in a business combination is represented by the aggregate sum, at the acquisition date, of the fair values of the acquired assets, the liabilities incurred or assumed, and the equity interest issued in exchange for control of the acquired entity.

The identifiable assets, liabilities, and potential liabilities of the acquired entity that satisfy the recognition criteria envisaged in IFRS 3 are recognised at their fair value on the acquisition date, with the exception of non-current assets (or groups available to sale) that are classified as held for sale in accordance with IFRS 5.

Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interests over the net amounts of the identifiable assets acquired and liabilities assumed pursuant to the acquisition. Should the aforesaid difference be negative, the excess is immediately booked in the income statement.

Once control of an entity has been acquired, the transactions where the controlling entity acquires or transfers additional non-controlling interests without altering control over the subsidiary are transactions with shareholders and are thus recognised in equity.

Subsidiaries are consolidated according to the line-by-line method from the date on which control is transferred to the Group. They are deconsolidated starting on the date when such control ceases. The scope of consolidation and the related changes respect to the previous year are represented in the Note 4.

Intercompany transactions and the profits and losses generated by transactions between consolidated enterprises are eliminated from both the balance sheet and the profit and loss account. Unrealised losses arising from intercompany transactions are considered when the transaction entails an impairment in the value of the transferred asset.

When necessary, the balance sheets and profit and loss accounts of the subsidiaries are adjusted in order to bring the applied accounting policies in line with those used by the Group.

3.3 Non-controlling interests. Non-controlling interests are indicated under shareholders' equity as "Non-controlling interests". The non-controlling interests in the acquired business is initially determined in an amount equal to their share of the fair value of the assets, liabilities, and potential liabilities recorded on the date of the original acquisition date and subsequently adjusted according to the changes in shareholders' equity. Likewise, this account reflects the changes in non-controlling interests and any losses allocable to them.

3.4 Transactions in foreign currency.

i. **Functional and reporting currency.** All accounts recognised on the financial statements of the subsidiaries are measured by using the currency of the principal economic environment in which the entity operates (i.e. its functional currency). The Consolidated Financial Statements are stated in euro (rounded to the nearest thousand), since this is the currency in which most Group transactions are executed.

ii. **Transactions in foreign currency.** The financial statements of the individual Group entities are prepared in the functional currency of each individual company. When the individual financial statements are prepared, the foreign currency transactions of Group companies are translated into the functional currency (currency of the primary economic environment in which each entity operates) by applying the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the financial statements are translated by using the exchange rate in effect at the closing date. Non-monetary assets and liabilities are valued at their historic cost in foreign currency and translated by using the exchange rate in effect at the transaction date.

The foreign exchange differences arising upon settlement of these transactions or translation of cash assets and liabilities are recognized on the profit and loss account.

iii. **Net investment in foreign operation.** A monetary item receivable from or payable to a foreign operation for which the settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the net investment in that foreign operation. Such monetary items may include long-term receivables or loans. They do not include trade receivables or trade payables.

In the consolidated financial statements that include the foreign operation the exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

iv. **Presentation of financial statements drafted in foreign currency.** In order to present the financial statements of consolidated entities that are expressed in a functional currency different from the consolidation currency, the balance sheet items are translated using the exchange rates in effect at the end of the period, while items on the profit and loss account are translated using the average exchange rate for the period. The difference between the result for the period resulting from translation at the average exchange rates and the result of translation at the end of period rates, on the one hand, and the impact on assets and liabilities of changes in the exchange rate relationships between the beginning and end of the period, on the other hand, are recognized under shareholders' equity in a special "Translation reserve" through the recognition in the other comprehensive income.

The translation differences recognized under shareholders' equity are transferred to the profit and loss account at the time of disposal or liquidation of the controlled entity.

The rates applied to translation, compared with those used in the previous year, are indicated in the following table:

	Year 2018		Year 2017	
	Exch. rates as of year end	Average exch. rate	Exch. rates as of year end	Average exch. rate
U.S. dollar	1.145	1.181	1.199	1.129
British pound	0.895	0.885	0.887	0.876
Swiss franc	1.127	1.155	1.170	1.112
Hong Kong dollar	8.968	9.256	9.372	8.801
Japanese yen	125.850	130.396	135.010	126.655
Hungarian forint	320.980	318.890	310.330	309.273
Singapor dollar	1.559	1.593	1.602	1.558
Korean won	1,277.930	1,299.070	1,279.610	1,275.830
Macao pataca	9.237	9.534	9.653	9.065
Chinese renmimbi	7.875	7.808	7.804	7.626
Indian rupee	79.730	80.733	76.606	73.498
Albanian lek	123.530	127.621	133.580	134.130
Brazilian real	4.444	4.309	3.973	3.604
Canadian dollar	1.561	1.529	1.504	1.464
Australian dollar	1.622	1.580	1.535	1.473
Danish krone	7.467	7.453	7.445	7.439

3.5 Derivative financial instruments. The fundamental characteristics of the derivative financial instruments are set out in the paragraph on Derivative financial instruments (Note 15). The TOD'S Group uses derivatives to hedge foreign currency risks arising from its operations and to hedge risks associated with changes in interest rates on loans, with no speculative or trading

purposes consistently with the treasury management strategy policies recommended by the Board of Directors.

As derivatives transactions are carried out to hedge risks arising from changes in expected cash flows (forecast transactions), they are accounted for according to cash flow hedge rules until the transaction is reported in the financial statements; subsequently, derivatives are treated according to fair value hedge rules since they may be described as instruments to hedge changes in the value of assets/liabilities recognised in the financial statements.

Applying IFRS 9 derivatives financial instruments are accounted in accordance with the hedge accounting rules, which provides that derivatives are recognised in the balance sheet at fair value; accounting of changes in fair value differs depending on the type of hedging transaction at the measurement date:

- any changes in the fair value of derivatives that hedge forecast transactions (i.e. cash flow hedge) are recognised directly in other comprehensive income, except for the portion of the change related to the ineffective part of the hedge, which is recognised under financial income and charges in the income statement; the differences in fair value already directly recognised in other comprehensive income are fully recognised in the income statement, as an adjustment to operating margins, when the assets/liabilities relating to the hedged items are recognised. As regards derivatives used to hedge risks associated with changes in interest rates on loans, the fair value differences already recognised in the other comprehensive income are, on the other hand, allocated to adjusting the amounts of financial income and costs when the positive or negative differentials are settled;
- any differences in the fair value of derivatives that hedge assets and liabilities reported in the financial statements (i.e. fair value hedge) are fully recognised under financial income and charges in the income statement. Additionally, the carrying amount of the hedged item (asset/liability) is adjusted by the change in its value that is attributable to the hedged risk, against an entry under financial income and charges.

The criteria established by IFRS 9 for a hedging relationship to qualify for hedge accounting are the following:

- a) the hedging relationship consists solely of both hedging instruments and hedged items that comply with the provisions of IFRS 9;
- b) at the beginning of the hedging relationship there is a formal designation and documentation of the same hedging relationship together with the objectives and risk management strategies underlying the hedge;
- c) the hedging relationship complies with the provisions of IFRS 9 regarding the effectiveness of the hedge.

3.6 Intangible fixed assets.

i. **Goodwill.** All business combinations are recognized by applying the acquisition method.

Goodwill is measured, at the acquisition date, as the excess of the assets and liabilities recognised and the fair value of consideration transferred including the amount of any non-controlling interests recognised. For acquisitions prior to January 1st, 2004, the date of transition to IAS/IFRS, goodwill retained the values recognized on the basis of the previous Italian GAAP, net of accumulated amortization up to the transition date.

Goodwill is recognized on the financial statements at its cost adjusted for impairment losses. It is not subject to amortization, but the adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section Impairment losses.

ii. **Trademarks.** These are recognized according to the value of their cost and/or acquisition, net of accumulated amortization at the date of transition to IAS/IFRS. TOD'S, HOGAN, FAY and ROGER VIVIER trademarks are classified as intangible fixed assets with an indefinite useful life and thus are not amortized, insofar as:

- they play a primary role in the Group's strategy and are an essential driver thereof;
- the corporate structure, construed as organized property, plant, and equipment, and organization itself in a figurative sense, is closely correlated with and dependent on dissemination and development of the trademarks on the markets;
- the trademarks are proprietary, properly registered, and constantly protected pursuant to law, with options for renewal of legal protection, upon expiration of the registration periods, that are not burdensome, easily implemented, and without external impediments;
- the products sold by the Group with these trademarks are not subject to particular technological obsolescence, which is characteristic of the luxury market in which the Group operates; on the contrary, they are consistently perceived by the market as being innovative in the national and/or international context characteristic of each trademark.
- trademark are distinguished by market positioning and notoriety that ensures their dominance of the respective market segments, being constantly associated and compared with benchmark brands;
- in the relative competitive context, it can be affirmed that the investments made for maintenance of the trademarks are proportionately modest with respect to the large forecast cash flows.

The adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section Impairment losses.

iii. **Key Money.** Key money, represent the amounts paid for this purpose by the Group to take over certain leases of commercial spaces where some DOS operate. They are recognized at cost, which consider the cost net of cumulated depreciations and impairment losses.

iv. **Research and development costs.** The research costs for a project are charged fully to the profit and loss account of the period in which they are incurred.

The development costs of an activity are instead capitalized if the technical and commercial feasibility of the relative activity and economic return on the investment are certain and definite, and the Group has the intention and resources necessary to complete the development.

The capitalized costs include the costs for materials, labor, and an adequate portion of indirect costs. They are recognized at cost, net of accumulated amortization and depreciation (see below) and impairment losses.

v. **Other intangible fixed assets.** These are identifiable non-monetary intangible assets under the control of the company and capable of causing the Group to realize future economic benefits. They are initially recognized at their purchase cost, including expenses that are directly attributable to them during preparation of the asset for its intended purpose or production, if the conditions for capitalization of expenses incurred for internally generated expenses are satisfied.

The cost method is used for determining the value reported on subsequent statements, which entails posting the asset at its cost net of accumulated amortization and write-downs for impairment losses.

vi. **Subsequent capitalization.** The costs incurred for these intangible fixed assets after purchase are capitalized only to the extent that they increase the future economic benefits of the specific asset they refer to. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

vii. **Amortization.** Intangible fixed assets (excluding those with an indefinite useful life) are amortized on a straight-line basis over the period of their estimated useful life, starting from the time the assets are available for use.

3.7 Tangible assets and investment properties

i. **Property, plant, and equipment owned by the company.** They are first recognized at their purchase cost or at the cost recalculated at the date of transition to IFRS, including any directly attributable ancillary expenses.

Following first-time recognition, these assets are reported net of their accumulated depreciation and impairment losses (i.e. in accordance with the cost model).

For those assets whose depreciation must be calculated using the component approach, the portions of cost allocable to the individual significant components characterized by a different useful life are determined. In this case, the value of land and buildings is kept separate, with only buildings being depreciated.

ii. **Leasing.** Lease agreements in which the Group assumes all the risks and benefits deriving from ownership of the asset are classified as finance leasing. The assets (real estate, plant, and machinery) possessed pursuant to these agreements are recorded under property, plant, and equipment at the lesser of their fair value on the date the agreement was made, and the current value of the minimum payments owed for leasing, net of accumulated depreciation and any impairment losses (according to the rules described in the section Impairment losses). A financial payable for the same amount is recognized instead under liabilities, while the component of interest expenses for finance leasing payments is reported on the profit and loss account according to the effective interest method.

iii. **Subsequent capitalizations.** The costs incurred for property, plant, and equipment after purchase are capitalized only to the extent that they increase the future economic benefits of the asset. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

iv. **Investment property.** Investment property are originally recognized at cost, and then recognized at their cost as adjusted for accumulated depreciation and impairment losses. Depreciation is calculated on a systematic, straight-line basis according to the estimated useful life of the buildings.

v. **Depreciation.** Property, plant, and equipment were systematically depreciated at a steady rate according to the depreciation schedules defined on the basis of their estimated useful life. Land is not depreciated. The principal depreciation rates applied are as follows:

	% depreciation
Industrial buildings	2.5% - 3%
Machinery and plant	12.5%
Equipments	25%
Forms and punches, clichés, molds and stamp	25%
Furniture and furnishings	12%
Office machines	20%
Cars and transport vehicles	20% - 25%

The photovoltaic plant recognised by the parent company is depreciated over a period of 20 years.

The costs for leasehold improvements, which mainly include the costs incurred for set up and modernization of the DOS network and all the other real estate that is not owned but used by the

Group (and thus instrumental to its activity) are depreciated according to the term of the lease agreement or the useful life of the asset, if this is shorter.

3.8 Impairment losses. In the presence of indicators, events, or changes in circumstances that presume the existence of impairment losses, IAS 36 envisages subjecting intangible fixed assets and property, plant and equipment to the impairment test in order to assure that assets with a value higher than the recoverable value are not recognized on the financial statements.

This test is performed at least once annually for non-current assets with an indefinite life in the same way as that used for non-current assets that have not yet been placed in service.

Confirmation of the recoverability of the values recognized on the balance sheet is obtained by comparing the book value at the reference date and the fair value less costs to sale (if available) or value in use. The value in use of a tangible or intangible fixed asset is determined according to the estimated future financial flows expected from the asset, as actualized through use of a discount rate net of taxes, which reflects the current market value of the current value of the cash and risks related to Group's activity.

If it is not possible to estimate an independent financial flow for an individual asset, the cash generating unit to which the asset belongs and with which it is possible to associate future cash flows that can be objectively determined and independent from those generated by other operating units is identified. Identification of the cash generating units was carried out consistently with the organizational and operating architecture of the Group.

If the impairment test reveals an impairment loss for an asset, its book value is reduced to the recoverable value by posting a charge on the profit and loss account, unless the asset is revalued. In that case, the write-down is recognized in the revaluation reserve.

When the reasons for a write-down cease to exist, the book value of the asset (or the cash generating unit), with the exception of goodwill, is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the impairment loss had not been charged. The restored value is recognized immediately on the profit and loss account, unless the asset is revalued, in which case the restored value is recognized in the revaluation reserve.

3.9 Financial assets. Financial assets are recognized in the financial statements from the moment in which the Group acquires the legal right to realize the cash flows arising from these assets based on contractual provisions.

Financial assets are eliminated from the assets of the balance sheet if and only if the contractual right to obtain the cash flows from the same assets has expired or if these financial assets have been transferred and this transfer meets the requirements of IFRS 9 for elimination from the

balance sheet.

Financial assets are initially recognized at fair value, which generally correspond with the initial transaction price, net of transaction costs that are directly attributable to the acquisition or issue of the same financial asset.

Following the initial registration, financial assets are recognised according to one of the following methods:

- a) amortized cost;
- b) fair value with related changes booked to the other comprehensive income;
- c) fair value with related changes recognized in the income statement.

In application of the provisions of IFRS 9 regarding the classification and therefore taking into account the Group's business model and the characteristics of the cash flows contractually provided, it should be noted that the Group does not hold financial assets as per points b) and c) of which above except for what has already been commented previously on derivative financial instruments.

The financial assets are subject to the impairment procedure envisaged by IFRS 9 in order to reflect the expected losses arising from the same financial assets

3.10 Inventories. These are recognized at the lower of purchase cost and their assumed disposal value. The net disposal value represents the best estimate of the net sales price that can be realized through ordinary business processes, net of any production costs not yet incurred and direct sales costs. The cost of inventories is based on the weighted average cost method.

The production cost is determined by including all costs that are directly allocable to the products, regarding – for work in progress and/or semi-finished products – the specific stage of the process that has been reached. The values that are thus obtained do not differ appreciably from the current production costs referring to the same classes of assets.

A special depreciation reserve is set aside for the portion of inventories that are no longer considered economically useable, or with a presumed disposal value that is less than the cost recognized on the financial statements.

3.11 Trade receivables and other receivables. They are initially recognized at fair value, which generally coincides with the initial transaction price, net of transaction costs that are directly attributable to the acquisition or issue of the asset. Following the initial recognition, they are valued at amortized cost using the effective interest method.

In application of IFRS 9, they are subjected to the impairment procedure in order to reflect the expected losses arising from the same receivables by adjusting the entry value with a specific

provision for bad debts thus determined:

- receivables under litigation, with certain and precise evidence documenting the impossibility of collecting them, have been analytically identified and then written down;
- for other bad debts, prudent allowances for write-downs have been set aside, estimated on the basis of information updated at the date of this document, also taking into account the expected losses over the life of the receivable.

3.12 Cash and cash equivalents. This includes cash on hand, bank demand deposits, and financial investments with a maturity of no more than three months. These assets are highly liquid, easily convertible into cash, and subject to a negligible risk of change in value.

3.13 Assets and liabilities held for sale. Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is recovered through a sale transaction rather than through continuing use. They are not depreciated and are measured at the lower of carrying amount and fair value, less costs to sell. Assets held for sale and related liabilities are presented separately from other assets and liabilities in the statement of financial position.

TOD'S Group doesn't held any assets and liabilities held for sale as at December 31st, 2018.

3.14 Benefits for employees. Employee benefits include (i) short-term employee benefits such as wages, salaries and related social security contributions, accrued but not yet paid, paid annual leave and paid sick leave, etc.; (ii) post-employment benefits, such as pensions or retirement benefits; (iii) other long-term benefits; and (iv) termination benefits.

Short-term benefits are recognised periodically on an accruals basis and are made up of liabilities to employees that have not been settled by the reporting date.

Post-employment benefits are divided into two categories:

i. **Defined contribution plans.** Payments for any defined contribution plans are recognised in the income statement in the period in which they are due.

ii. **Defined benefit plans.** The costs of defined benefit plans are calculated using the Projected Unit Credit Method, carrying out the actuarial measurements at the end of each financial year. Past service costs are recognised immediately to the extent that these benefits have already accrued; otherwise they are amortised on a straight-line basis within the average period within which the benefits are expected to accrue. The financial costs that have accrued on the basis of the annual discounting rate are recognised in the income statement immediately. Actuarial gains

and losses are now recognised through other changes in comprehensive income under the specific equity item.

Liabilities for post-employment benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans. On the other hand, there are no other long-term employee benefits or termination benefits in the financial statements.

iii. Share based payments. The payments based on shares are assessed at their fair value on the assignment date. This value is recognized on the profit and loss account on a straight-line basis throughout the period of accrual of the rights. This allocation is made on the basis of a management estimate of the stock options that will actually accrue in favor of vested employees, considering the conditions for use thereof not based on their market value.

The fair value is determined by using the binomial method. No share based payments result in the current consolidated financial statements.

3.15 Payables.

i. Bank overdrafts and financing. Interest-bearing financing and bank overdrafts are initially recognized at fair value, net of transaction costs, and subsequently valued at the amortized cost, using the effective interest method.

ii. Trade payables and other payables. These are measured at fair value which generally correspond to their nominal value.

3.16 Provision for risks. These are certain or probable liabilities that have not been determined at the date they occurred and in the amount of the economic resources to be used for fulfilling the obligation, but which can nonetheless be reliably estimated. They are recognized on the balance sheet in the event of an existing obligation, legal or constructive, resulting from a past event, and it is likely that the Group will be asked to satisfy the obligation.

If the effect is significant, and the date of the presumed discharge of the obligation can be estimated with sufficient reliability, the provisions are recognized on the balance sheet discounting future cash flows.

The provisions that can be reasonably expected to be discharged twelve months after the reference date are classified on the financial statements under non-current liabilities. Instead, the provisions for which the use of resources capable of generating economic benefits is expected to take place in less than twelve months after the reference date are recognized as current liabilities.

3.17 Share capital.

- i. **Share capital.** The total value of shares issued by the parent company is recognized entirely under shareholders' equity, as they are the instruments representing its capital.
- ii. **Treasury stock.** The consideration paid for buy-back of share capital (treasury stock), including the expenses directly related to the transaction, is subtracted from shareholders' equity. In particular, the par value of the shares reduces the share capital, while the excess value is recognized as an adjustment to additional paid-in capital.

3.18 Dividends. The allocation of dividends to persons possessing instruments representing share capital after the reference date of the financial statement is not recognized under financial liabilities on the same reference date.

3.19 Revenues recognition. Revenues are recognized in the income statement when the contractual obligation relating to the transfer of goods or services has been satisfied. An asset is considered transferred to the end customer when the latter obtains control over the asset itself. With reference to the main transactions realized by the Group, revenues are recognized on the basis of the following principles:

- i. **Sales of goods – retail.** The Group operates in the retail channel through its DOS network. Revenues are recognised when the goods are delivered to customers. Sales are usually collected in the form of cash or through credit cards.
- ii. **Sales of goods – wholesale.** The Group distributes products on the wholesale market. Following the analysis carried out for the purposes of the first application of the accounting standard IFRS 15 (January 1st, 2018), it was decided that, with regard to this type of transaction, there is a single performance obligation. In particular, the related revenues are accounted for when the customer obtains control of the goods shipped (at a point in time) and taking into account the estimated effects of year-end returns. Following the application of IFRS 15, starting from these financial statements, the representation of the liability for returns to be received in the consolidated statement of financial position has been changed, recording separately, instead of the previous net representation among the Other liabilities (so-called Fund returns), a liability, among the Other Liabilities, express debt repayment of the returns (contract liability) and an activity, among the Inventories, expressing the right to recover the products for returns (contract assets).
- iii. **Sales of goods – e-commerce.** Starting from these financial statements, the Group also distributes products directly via the e-commerce channel. The related revenues are accounted for when the customer obtains control of the goods shipped and taking into account the estimated

effects of year-end returns, accounted for by separately recognizing a liability, under Other liabilities, expressing the debt for the repayment of returns (contract liability) and an activity, among the Inventories, expressing the right to recover products for returns (contract assets).

iv. Provision of services. These revenues are accounted for in proportion to the stage of completion of the service rendered at the reference date and in accordance with contractual provisions.

v. Royalties. Royalties in connection with the licensing of the sale of products (sales-based royalties) or the use of certain assets (usage-based royalties) are recognized in the financial statements when the aforementioned sale or use has occurred or, if later, when the obligation to which the royalty refers has been satisfied.

3.20 Financial income and expenses. These include all financial items recognized on the profit and loss account for the period, including interest expenses accrued on financial payables calculated by using the effective interest method (mainly current account overdrafts, medium-long term financing), foreign exchange gains and losses, gains and losses on derivative financial instruments (according to the previously defined accounting principles), received dividends, the portion of interest expenses deriving from accounting treatment of assets held under finance leasing (IAS 17) and employee reserves (IAS 19).

Interest income and expenses are recognized on the profit and loss account for the period in which they are realized/incurred, with the exception of capitalized expenses (IAS 23).

Dividend income contributes to the result for the period in which the Group accrues the right to receive the payment.

3.21 Income taxes. The income taxes for the period include determination both of current taxes and deferred taxes. They are recognized entirely on the profit and loss account and included in the result for the period, unless they are generated by transactions recognized through the other comprehensive income directly to shareholders' equity during the current or another period. In this case, the relative deferred tax liabilities are also recognized under shareholders' equity.

Current taxes on taxable income for the period represent the tax burden determined by using the tax rates in effect at the reference date, and any adjustments to the tax payables calculated during previous periods. Deferred tax liabilities refer to the temporary differences between the book values of assets and liabilities on the balance sheets of consolidated companies and the associated values relevant for determination of taxable income.

The tax liability of all temporary taxable differences, with the exception of liabilities deriving from initial recognition of an asset or liability in a transaction other than a business combination

that, at the time of the transaction, does not influence either the income (loss) reported on the financial statements or taxable income (tax loss). Deferred tax assets and liabilities are only offset if there is a legally enforceable right to set off the related current taxes and if the deferred tax assets and liabilities consist of income tax levied by the same tax authority.

Deferred tax assets that derive from temporary deductible differences are recognized on the financial statements only to the extent that it is likely that taxable income will be realized for which the temporary deductible difference can be used. No recognition is envisaged if the difference between the carrying amount and the tax base results from a business combinations, or from the initial posting of an asset or liability in a transaction, other than a business combination.

The tax benefits resulting from tax losses are recognised in the financial statements in the period when those benefits are accrued, if it is likely that the Group's entity which recognised the tax loss will have sufficient taxable income before the right to use that benefit expires. The taxes in question (deferred tax assets and liabilities) are determined on the basis of a forecast of the assumed percentage weight of the taxes on the income of the fiscal years in which the taxes will occur, taking into account the specific nature of taxability and deductibility. The effect of change in tax rates is recognized on the profit and loss account of the fiscal year in which this change takes place.

Tax provisions that could be generated from transfers of non-distributable profits from subsidiaries are recognised only when there is a real intention to transfer such profits.

3.22 Statement of cash flows. The statement of cash flows is drafted using the indirect method. The net financial flows of operating activity are determined by adjusting the result for the period of the effects deriving from change to net operating working capital, non-monetary items, and all the other effects connected with investment and financing activities.

Cash flows from investing and financing activities are represented net of exchange rate differences, which are represented in a separate line of the statement of cash flows. Net cash and cash equivalents are made up cash and cash equivalents net of bank overdrafts.

4. Scope of Consolidation

Changes in the scope of consolidation at December 31st, 2018 in respect to December 31st, 2017 are due to:

- On February 6th, 2018 Roger Vivier Deutschland GmbH has been incorporated. It is 100% owned by Roger Vivier S.p.A.;

- On April 16th, 2018 Roger Vivier Australia PTY Ltd. has been incorporated. It is 100% owned by Roger Vivier S.p.A.;
- On May 4th, 2018 Roger Vivier Espana SL has been incorporated. It is 100% owned by Roger Vivier S.p.A.;
- On June 27th, 2018, effective from July 1st, 2018, Del.Com. S.r.l., 100% owned by the parent company TOD'S S.p.A., acquired, from third parties, the further 50% of the quotas representing the share capital of Del.Pav. S.r.l., for a total amount of 1,150 thousand euros, obtaining the control over 100% of its share capital. Due to the fact that it is a transaction with minorities, the difference between the purchase price and the corresponding part of the equity, has been represented as a reduction of Group equity for 309 thousand euros;
- On July 25th, 2018 TOD'S Australia PTY Ltd. has been incorporated. It is 100% owned by TOD'S S.p.A.;
- On September 27th, 2018, effective from October 1st, 2018, TOD'S S.p.A. acquired 100% of quotas representing the share capital of the company Italiantouch S.r.l. which holds 100% of both companies Italiantouch USA Inc. and Italiantouch Shanghai Trading Co. Ltd. With reference to such acquisition, due to the fact that it is an acquisition between related parties under common control (Note 30), the consolidation of the net assets of Italiantouch Group has been done at the original carrying amounts in accordance with the document OPI n.1 issued by Assirevi and, as a consequence, the difference between the purchase price, amounting to 24.1 million euros, and the carrying amount of the net assets purchased, amounting to 2.6 million euros, has been represented for 21.5 million euros as a reduction of consolidated equity reserves. Moreover, the consolidation of the Italiantouch group income statements started from the date in which TOD'S Group obtained the control (October 1st, 2018 is the date when the acquisition took effect);
- On October 10th, 2018 Roger Vivier Canada Ltd. has been incorporated. It is 100% owned by Roger Vivier S.p.A.

These operations represent the only changes in the scope of consolidation from the Consolidated Financial Statements at December 31st, 2017.

For completeness of information, the following is a summary of the effects deriving from the first consolidation of the Italiantouch group following the acquisition transaction described above:

Net assets acquired from Italianatouch group	euro 000's
Tangible and intangible assets	2,127
Other non current assets	240
Net working capital	(5,002)
Other assets and liabilities	519
Cash and cash equivalents	4,752
Total net assets acquired	(2,637)
Purchase price	24,101
Impact on equity reserves	(21,464)

The scope of consolidation, complete details of which are provided hereunder, has not undergone other changes:

Parent Company

TOD'S S.p.A.

S.Elpidio a Mare - Italy
Share Capital (S.C.) - euro 66,187,078

Direct Subsidiaries

TOD'S Deutsch. GmbH Munich - Germany S.C. - euro 153,387.56 % held: 100%	TOD'S France Sas Paris - France S.C. - euro 780,000 % held: 100%	An.Del. USA Inc. New York - U.S.A S.C. - Usd 3,700,000 % held: 100%	TOD'S International BV Amsterdam - Netherlands S.C. - euro 2,600,200 % held: 100%
Del.Com S.r.l. S.Elpidio a Mare - Italy S.C. - euro 31,200 % held: 100%	Holpaf B.V. Amsterdam - Netherlands S.C. - euro 5,000,000 % held: 100%	Roger Vivier S.p.A. S.Elpidio a Mare - Italy S.C. - euro 10,000,000 % held: 100%	TOD'S Danmark APS Copenhagen - Denmark S.C. - Dkk 500,000 % held: 100%
TOD'S Austria GmbH Vienna - Austria S.C. - euro 50,000 % held: 100%	TOD'S Australia PTY Ltd. Sydney - Australia S.C. - Aud 100.000 % held: 100%	Italianatouch S.r.l. Civitanova Marche - Italy S.C. - euro 10.000 % held: 100%	

Indirect subsidiaries

Cal.Del. USA Inc. Beverly Hills, Ca - U.S.A. S.C. - Usd 10,000 % held: 100%	TOD'S Tex Del USA Inc. Dallas, Tx - U.S.A S.C. - Usd 10,000 % held: 100%	Deva Inc. Wilmington, De - U.S.A. S.C. - Usd 500,000 % held: 100%	Flor.Del. USA Inc. Tallahassee, Fl - U.S.A. S.C. - Usd 10,000 % held: 100%
Hono.Del. Inc. Honolulu, Hi - U.S.A. S.C. - Usd 10,000 % held: 100%	Il.Del. USA Inc. Springfield, Il - U.S.A. S.C. - Usd 10,000 % held: 100%	Neva.Del. Inc. Carson City, Nv - U.S.A. S.C. - Usd 10,000 % held: 100%	Or.Del. USA Inc. Sacramento, Ca - U.S.A. S.C. - Usd 10,000 % held: 100%

Indirect subsidiaries (continuing)

Gen.Del SA Zurich - Switzerland S.C. - Chf 200,000 % held: 100%	TOD'S Belgique S.p.r.l. Bruxelles - Belgium S.C. - euro 300,000 % held: 100%	TOD'S Espana SL Madrid - Spain S.C. - euro 500,000 % held: 100%	Buena Ltd London - Great Britain S.C. - Gbp 1 % held: 100%
TOD'S Hong Kong Ltd Hong Kong S.C. - Usd 16,550,000 % held: 100%	TOD'S Japan KK Tokyo - Japan S.C. - Jpy 100,000,000 % held: 100%	Alban.Del Sh.p.k. Tirana - Albania S.C. - euro 720,000 % held: 100%	TOD'S Retail India Pte Ltd Mumbai - India S.C. - Inr 193,900,000 % held: 100%
TOD'S Singapore Pte Ltd Singapore S.C. - Sgd 300,000 % held: 100%	Un.Del Kft Tata - Hungary S.C. - Huf 42,900,000 % held: 100%	TOD'S UK Ltd London - Great Britain S.C. - Gbp 350,000.00 % held: 100%	Webcover Ltd London - Great Britain S.C.- Gbp 2 % held: 100%
Roger Vivier Paris Sas Paris - France S.C. - euro 6,700,000 % held: 100%	TOD'S Korea Inc. Seoul - Korea S.C. - Won 2,600,000,000 % held: 100%	TOD'S Macao Ltd Macao S.C. - Mop 20,000,000 % held: 100%	TOD'S (Shanghai) Tr. Co. Shanghai - China S.C. - Usd 32,000,000 % held: 100%
Re.Se.Del. S.r.l. S.Elpidio a Mare - Italy S.C. - euro 25,000 % held: 100%	Del.Pav. S.r.l. S.Elpidio a Mare - Italy S.C. - euro 50,000 % held: 50%	Filangieri 29 S.r.l. S.Elpidio a Mare - Italy S.C. - euro 100,000 % held: 50%	Roger Vivier Japan KK Tokyo - Japan S.C. - Jpy 10,000,000 % held: 100%
Roger Vivier Hong Kong Ltd Hong Kong S.C. - Hkd 1,000,000 % held: 100%	Roger Vivier Sing. PTE Ltd Singapore S.C. - Sgd 200,000 % held: 100%	Roger Vivier (Shan.) Tr.Co. Shanghai - China S.C. - Rmb 75,000,000 % held: 100%	Roger Vivier UK Ltd London - Great Britain S.C. - Gbp 150,000 % held: 100%
TOD'S Georgia Inc. Norcross, GA - USA S.C. - Usd 10,000 % held: 100%	Roger Vivier France SaS Paris - France S.C. - euro 3,507,500 % held: 100%	Roger Vivier Korea Inc. Seoul - Korea S.C. - Won 1,200,000,000 % held: 100%	Roger Vivier Switzerland Lugano - Switzerland S.C. - Chf 2,000,000 % held: 100%
Roger Vivier Macau Lda Macao S.C. - Mop 500,000 % held: 100%	TOD'S Washington Inc. Tumwater, Wa - U.S.A. S.C. - Usd 10,000 % held: 100%	Ala. Del. Inc. Wilmington, De - U.S.A. S.C. - Usd 10,000 % held: 100%	Tod's Massachussets Inc Boston, Ma - U.S.A. S.C. - Usd 10,000 % held: 100%
Italiantouch USA Inc. New York - USA S.C. - Usd 1,000 % held: 100%	Italiantouch Shanghai Tr. Shanghai - China S.C. - euro 2,900,000 % held: 100%	Roger Vivier Espana SL Madrid - Spain S.C. - euro 10,000 % held: 100%	Roger Vivier Deutsch. Munich - Germany S.C. - euro 25,000 % held: 100%
Roger Vivier Australia Sydney - Australia S.C. - Aud 100,000 % held: 100%	Roger Vivier Canada Ltd. Toronto - Canada S.C. - Cad 1,000 % held: 100%		

In connection with subsidiaries in which the Group it does not own than 50% of the capital and thus disposes of the same percentage of voting power at the Shareholders' Meeting, the control it is assumed on the fact that the Group has: i) power over the investee ii) exposure, or right, to variable returns from its involvement with the investee and iii) the ability to use its power over the investee to affect the amount of the investor's returns, in accordance with IFRS 10 Consolidated Financial Statements.

5. Segment reporting

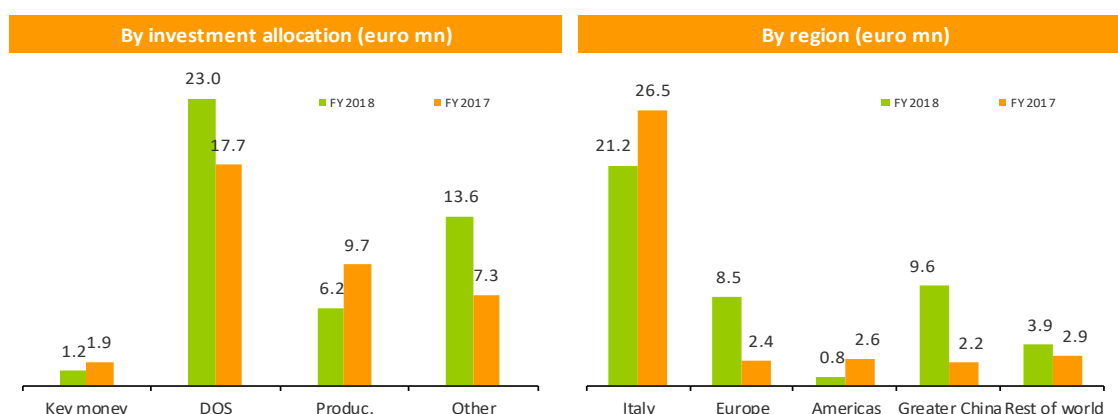
The search for higher levels of operating efficiency has identified as key element for maximising profitability via the sharing of a significant portion of service activities (first and foremost production), both at the central and peripheral levels; on the contrary, segmentation of the business appears uneconomical, under current circumstances.

At the operating level, the Group's organisation is based on an articulated matrix structure according to the different functions/activities in the value chain, alternatively according to brand, product, channel and geographical area. The overall organisation envisages a unified strategic vision of the business.

This type of organisation is reflected in the ways in which management monitors and strategically focuses the Group's activities.

In order to have a more detailed examination, the Report of the Board of Directors, to which reference is made, includes operating information, including a breakdown of consolidated revenues by BRAND, CHANNEL, PRODUCT and REGION. Below are provided some further details for completion.

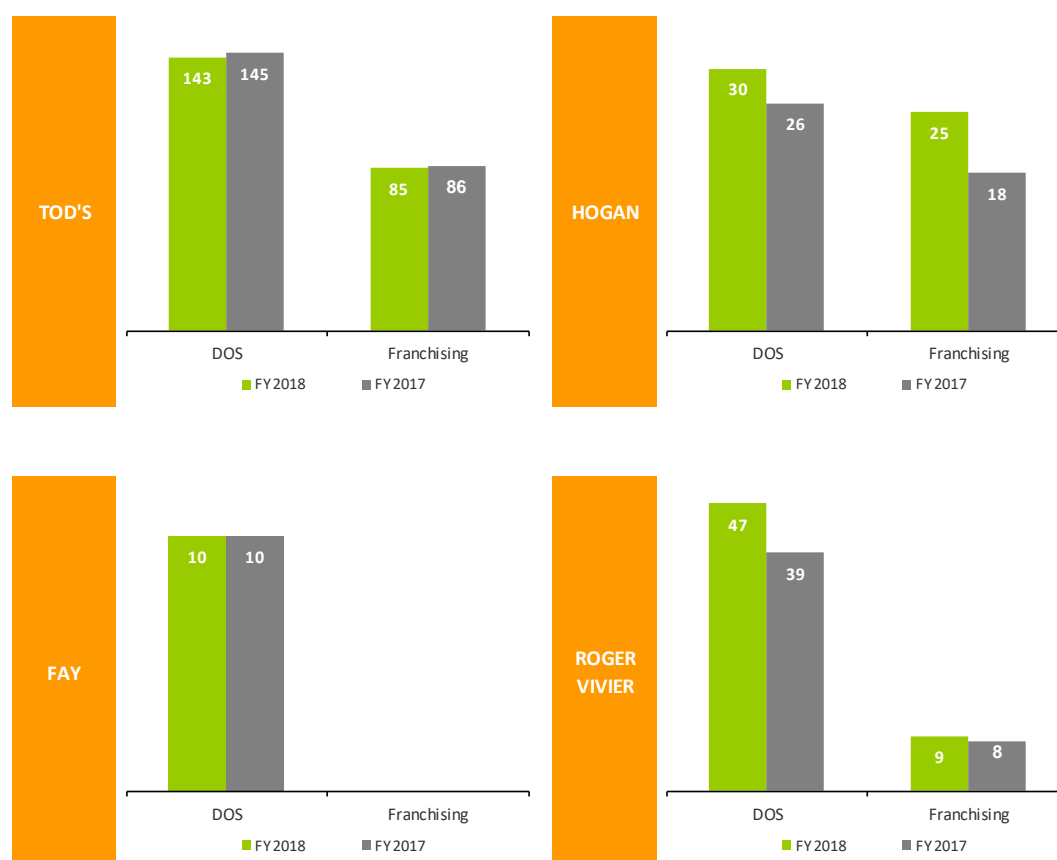
2018 Capital expenditures



Distribution network

TOD'S Group - Distribution channel		Year 18	Year 17
Italy	DOS	46	48
	FRANCHISED STORES	2	2
Europe	DOS	61	60
	FRANCHISED STORES	21	20
Americas	DOS	22	22
	FRANCHISED STORES	4	3
Greater China	DOS	88	82
	FRANCHISED STORES	39	34
RoW	DOS	67	63
	FRANCHISED STORES	54	53
Total DOS		284	275
Total FRANCHISED STORES		120	112

The table below, which shows the breakdown of the distribution network by brand, doesn't include the DOS which sell products of more than one brand of the Group.



6. Management of financial risks (IFRS 7)

The TOD'S Group has implemented a system for monitoring its financial risks in accordance with the guidelines set out in the Corporate Governance Code of Listed Companies. As part of this policy, the Group constantly monitors the financial risks connected with its operations, in order to assess their potential negative impact and undertake appropriate action to mitigate them.

The following analysis of financial risks faced by the TOD'S Group highlights the Group's level of exposure. It also includes a sensitivity analysis designed to quantify the potential impact of hypothetical fluctuations in benchmark parameters on final results.

i. Credit risk

Credit risk represents the exposure of the TOD'S Group to potential losses stemming from failure to discharge its obligations towards trading counterparties. Sales revenues for 2018 resulting from wholesale distribution channel are 35.4% of total sales. The Group subjects these revenues to a hedging policy designed to streamline credit management and reduction in the associated risk. In particular, the Group's policy does not envisage granting credit to customers, with periodic analyses of the creditworthiness of all customers, both long-standing and potential ones, in order to monitor and prevent possible solvency crises.

The following table illustrates the ageing of trade receivables outstanding at December 31st, 2018 gross of allowance for doubtful accounts:

In euro 000's	Current	Overdue			Total
		0 > 60	60 > 120	Over	
From third parties	71,392	20,357	5,249	11,008	108,006

The prudent estimate of losses on the entire credit mass existing at December 31st, 2018 was 6.8 million euros. The total amount of overdue receivables at December 31st, 2018 for 36.6 million euros is now about 18.4 million euros.

ii. Liquidity risk

The liquidity risk represents the risk stemming from the unavailability of financial resources as necessary to meet the short-term commitments assumed by the Group and its own financial requirements.

The main factors that determine the Group's degree of liquidity are the resources generated or used by operating and investment activities and, on the other hand, the due dates or renewal dates of its payables or the liquidity of its financial investments and market conditions.

This risk is limited by taking actions aimed at ensuring a balanced structure of the Group's capital and by maintaining such a level of cash and cash equivalents as is required to meet its financial debt requirements at the relevant maturity dates in an adequate manner.

The table below shows the credit lines already used and available at December 31st, 2018 compared with December 31st, 2017:

Credit lines euro 000's	Cash Credit lines	Self-liquidating Credit lines	Financial Credit lines	Total
12.31.18				
Credit lines	66,965	151,320	450,000	668,285
Utilizations	(15,713)			(15,713)
Credit lines available as of 12.31.18	51,252	151,320	450,000	652,572
12.31.17				
Credit lines	65,613	161,300	300,000	526,913
Utilizations	(15,816)	(94)		(15,910)
Credit lines available as of 12.31.17	49,797	161,206	300,000	511,003

Furthermore, it should be noted that, TOD'S S.p.A., in order to borrow the liquid funds needed to meet any possible requirement connected with ordinary business activities and general corporate operations, entered into the following loan agreements, which are related to medium/long-term revolving credit facilities which have not been used at December 31st, 2018:

- i) Banco BPM S.p.A. signed on January 26th, 2018 for a maximum amount of 100 million euros with expiring date on January 26th, 2022;
- ii) Crédit Agricole Corporate and Investment Bank and Cassa di Risparmio di Parma e Piacenza S.p.A. (Crédit Agricole Group), signed on January 27th, 2016, and renewed on December 5th, 2018, for a maximum amount of 100 million euros, with expiring date on December 5th, 2021;
- iii) Unicredit S.p.A., signed on November 9th 2016, and renewed on November 7th, 2018, for a maximum amount of 100 million euros, with expiring date on November 8th, 2021;
- iv) B.N.L. S.p.A., signed on November 28th 2016, and renewed on December 21st, 2018, for a maximum amount of 100 million euros, with expiring date on November 28th, 2021;
- v) Intesa Sanpaolo S.p.A. signed on December 21st, 2018 for a maximum amount of 50 million euros, with expiring date on December 31st, 2021.

Moreover, the parent company TOD'S S.p.A. signed, on December 21st, 2018, two new loan agreements with Intesa SanPaolo S.p.A., for a maximum amount of 125 million euros, and with B.N.L. S.p.A., for a maximum amount of 25 million euros, respectively. Both of them accrue interests to be computed on a variable rate equal to EURIBOR 3M plus a spread of 0.7% on the amount used. None of them have been used at December 31st, 2018, because, in order to

optimize and to balance financial cash flows, they will be used during 2019, replacing the following loan agreements currently outstanding, at their respective expiring dates:

- i) loan with Intesa SanPaolo S.p.A. for 100 million euros expiring on January 29th, 2019;
- ii) loan with Intesa SanPaolo S.p.A. for 25 million euros expiring on April 27th, 2019;
- iii) loan with B.N.L. S.p.A. for 25 million euros expiring on May 4th, 2019.

The table below shows the maturity of the outstanding financial liabilities at December 31st, 2018 and 2017:

euro 000's	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
12.31.18				
Bank borrowings		77,804		77,804
Other non-current liabilities		8,869		8,869
Trade payables	148,989			148,989
Bank	188,715			188,715
Derivative financial instruments	3,170	672		3,842
Other current liabilities	2,587			2,587
Total	343,461	87,345		430,806
12.31.17				
Bank borrowings		147,617		147,617
Other non-current liabilities		10,287		10,287
Trade payables	158,388			158,388
Bank	64,654			64,654
Derivative financial instruments	2,459	1,197		3,656
Other current liabilities	1,063			1,063
Total	226,564	159,101		385,665

Particular attention is paid to the definition of the credit counterparty that is considered to be suitable for cash operations and that is identified according to increasingly selective liquidity, security and yield criteria and in line with the Management's instructions.

Considering the Group profitability and its capacity to generate cash, it's reasonable to believe that liquidity risk is not significant. Moreover, it should be noted that such capacity of generating cash may allow Group to meet these commitments in a period of time that is potentially shorter than that in which the loans and credit facilities are expected to be available.

Finally, as regards financial assets, the Group's policy is to continue to invest all of its available liquid funds in sight bank deposits or in short-term liquidity, without making use of financial instruments, including those of the money market, and dividing its deposits among an adequate number of banks, which are carefully selected by taking account of financial soundness and reliability parameters, geographical location and level of remuneration offered.

iii. Market risk

IFRS 7 includes in this category all risks that are directly or indirectly connected with the fluctuation in prices on physical and financial markets to which the company is exposed:

- exchange rate risk;
- interest rate risk;
- commodity risk, connected with the volatility of prices for the raw materials used in the production process.

The TOD'S Group is exposed to exchange rate and interest rate risk, since there is no physical market subject to actual fluctuations in the purchase prices for raw materials used in the production process.

The following paragraphs analyse the individual risks, using sensitivity analysis as necessary to highlight the potential risk on final results stemming from hypothetical fluctuations in benchmark parameters. As envisaged by IFRS 7, these analyses are based on simplified scenarios applied to the final results for the periods referred to. By their very nature, they cannot be considered indicators of the actual effects of future changes in benchmark parameters of a different asset and liability structure and financial position different market conditions, nor can they reflect the interrelations and complexity of the reference markets.

Exchange rate risk. Due to its commercial operations, the Group is exposed to fluctuations in the exchange rates for currencies in which some of its commercial transactions are denominated (particularly USD, GBP, CHF and Far East countries), against a cost structure that is concentrated principally in the eurozone. The TOD'S Group realises greater revenues than costs in all these currencies; therefore, changes in the exchange rate between the euro and the aforementioned currencies can impact the Group's results.

Moreover, due to the geographical composition of the Group structure, which is formed by subsidiaries with different currencies, the Group is exposed to exchange rate risk related to intercompany financial flows (mainly dividends, loans, transactions on share capital).

Finally, the Group is exposed to "translation risk". This risk stems from the fact that the assets and liabilities of consolidated companies whose functional currency is different from the euro can have different countervalues in euros according to changes in foreign exchange rates. The measured amount of this risk is recognised in the "translation reserve" in equity.

The Group monitors the changes in the exposure. No hedges of this risk existed at the reporting date. Governance of individual foreign currency operations by the Group's subsidiaries is highly simplified by the fact that they are wholly owned by the parent company.

The general objective of the risk management policy adopted by the Group involves minimizing the economic and transaction exchange risk realized through the conversion into euro of sales

receipts in foreign currency, made during each season, net of reference costs, on the basis of an average exchange rate, in line with the relative exchange rate changes, together with the timely conversion into euro of present and future foreign currency cash flows (eg: bank loans, intercompany loans, etc.) based on interest rates market change.

The Group pursues these aims by entering into forward contracts for each individual currency to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency. These positions are not hedged for speculative or trading purposes, consistently with the strategic policies adopted for prudent management of cash flows.

The Group defines commercial hedging activities for single season based on the progress of the sales budgeting process and costs in currencies other than the euro.

The process of hedging exchange rate risk inside the Group is broken down into a series of activities that can be grouped into the following distinct phases:

- definition of operating limits;
- identification and quantification of exposure;
- definition of hedging transactions and relative executions in the markets;
- monitoring of positions and alert procedures.

In connection with the exchange rate risk on financial intercompany transactions, the Group monitors the risk underlying outstanding liabilities (loans) and forecast liabilities (dividends and capital increases), in view of guaranteeing that no material operating and financial impact for the entities involved results from these transactions in relation to fluctuations in exchange rates. These goals are pursued by the Group through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects. These forward contracts are made to hedge the individual transactions, and not for speculation or trading. This is consistent with the strategic policies focused on prudent management of cash flows. The breakdown of forward currency contracts (for sale and purchase) made by the Group is illustrated in Note 15.

The balance sheet accounts denominated in foreign currency were identified for the sensitivity analysis. In order to determine the potential impact on final results, the potential effects of fluctuations in the exchange rate for the euro against the principal currencies to which the Group is exposed were analysed. The following table illustrates the sensitivity to reasonably likely changes in exchange rates on pre-tax profit (due to changes in the value of current assets and liabilities denominated in foreign currency for expected transactions) and Group equity (due to changes in the fair value of foreign exchange risk hedge instruments on forecast transactions):

Euro Currency	Country	Impact on pre-tax profit 5% writedown of the foreign currency		Impact on pre-tax profit 5% revaluation of the foreign currency	
		FY 2018	FY 2017	FY 2018	FY 2017
CAD	Canada	(23,708.8)	9,124.4	26,204.4	10,084.9
CHF	Switzerland	18,489.6	371.4	(20,435.9)	(410.5)
GBP	UK	43,286.1	120.8	(47,842.5)	(133.5)
HKD	Hong Kong	(2,858.4)	203,823.5	3,159.3	225,278.6
JPY	Japan	(92,782.9)	46,474.5	102,549.5	(51,366.6)
KRW	South Korea	(443,720.2)	479.1	490,427.6	(529.5)
RMB	China	148,800.4	(1,244,900.0)	(164,463.6)	1,375,942.1
SGD	Singapore	(55,897.3)	(35,538.3)	61,781.2	39,279.1
USD	USA	(145,042.4)	277,794.0	160,310.0	(307,035.5)
Other	n.a.	(236,975.2)	(494,560.9)	261,920.0	75,893.0
Total		(790,409.0)	(821,548.0)	873,610.0	908,026.8

euro 000's	Revaluation / Writedown foreign currency	Impact on pre-tax profit	Impact on Shareholders' equity
FY 2018	5%	(790.4)	(5,360.3)
	-5%	873.6	5,924.6

The impact on equity showed in the previous table is mainly related to the cash flow hedge reserve gross of tax effects.

The analysis did not include assets, liabilities and future commercial flows that were hedged, since fluctuations in exchange rates impact income in an amount equal to what is recognised in the fair value of adopted hedging instruments.

Interest rate risk. The TOD'S Group is exposed to interest rate fluctuations, limited to its variable-rate debt instruments. Interest rate risk is managed in conformity to long-established practice with the aim of cutting down the risk of interest rate volatility, at the same time pursuing the goal of reducing the financial costs involved to a minimum.

TOD'S S.p.A. has a syndicated loan signed with Mediobanca and Crédit Agricole, with variable interest rate equal to EURIBOR 3M + 55 basis points. To hedge the risk of possible changes in the interest rates on the loan, two derivative contracts (interest rate swaps - IRS), have been signed, for a notional amount equal to the amount drawn for the loan. These derivatives protect the Company from the risk of a generalised rise in interest rates, swapping the variable rate on the loan for a contractually fixed rate (a quarterly rate of 0.748%). Such transactions have been recognised in accordance with cash flow hedge methodology provided by IFRS 9.

In addition to the above mentioned syndicated loan, TOD'S S.p.A. has the following outstanding loans with variable interest rates:

- loan signed with BNL S.p.A. (BNP Paribas Group) on May 4th, 2015 for an amount of 25 million euros. The reimbursements will be done in 16 quarterly instalments; the expiring date is May 4th, 2019. The interest rate agreed is equal to EURIBOR 3M +0.42% (Note 21);
- loan signed with Intesa SanPaolo S.p.A. on April 27th, 2015 for an amount of 25 million euros. The reimbursements will be one-shot with a single payment at the expiry date on April 27th, 2019. The interest rate agreed is equal to EURIBOR 3M +0.5% (Note 21);
- loan signed with B.N.L. S.p.A. (BNP Paribas Group) on December 21st, 2018, for 25 million euros. The reimbursements will be done in 16 quarterly instalments; the expiring date is December 21st, 2022 (at December 31st, 2018 this loan has not been used); The interest rate agreed is equal to EURIBOR 3M +0.7% (Note 21);
- loan signed with Intesa SanPaolo S.p.A., on December 21st, 2018, for a maximum amount of 125 million euros. The reimbursements will be done in 6 half-year instalments; the expiring date is December 31st, 2021 (at December 31st, 2018 this loan has not been used); The interest rate agreed is equal to EURIBOR 6M +0.7% (Note 21);

Considering the current financial markets situation and the current EURIBOR reference rate, the Group doesn't believe necessary to put in place hedging derivatives for such loans. The financial market trend and the related benchmark interests rates are constantly monitored by the Group, and, in case there could be an increase of risks in connection with the above mentioned loans, the Group will put in place appropriate hedging instruments in accordance with the strengthened Group practice.

The sensitivity analysis carried out on interest rates has shown in addition that a hypothetically unfavourable change of 10% in short-term interest rates applicable to the adjustable rate financial liabilities existing at December 31st, 2018 would have a negative net pre-tax impact of about 12 thousand euros in additional expenses (FY 2017: 11 thousand euros).

Finally, the financial liability (Notes A2) issued by the subsidiary Holpaf B.V. (Note 21) is subject to a fixed rate of 3.239%, while the loan signed on January 29th, 2018 for 100 million euros bears no interests.

6.1 Categories of measurement at fair value

In accordance with IFRS 13, the financial instruments carried at fair value have been classified according to a hierarchy of levels that reflects the materiality of the inputs used to estimate their fair value. The following levels have been defined:

Level 1 – quoted prices obtained on an active market for the measured assets or liabilities;

Level 2 – inputs other than the quoted prices indicated hereinabove, which are observable either directly (prices) or indirectly (derived from prices) on the market;

Level 3 – inputs that are not based on observable market data.

The tables below show the breakdown of financial assets and liabilities between each financial category and the fair value hierarchy level at December 31st, 2018 and 2017:

2018	Assets				Total	Level 1	Level 2	Level 3	Total
	Loans and receivables at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Hedge accounting					
euro 000's									
Other non-current assets	18,121				18,121				
Total other non-current assets	18,121				18,121				
Trade receivables	101,222				101,222				
Derivative financial instruments				1,998	1,998		1,998		1,998
Bank	191,268				191,268				
Total other current assets	292,490			1,998	294,488		1,998		1,998

2018	Liabilities				Total	Level 1	Level 2	Level 3	Total
	Financial liabilities at amortized cost	Financial liabilities at fair value		Hedge accounting					
euro 000's									
Bank borrowings	77,804				77,804				
Other non-current liabilities	8,869				8,869				
Derivative financial instruments				672	672		672		672
Total other non-current liabilities	86,673			672	86,673		672		672
Trade payables	148,989				148,989				
Bank	188,715				188,715				
Derivative financial instruments				3,170	3,170		3,170		3,170
Other current liabilities	2,587				2,587				
Total other current liabilities	340,291			3,170	340,291		3,170		3,170

2017	Assets				Total	Level 1	Level 2	Level 3	Total
	Loans and receivables at amortized cost	Available for sales	Financial assets at fair value						
euro 000's									
Other non-current assets	16,136				16,136				
Total other non-current assets	16,136				16,136				
Trade receivables	107,471				107,471				
Derivative financial instruments				2,763	2,763		2,763		2,763
Bank	221,609				221,609				
Total other current assets	329,080			2,763	331,843		2,763		2,763

2017	Liabilities				Total	Level 1	Level 2	Level 3	Total
	Financial liabilities at amortized cost	Financial liabilities at fair value							
euro 000's									
Bank borrowings	147,617				147,617				
Other non-current liabilities	10,287				10,287				
Derivative financial instruments			1,197	1,197	1,197		1,197		1,197
Total other non-current liabilities	157,904		1,197	159,101	159,101		1,197		1,197
Trade payables	158,388			158,388	158,388				
Bank	64,654			64,654	64,654				
Derivative financial instruments			2,459	2,459	2,459		2,459		2,459
Other current liabilities	1,063			1,063	1,063				
Total other current liabilities	224,105		2,459	226,564	226,564		2,459		2,459

Note that during the year 2018 there have not been any transfers between fair value levels indicated by the IFRS 13.

In connection with the fair value of financial assets and liabilities measured at amortised cost, given their nature, does not differ significantly from their carrying amounts.

7. Intangible fixed assets

7.1 Intangible assets with undefined useful life. Assets with indefinite useful life amount to 565,934 thousand euros, and are constituted as follows:

euro 000's	12.31.18	12.31.17
Trademarks	553,649	553,649
Goodwill	12,285	12,285
Total	565,934	565,934

Trademarks. This item includes the values of the Group four own brands (TOD'S, HOGAN, FAY and ROGER VIVIER).

euro 000's	12.31.18	12.31.17
TOD'S	3,741	3,741
HOGAN	80,309	80,309
FAY	53,185	53,185
ROGER VIVIER	416,414	416,414
Total	553,649	553,649

Goodwill. They are related to acquisitions of controlled companies and they have been determined in accordance with the acquisition method (IFRS 3).

7.2 Key money and Other intangible assets with definite useful life. The following table details the movements of these assets in the current and previous fiscal year.

euro 000's	Other Intangible assets					Total
	Key money	Other trademarks	Software	Other assets	Contracts with customers	
Balance as of 01.01.17	15,847	3,949	7,859	10,368	1,731	23,907
Translation differences	3		(13)	(14)		(26)
Increases	1,885	475	2,687	999	145	4,306
Decreases				(1)		(1)
Impairment losses (Note 9)	(1,072)					
Other changes				36		36
Amortization for the period	(2,237)	(852)	(3,199)	(1,838)	(689)	(6,577)
Balance as of 12.31.17	14,427	3,572	7,335	9,550	1,187	21,644
Translation differences	(7)		3	(14)		(11)
Increases	1,174	454	4,817	3,165	597	9,033
Decreases			(8)	(9)		(17)
Impairment losses (Note 9)	(339)					
Other changes			283	1,661		1,944
Amortization for the period	(1,744)	(828)	(3,558)	(2,267)	(677)	(7,329)
Balance as of 12.31.18	13,510	3,199	8,872	12,086	1,107	25,264

Key money, represent the amounts paid for this purpose by the Group to take over certain leases of commercial spaces where some DOS operate. The increase for the period relates to the key money paid in connection with the new ROGER VIVIER boutique located at Bond street in London. Impairment losses are related to the write off of a key money related to a store located in France.

The increase of Other trademarks relates to long-term charges with a defined useful life incurred to protect the brands owned by the Group which are classified as assets with an undefined useful life.

The increase of Software mainly relates to resources designated by the parent company for the development of IT systems, among which those dedicated to the digital channel and its integration within the Group .

The increase recorded in Contract customers is mainly due to long-term investments made for the network of corners and franchising stores.

The item "Other assets" includes 6,119 thousand euros for the value of the intangible asset recognised in relation to the agreement made with the Ministry of Cultural Affairs ("Ministero per i Beni e le Attività Culturali") and the Special Archaeological Service of Rome ("Soprintendenza speciale per i beni archeologici di Roma"), with which the parent company has undertaken to finance the entire cost of restoration work on the Coliseum. The asset was formerly recognised in the balance sheet for an amount equal to the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work available at the moment of the initial recognition, and amortised over the

useful life determined according to the provisions of the agreement. The accrual for amortisation allocable to the financial year is about 1 million euros.

Other changes occurred during the period are related to the changing of the consolidation scope in connection with Italianatouch group and they include, further to software, mainly the development costs for the technological device pf the online business.

8. Tangible fixed assets

At December 31st, 2018 the net residual value of Group's tangible fixed assets was a 203.9 million euros (FY 2017: 200.9 million euros).

euro 000's	Land and buildings	Plant and machin.	Equip.	Leasehold improv.	Others	Total
Balance as of 01.01.17	114,467	12,452	12,180	40,454	37,336	216,888
Translation differences	(4,890)	4	(161)	(2,047)	(1,756)	(8,849)
Increases	2,638	3,099	4,818	8,899	10,981	30,435
Decreases	(14)	(18)	(123)	(124)	(481)	(759)
Impairment losses (Note 9)				(1,381)		(1,381)
Other changes						
Amortization for the period	(2,236)	(2,412)	(5,915)	(11,542)	(13,298)	(35,402)
Balance as of 12.31.17	109,966	13,124	10,800	34,259	32,783	200,932
Translation differences	3,761	32	47	470	449	4,760
Increases	1,151	1,694	6,195	11,327	13,413	33,779
Decreases	(5)	(68)	(55)	(127)	(469)	(725)
Impairment losses (Note 9)				(1,062)		(1,062)
Other changes			7	18	180	205
Amortization for the period	(2,285)	(2,613)	(5,495)	(11,017)	(12,587)	(33,998)
Balance as of 12.31.18	112,587	12,169	11,498	33,867	33,769	203,890

Land and Buildings mainly include the real estate assets consisting of the Parent Company's operating headquarters and the building located in Omotesando in Tokyo, the location of the subsidiary TOD'S Japan's administrative offices and of the TOD'S flagship store in Japan.

This building was subject to a preliminary sale agreement stipulated on March 7th, 2019 at a price significantly higher than the net book value (Note 33).

The increase in the value of Land and Buildings and Plant and machinery mainly include the investments done for the corporate headquarter.

The increase in Equipment is due to the investments, made mainly by the parent company, in the framework of the normal processes of modernisation of industrial facilities and equipment (mainly lasts and moulds). The increase in Leasehold Improvements and Others mainly consist of the costs incurred for fitting out DOS, among which the first ROGER VIVIER boutique located in London, and for the renovation activities of the existing stores, among which the refurbishment of the TOD'S flagship store located at Sloane street in London. Depreciation from continuing use

of the fixed assets during the year amount to 34 million euros, while write-downs for impairment recognized through profit and loss amount to 1.1 million euros (Note 9).

9. Impairment losses

The recoverability of the residual value of intangible assets with an indefinite useful life (brands and goodwill) was determined to ensure that assets with a value higher than the recoverable value were not recognised on the financial statements, which refers to their "value in use". The criterion used to determine "value in use" is based on the provisions of IAS 36, and is based on the current value of expected future cash flows (Discounted cash-flow analysis - DCF), which is presumed to derive from the continual use and disposal of an asset at the end of its useful life, discounted at a net discounting rate that reflects current market rates for borrowing money and the specific risk associated with the individual cash generating unit.

In application of the method prescribed by IAS 36, the TOD'S Group has identified the cash generating units (CGU) that represent the smallest, identifiable group of assets that can generate cash flows and which are fully independent on the consolidated financial statements. The organisational structure and type of business was considered in determining the CGU. The TOD'S Group subsequently identified only one CGU, at a Group level, and it has been tested the net invested capital of the Group. This approach is based on the unified view of the business (also see Note 5 Segment reporting), organised as a matrix structure, which may be alternatively broken down by brand, product, channel and region, according to the different functions/activities on the value chain, where the transverse nature of many central and peripheral service activities (especially the Supply chain, Sales and distribution, Finance and administration, Legal, Human resources and Information technology), ensure maximisation of the levels of profitability. The recoverability of the amounts recognised on the financial statements was verified by comparing the net book value of the net invested capital with the recoverable value (value in use). The value in use is represented by the discounted value of future cash flows that are expected from continuous use of the assets associated with the cash generating unit and by the terminal value attributable to them.

The discounted cash flow analysis was carried out by using the FY 2019 budget as its basis. That budget was prepared and approved by the Board of Directors of the parent company TOD'S S.p.A. on the assumption that the Group would be a going concern for the foreseeable future. The Board of Directors first assessed the methods and assumptions used in developing the model. In particular:

- i. medium-term budget data are forecast over a time horizon of four additional years using a 5% mean sales growth rate, a constant EBITDA margin and a constant tax rate, equal to 29.3%.

Assumptions regarding the medium-term sales growth rate are made on the basis of reasonable growth estimates which also take into account the growth trends in the luxury sector as a whole in the foreseeable future;

ii. The Terminal value was determined as perpetuity, using, for future forecasts, a prudential long term growth rate in line with the macro-economics estimates performed by the International Monetary Fund .

iii. To determine the "value in use," a WACC, net of taxes, of 8.60% was used (the WACC rate used at December 31st, 2017 was 8.50%), determined by referring to the discounting rates used by a series of international analysts in financial reports on the Group, including a specific beta attributable to it.

An expected overall cash flow figure far higher than the total amount of net invested capital (cover) emerged from the analyses of the recoverability of the Group's intangible assets with an indefinite useful life (of which 553.6 million euros are made up of the owned trademarks and 12.3 million euros are made up of goodwill from business combination).

The sensitivity analysis performed on the impairment test in accordance with IAS 36, in order to reveal the effects produced on the "value in use" by a reasonable change in the basic assumptions (WACC, growth rates, EBITDA margin) and determination of the terminal value (disposal value of Group assets), did not reveal an appreciable impact on determination of the "value in use" and cover. Given the significant value assumed by the cover, it would be necessary to make unlikely assumptions to render the "value in use" equal to the book value of Group assets (the breakeven hypothesis).

Furthermore, in accordance with IAS 36, an estimate has been made of the recoverable value of each Company-owned brand, intangible assets with an indefinite useful life. The recoverable value is calculated by using, in principle, a market valuation approach, consisting of the application of the royalties method and using the same assumptions as those stated above in terms of growth rates, tax rate, WACC and terminal value. As regards the ROGER VIVIER brand, the royalties method has been based, for obvious reasons of uniformity and consistency with the estimation of the value to be attributed to the abovementioned balance sheet item upon acquisition, on income evaluation approaches; these have the objective of quantifying the contribution that the brand gives to the overall business profitability, on the basis of the business plan prepared for the foreseeable future, by discounting the income that can be directly or indirectly associated with the brand for a specific period of time. From the analysis carried out no impairment losses arose, as the net book value of brands fell within the range of values set for the recoverable value.

Finally, the Group conducted an analysis to assess the recoverability of the tangible and

intangible fixed assets attributable to the individual directly operated stores (DOS). Impairment indicators emerged from this analysis for some DOS whose assets were therefore written down by a total of 1.4 million euros, of which 0.3 million euros related to key money, as the recovery of their value by means of future cash flows is not reasonably foreseeable as matters stand.

10. Investment property

This account refers to a property owned by the Group as a real estate investment and leased to third parties.

euro 000's	
Historic cost	115
Accumulated depreciation	(93)
Balance as of 01.01.18	22
Increases	
Decreases	
Depreciation for the period	(3)
Balance as of 12.31.18	18

No changes in the fair value of this investment, about 250 thousand euros, have been recognised since this previous financial year. This estimate is based on the market prices for similar properties in terms of location and condition.

11. Deferred tax assets and liabilities

At the reporting date, recognition of the effects of deferred tax assets, determined on the basis of temporary differences between the carrying amount of assets/liabilities and its tax base, lead to the following tax assets and liabilities:

euro 000's			
	12.31.18	12.31.17	Change
Deferred tax assets	56,151	50,411	5,740
Deferred tax liabilities	(47,740)	37,968	(85,708)
Net Balance	8,412	12,442	(4,030)

When determining future tax impact, reference was made to the presumed percentage weight of the taxes that will be imposed on income in the years when those taxes will be charged, according to current tax laws in the various countries involved and any changes in tax rates following currently known tax reforms, and that will be applicable starting next year. Following is

reported the composition of the amount of deferred tax assets and liabilities at year end, offset if applicable, highlighting items that mainly contributed to its determination:

euro 000's	12.31.18		12.31.17	
	Assets	Liabilities	Assets	Liabilities
Property plant and Equipment	1,006	4,732	1,498	4,676
Intangible fixed assets	1,062	55,067	680	45,741
Inventory	30,958	(13,443)	27,614	(12,071)
Derivative financial instruments	213	(45)	1,045	38
Cost deductible over several years	590	1,720	595	(418)
Reserve for employees	1,467	(283)	1,258	161
Provision for risks	146	(547)	72	(1,051)
Other	406	537	160	892
Fiscal losses to carry forward	20,303		17,489	
Total	56,151	47,740	50,411	37,968

Deferred tax assets, recognised by certain subsidiaries on fiscal losses that can be carried forward pursuant to local tax laws, and not yet used by the Group at December 31st, 2018, totalled 20.3 million euros (FY 2017: 17.5 million euros). New deferred tax assets for 1.9 million euros were recognised in the 2018 financial statements for fiscal losses suffered in the current year that can be carried forward, while, during the year, deferred tax assets for 0.3 million euros have been used on previous years fiscal losses. Moreover, during the year, 1.9 million euros of deferred tax assets related to previous years fiscal losses have been written off as a consequence of the fact that the subsidiaries who suffered such losses consider no more probable the recoverability of such fiscal losses within the related expiring date. Not recognised deferred tax assets on previous years fiscal losses amount to 16 million euros, as a consequence of the fact that it is not probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

12. Other non-current assets

Other non-current assets mainly relate to security deposits paid to third parties by Group subsidiaries in connection with operating leases.

13. Inventories

They totalled 362,168 thousand euros at December 31st, 2018, and include:

euro 000's	12.31.18	12.31.17	Change
Raw materials	61,751	63,460	(1,710)
Semi-finished products	11,542	10,636	906
Finished products	345,316	291,873	53,443
Write-down	(56,441)	(53,706)	(2,735)
Total	362,168	312,263	49,905

Finished products include, for 1,131 thousand euros, the amount related to the right to recover of the products for returns to be received (*contract assets*).

The allowance for inventory write-downs reasonably reflects the technical and stylistic obsolescence of the Group's inventories at December 31st, 2018.

euro 000's	12.31.18	12.31.17
Opening balance	53,706	52,877
Increase	7,679	6,948
Utilization	(4,941)	(6,030)
Reversal		
Translation effects	(3)	(89)
Closing balance	56,441	53,706

14. Trade receivables and other current assets

14.1 Trade receivables they represent Group's exposure in consequence of its wholesale distribution activity.

euro 000's	12.31.18	12.31.17	Change
Trade receivables	108,006	114,017	(6,011)
Allowances for doubtful accounts	(6,784)	(6,546)	(238)
Net trade receivables	101,222	107,471	(6,248)

The allowances for doubtful accounts represent the reasonable estimate of impairment due to the expected losses arising from the risk of not being able to collect the trade receivables recognised on the financial statements. The amount accrued for FY 2018 totalled 812 thousand euros. The following schedule shows the changes during the year in the allowances for doubtful accounts:

euro 000's	12.31.18	12.31.17
Opening balance	6,546	5,773
Increases	812	1,209
Used during year	(574)	(436)
Closing balance	6,784	6,546

14.2 Tax receivables these total 11,577 thousand euros (FY 2017: 18,241 thousand euros) and are mainly comprised of receivables for income taxes claimed by the Group from the tax authorities of the countries where it operates.

It should be noted that, in order to improve the clarity of the figures shown in the balance sheet of the consolidated financial statements, starting from the 2018 financial year, the receivables relating to value added tax are shown in the item Other current assets instead of under Tax receivables. In this regard, for the purposes of correct comparability and intelligibility of information, the receivables relating to value added tax relating to 2017 have consequently been reclassified to Other current assets.

14.3 Other current assets

euro 000's	12.31.18	12.31.17	Change
Deferred costs	17,026	8,402	8,624
Others	47,300	41,868	5,431
Total other current assets	64,326	50,271	14,055

The item "Others" mainly relates to receivables versus manufacturers for the raw materials sold in connection with manufacturing activities, receivables for credit cards, receivables for value added taxes and other receivables to be collected next year.

15. Derivative financial instruments

The TOD'S Group, characterised by its major presence on international markets, is exposed to both exchange rate risk, mainly for revenues denominated in currencies other than the euro (see Note 6), and interest rate risk limited to its variable-rate debt instruments. In order to realise the objectives envisaged by the Risk Management policy, the Group enters in derivative contracts with primary banks for the hedging of the above mentioned risks; in particular, in connection with exchange rate risk, The Group entered in sell and/or buy foreign currency contracts (forward), while for the hedging of a variable interest rate risk, the Group entered in interest rate swaps agreements. Moreover, due to the geographical composition of the Group structure, which is formed by subsidiaries with different currencies, the Group is exposed to exchange rate risk related to intercompany financial flows (Note 6). These risks are managed by the Group

through a monitoring activity of the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects.

At the closing date of the financial statements, the notional amount of the currency forward agreements (sale and purchase) entered into by the Group are summarized as follows:

Currency 000's	Sales		Purchases	
	Notional in currency	Notional in euro	Notional in currency	Notional in euro
US dollar	51,200	44,716		
HK dollar	491,600	54,820		
Japanese yen	1,413,000	11,228	3,460,000	27,493
British pound	29,800	33,314		
Swiss franc	7,300	6,478		
Chinese renmimbi	489,550	62,164		
Singapore dollar	5,610	3,598		
Euro	1,320	1,320	11,130	11,130
Canadian dollar	5,700	3,653		
Australian dollar	5,530	3,409		
Total		224,700		38,623

All derivative contracts will expire during the year 2019.

Below is summarized the composition of the outstanding derivatives at December 31st, 2018 and 2017, with information related to carrying amounts, current and non-current, in connection with fair value and cash flow hedge reserve, the latter presented net of its related tax effects:

euro 000's	12.31.18			12.31.17		
	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
<i>Non-current</i>						
Interest rate swaps - cash flow hedges		672	(340)		1,197	(909)
Forward foreign exchange contracts - cash flow hedges						
Forward foreign exchange contracts - fair value hedges						
Total non-current		672	(340)		1,197	(909)
<i>Current</i>						
Interest rate swaps - cash flow hedges		1,015	(771)		1,467	(879)
Forward foreign exchange contracts - cash flow hedges	1,484	660	2,845	1,357	776	3,602
Forward foreign exchange contracts - fair value hedges	514	1,495		1,406	216	
Total current	1,998	3,170	2,074	2,763	2,459	2,723
Total	1,998	3,842	1,734	2,763	3,656	1,814

Cash flow hedge reserve related to forward derivatives for the hedging of currency exchange rate risks includes even some intercompany transactions, positive for 261 thousand euros net of tax effect (859 thousand euros in 2017), net of tax effects, accrued on intercompany transactions for which derivatives have been expired at December 31st, 2018, that will be transferred to the income statement when sales versus third customers or when forecast transactions will be realized.

Moreover, the transfer of the effect of the hedging transactions to the income statement was equal to 2,901 thousand euros, of which 1,785 thousand euros were represented as an increase of revenues, 70 thousand euros as an increase of costs for raw materials and consumptions and 1,186 thousand euros recognised on financial income as a consequence of hedging ineffectiveness related to future capital increase that will be not done anymore.

The overall effect recognised in the income statement in connection with derivatives for the hedging of interest rate risk amounted to 1,386 thousand euros, totally represented in the financial expenses.

16. Cash and cash equivalents

Cash and cash equivalents are related to cash and bank deposits for 191,268 million euros (221,609 million euros at December 31st, 2017). For further information see the statement of cash flow.

17. Assets held for sale

The Group did not have any held for sale assets at December 31st, 2018.

18. Equity

18.1 Share capital. At December 31st, 2018, the Parent company share capital totalled 66,187,078 euros (unchanged in respect to December 31st, 2017), and was divided into 33,093,539 shares having a par value of 2 euros each, fully subscribed and paid in. All shares have equal voting rights at the general meeting and participation in profits.

At December 31st, 2018 Mr. Diego Della Valle, president of the Board of Directors, hold, directly and indirectly, 60.663% of TOD'S S.p.A. share capital. At December 31st, 2018 the Group did not own treasury shares in the parent TOD'S S.p.A., and it did not execute any transactions on those shares during the year.

18.2 Capital reserves. Capital reserves are exclusively related to share premium reserve, amounting to 416,588 thousand of euros unchanged in respect to the previous year.

18.3 Hedging and translation reserves. The following schedule illustrates the changes occurred in 2018 for the Group:

euro 000's	Translation Reserve	Hedging Reserve	Total
Balance as of 01.01.17	24,441	1,064	25,505
Increase in fair value of hedging derivatives		3,581	3,581
Exchange differences	(19,895)	(65)	(19,960)
Transfer to P&L Account of hedging derivatives		(2,766)	(2,766)
Others			
Balance as of 01.01.18	4,546	1,814	6,360
Increase in fair value of hedging derivatives		1,152	1,152
Exchange differences	5,069	8	5,077
Transfer to P&L Account of hedging derivatives		(1,241)	(1,241)
Others			
Balance as of 12.31.18	9,615	1,733	11,348

For comments related to the changes of hedging reserve please see Note 15.

18.4 Other reserves and profit for the period. These reserves include the equity reserves of the parent company TOD'S S.p.A., the difference between the shareholders' equity of the subsidiaries, and the carrying values of the equity investments, as well as the effects of consolidation adjustments on Group equity.

euro 000's	Other reserves	Profit (loss) of the period	Total
Balance as of 01.01.17	492,640	86,292	578,932
Allocation of 2016 result	30,033	(30,033)	
Dividends		(56,259)	(56,259)
Profit for the period		71,007	71,007
Other changes	3,457		3,457
Balance as of 01.01.18	526,130	71,007	597,137
Changes accounting standards (IFRS 15)	(4,334)		(4,334)
Balance as of 01.01.18	521,796	71,007	592,803
Allocation of 2017 result	24,676	(24,676)	
Dividends		(46,331)	(46,331)
Profit for the period		47,146	47,146
Other changes	(22,591)		(22,591)
Balance as of 12.31.18	523,882	47,146	571,028

Other changes for the year 2018 are mainly related to:

- The effect on consolidated equity of the first consolidation of Italianatouch group (Note 4). Due to the fact that it is an acquisition between related parties under common control (Note 30), the consolidation of the net assets of Italianatouch Group has been done at the original carrying amounts in accordance with the document OPI n.1 issued by Assirevi and, as a consequence, the difference between the purchase price, amounting to 24.1 million euros, and the carrying amount of the net assets purchased, amounting to 2,6 million euros, has been represented for 21.5 million euros as a reduction of consolidated equity reserves. Moreover, the consolidation of the Italianatouch group income statements started from the date in which TOD'S Group obtained the control (October 1st, 2018 is the date when the acquisition took effect);
- The effect on consolidated equity of the acquisition of the further 50% of the quotas representing the share capital of Del.Pav. S.r.l., company already consolidated with the integral method. With this transaction, Del.Com S.r.l. purchased a further 50% of Del.Pav S.r.l. share capital, for a total amount of 1,150 thousand euros, obtaining the control over 100% of its share capital. Due to the fact that it is a transaction with minorities, the difference between the purchase price and the corresponding part of the equity, has been represented as a reduction of Group equity for 309 thousand euros;
- The use of the specific reserve for promoting territorial solidarity projects, for 694 thousand euros.

18.5 Dividends. In execution of a resolution by the Shareholders' Meeting of April 19th, 2018, the parent company TOD'S S.p.A. paid the shareholders dividends in May for the net income realised in 2017. The aggregate amount of the dividends paid is 46,330,954.60 euros, at the rate of 1.4 euros for each of the 33,093,539 shares representing the share capital at the coupon detachment date (May 21st, 2018).

The Board of Directors of the parent company TOD'S S.p.A. has proposed that the net profit for 2018 be distributed with payment of a dividend of 1 euros per share. The dividend is subject to approval by the annual Shareholders' Meeting, and was not included among the liabilities reported on this balance sheet. The proposed dividend, totalling 33,093,539 euros on the basis of the currently outstanding shares, is payable to all shareholders entered on the register of shareholders at the coupon detachment date.

19. Contingent and potential liabilities and assets

19.1 Provisions for risks. They include the estimate of liabilities, with uncertain maturity date or amount, on which the Group might incur in case of a legal or constructive obligation in

connection with a past event. The figure mainly include provisions related to both legal and tax lawsuits, risks and costs for employees and reinstatement costs. Below it is shown changes of provisions for risks:

euro 000's	12.31.18	12.31.17
Provisions for risks - non current		
Opening balance	5,385	4,517
Increase	437	1,099
Utilization	(337)	(87)
Reversal		
Translation effects	11	(143)
Other	(20)	
Closing balance	5,476	5,385
Provisions for risks - current		
Opening balance	4,626	1,543
Increase	565	4,056
Utilization	(4,011)	(878)
Reversal		(95)
Translation effects		
Other	20	
Closing balance	1,200	4,626

19.2 Contingent liabilities and other commitments.

i. **Guarantees granted to third parties.** At December 31st, 2018 the Group had provided guarantees amounting to 5,589 thousand euros (unchanged compared to 2017) against the contract commitments undertaken by some Group companies. The guarantees mainly consist of a surety of 3,629 thousand euros (same amounts in 2017) issued against the commitment to finance the Coliseum restoration works, the financial liability of which has been recognised in full in the accounts (Notes 7 and 22).

ii. **Guarantees received from third parties.** Guarantees received by the TOD'S Group from banks as security for contractual commitments totalled 22,849 thousand euros (15,657 thousand euros in 2017).

iii. **Mortgages.** Group real estate has been encumbered by the following mortgages:

Tokyo building – As collateral for two bonds issued by the subsidiary Holpaf B.V. (Note 21), a first mortgage in favour of Intesa San Paolo for JPY 1,000 million (7.9 million euros), and a first mortgage in favour of Société Européenne de Banque for JPY 5,652.8 million (44.9 million euros), both as collateral for the principal and all expenses resulting from the loan agreement.

iv. **Other guarantees.** As additional security for repayment of the bonds indicated at sub-indent iii. hereinabove, the parent company TOD'S S.p.A., issued the following additional guarantees:

a) Property Purchase Option: a put option granted to Intesa San Paolo Bank Ireland PLC on the Omotesando property, which may be exercised only if Holpaf B.V. defaults during the term of the bonds and the creditor demands payment of the mortgage. In this scenario, TOD'S S.p.A. must purchase the property at a specific price that varies over the term of the option (decreasing price, equal to the amount of the residual debt of the two bonds not repaid by Holpaf B.V. at the time of default);

b) Earthquake Indemnity Letter: TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property in an earthquake;

c) All Risks Indemnity Letter: TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo and Société Européenne de Banque even in the event of damage or destruction of the property due to any event;

d) Pledge on the fire insurance policy: in the event of loss due to building fire, any reimbursement by the insurance company constitutes a pledge in guarantee of the bonds whose value has not yet been repaid to Intesa Sanpaolo Bank Ireland PLC and Société Européenne de Banque.

At December 31st 2018, the residual face value of the principal for the bond amounted to JPY 1,271 million (10.1 million euros).

19.3 Lease agreements. The leases entered into by the Group are for rental of spaces used as offices, production plants, and DOS. At the reporting date, the minimum lease payments still owed by the Group under current agreements were as follows:

euro mn	2018	2017
2018		92.8
2019	104.7	75.5
2020	90.5	62.3
2021	69.9	50.1
2022	55.2	41.0
2023	45.4	
Over 5 years	130.7	137.2
Total	496.4	458.9

Operating lease instalments, included in the Costs of use of third party assets, totalled 112.1 million euros in the year 2018, including contingent rent.

20. Employee Benefits

20.1 Defined contribution plans. The Group has a defined contribution retirement plan (employee severance indemnities – TFR) in favor of employees at Group's Italian companies with more than 50 employees (see the following section in this regard) and the Japanese and Korean subsidiaries. At December 31st, 2018, the liability accrued *vis-à-vis* employees was 4,618 thousand euros (December 31st, 2017: 3,808 thousand euros), and relating only to the four Asian companies, since the amounts accrued in favour of Italian employees have all been transferred to funds outside the Group. The amount charged to profit and loss for the period totals 1,132 thousand euros.

20.2 Defined benefit plans. Following the statutory amendments introduced beginning January 1st, 2007, employee severance indemnities, a deferred payment plan in favor of all employees of the Group's Italian companies, were classified as a defined benefits plan (IAS 19) only for firms with less than 50 employees, for which the Group's obligation is not related with payment of the contributions accrued on the paid compensation, but extends until the end of the employment relationship, or, for companies with more than 50 employees, for the liability accrued until 2007⁽¹²⁾. For these types of plans, the principle requires that the accrued amount be projected into the future in order to determine the amount to be paid upon termination of the employment relationship, with an actuarial assessment that accounts for the rate of rotation of employees, expected evolution of compensation, and other factors.

The main actuarial assumptions used for the valuation are summarized below:

- Discounting rate: 1.57%

It is related to the average yield curve from IBOXX Eurozone Corporates AA of December 2018;

- Inflation rate: 1.50%;
- TFR incremental rate: 2.625%.

The table below shows the variation of the liability occurred in 2018:

¹² The statutory amendment envisaged that for firms with more than 50 employees, the employee severance indemnities accrued from 1st January 2007 had to be allocated to supplemental retirement plans (pension funds) or, alternatively, to a Treasury Fund set up at the INPS (Italian National Social Security Institute). Since all obligations of firms towards their employees ceased starting on 1st January 2007, all accrued employee severance indemnities are covered by the rules governing defined contribution plans for the liability accrued from such date.

euro 000's	Year 2018	Year 2017
Opening balance	9,014	9,329
Service costs	123	113
Interest costs	121	124
Benefits paid	(567)	(556)
Actuarial (gains)/losses	(250)	4
Other	276	
Closing balance	8,718	9,014

Employee benefits include even other long term employee benefits.

21. Financial liabilities

The Group's financial liabilities at December 31st, 2018 are broken down as follows:

euro 000's	12.31.18	12.31.17	Change
Current account overdraft	17,924	15,910	(2,014)
Financing and other financial liabilities- short term	170,792	48,743	(122,049)
Total financial liabilities short-term	188,715	64,654	(124,061)
Financing and other financial liabilities - long term	77,804	147,617	69,812
Total financial liabilities	266,520	212,270	(54,250)
Total Financing - and other financial liabilities (short/long term)	248,596	196,360	(52,236)

Financing and other financial liabilities. At December 31st, 2018 financing and other financial liabilities were represented by the following medium-long term position:

Currency 000's				Res. Debt in	Res. Debt in
Type	Counterpart	Currency	Maturity	currency	Euro
Medium and long term bank pool loan	Mediobanca - Crédit Agricole	Eur	2021	109,524	109,524
Medium and long term loan	Banca Nazionale del Lavoro S.p.A.	Eur	2019	3,127	3,127
Medium and long term loan	Intesa SanPaolo S.p.A.	Eur	2019	25,013	25,013
Short term loan	Intesa SanPaolo S.p.A.	Eur	2019	100,000	100,000
Notes A-2	Société Européenne de Banque	Jpy	2021	1,270,778	10,098
Total financing					247,762
Other financial liabilities		Inr	n.a.	65,138	817
Other financial liabilities		Eur	2021	17	17
Total financing and other financial liabilities					248,596

The medium and long term bank pool loan is related to the financing agreement signed on July 2014 by TOD'S S.p.A. and Mediobanca/Crédit Agricole. Such loan has a variable interest rate equal to EURIBOR 3M + 55 basis points which was hedged with two derivative contracts (interest rate swaps - IRS) for the same notional amount and duration. The duration of such loan is 7 years from the signing date and it will be refunded quarterly.

The medium and long term loans are related to two loan agreements signed in 2015 between the parent company TOD'S S.p.A. and BNL S.p.A. (BNP Paribas Group) and Intesa San Paolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the expiry date. Interests rates are variables and equal to the EURIBOR 3M + 0.42% and EURIBOR 3M +0.5% respectively.

The short term loan relates to an agreement signed by the parent company TOD'S S.p.A. on January 29th, 2018 with Intesa Sanpaolo S.p.A. which will be reimbursed all in one at the expiring date on January 29th, 2019. This loan doesn't bear any interest.

These loans contains, among others, specific financial covenants; in particular, it is requested to respect the following parameters computed at a Group level:

Bank	Financial covenants	Limit at 31 st December
Mediobanca/Crédit Agricole	Net financial liabilities/EBITDA	≤ 3,5
Banca Nazionale del Lavoro S.p.A.	Net financial liabilities/EBITDA	≤ 3,5
Intesa SanPaolo S.p.A.	Net financial liabilities/EBITDA	< 3

The parameters indicated above are constantly monitored by the Group, and all financial covenants are fulfilled at December 31st, 2018.

The financial liabilities indicated as Notes A-2 represent an amortised, non-convertible fixed-rate (3.239%) bond denominated in JPY, issued in 2006 by the subsidiary Holpaf B.V. to refinance the debt assumed for purchase of the land and construction of the building in Omotesando. The debt referred to Notes A-2 includes the residual debt for principal amount of 9,871 thousand euros, the interest accrued for the year for 121 thousand euros and the effect of fair value measurement upon initial recognition for 105 thousand euros which is measured at amortized cost.

For an analysis of the guarantees securing the bond, please see the section Provisions, contingent liabilities and assets (Note 19).

The following table illustrates the repayment schedule for the aggregate amount of loans, including the accrual for interests at the reporting date.

euro 000's	Medium and long term loan (BNL)	Medium and long term loan (Intesa)	Medium and long term pool loan (Mediobanca/Credit Agricole)	Short term loan (Intesa)	Notes A-2	Total
2019	3,125	25,000	40,000	100,000	2,618	170,743
2020			40,000		2,703	42,703
2021			30,000		4,549	34,549
2022						
2023						
Over 5 years						
Total	3,125	25,000	110,000	100,000	9,870	247,995
Accruals and amortized cost	2	13	(476)		227	(234)
Total	3,127	25,013	109,524	100,000	10,097	247,762

The financial liability related to Notes A-2 has been reimbursed on February 18th, 2019, in advance respect to the expiring date.

The breakdown by currency of the balance of total financial liabilities (bank overdrafts and financing) at the reporting date is as follows:

Financial liabilities by currency		12.31.18
Currency 000's	Local Currency	Euro
Jpy	2,255,619	17,924
Total bank overdrafts		17,924
Jpy	1,270,778	10,098
Eur	237,681	237,681
Inr	65,138	817
Total financing and financial liabilities		248,596
Total financial liabilities		266,520

Financial liabilities by currency		12.31.17
Currency 000's	Local Currency	Euro
Jpy	2,135,255	15,816
Eur	94	94
Inr	62	1
Total bank overdrafts		15,910
Jpy	1,602,126	11,867
Eur	183,747	183,747
Inr	57,139	746
Total financing and financial liabilities		196,360
Total financial liabilities		212,270

For interest rate sensitivity analysis (IFRS 7), and the disclosure for the further credit facilities and financing agreements available for the Group but not used yet at December 31st, 2018 see Note 6.

22. Other non-current liabilities

The balance for this item, 14,569 thousand euros, refers mainly to the liability recognised in relation to the agreement made for financing of restoration work on the Coliseum (Note 7) for 8,869 million euros (10,287 million euros at December 31st, 2017). This liability was recognised at the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work.

23. Trade payables and other current liabilities

euro 000's	12.31. 18	12.31. 17	Change
Trade payables	148,989	158,388	(9,399)
Tax payables	5,851	5,575	276
Other liabilities			
Payables due to employees	13,157	11,730	1,427
Social security institutions	7,392	6,844	548
Other	23,301	21,989	1,312
Total other liabilities	43,850	40,563	3,287

The payables to employees consist of amounts accrued in favour of employees (including the portion of unused holiday leave) and not paid at the reporting date.

The figure "Other" mainly includes advances from customers, the current portion of the returns estimates at the end of the year and the liability recognised in connection with the financing of restoration works for Coliseum, deferred revenues and other current liabilities.

24. Revenues

Revenues of the Group during the year are 940.5 million euros (963.3 million euros in 2017), decreased for 2.4% in respect to the previous year.

For further details related to revenues see the comments provided in the report on operations.

With reference to the adoption of the new accounting standard IFRS 15, effective from January 1st, 2018, it is specified that the Group has chosen, for the transition, the modified retrospective application and, consequently, the comparative data referring to the year 2017 haven't been modified.

The new definition of the moment in which the recognition of revenues deriving from the sale of finished products (At a point in time) takes place, with specific reference to any goods in transit referred to wholesale sales, led to a reduction of the initial consolidated shareholders' equity at January 1st, 2018 for approximately 4.3 million euros, as the margin net of the related tax effects; in connection with the above, the overall economic effect, deriving from the modified retrospective application, on the net profit for the year 2018, was positive for around 4.3 million euros. Furthermore, again with reference to the new definition of the moment in which the recognition of revenues deriving from wholesale sales takes place, following the adoption of the new standard, sales revenues relating to goods in transit at December 31st, 2018 were deferred to the following year, for about 1.8 million euros.

The item "Other income" amounts to 9.7 million euros (19.5 million euros in 2017) and it mainly includes active royalties and insurance reimbursements.

25. Personnel costs

The personnel costs incurred by the Group in FY 2018 as compared with those for FY 2017 are illustrated as follows:

euro 000's	Year 2018	Year 2017	Change	% on sales	
				2018	2017
Wages and salaries	154,082	145,251	8,831	16.4	15.1
Social security contributions	38,023	40,347	(2,324)	4.0	4.2
Employee sev. Indem. (service cost)	6,263	5,941	321	0.7	0.6
Total	198,368	191,540	6,829	21.1	19.9

The following table illustrates the breakdown of Group's employees by category:

	12.31.18	12.31.17	Average 18	Average 17
Executives	57	52	53	49
White-collar Employees	3,288	3,202	3,245	3,198
Blue-collar Employees	1,360	1,373	1,374	1,325
Total	4,705	4,627	4,672	4,572

26. Financial income and expenses

The breakdown of financial income and expenses in fiscal 2018 is as follows:

euro 000's	Year 18	Year 17	Change
Income			
Interest income on current account	460	546	(85)
Foreign exchange gains	21,319	16,650	4,669
Other	39	146	(107)
Total income	21,818	17,341	4,477
Expenses			
Interest on medium-long term financing	(921)	(1,557)	636
Interest on short term borrowings	(371)	(135)	(235)
Foreign exchange losses	(23,867)	(21,953)	(1,914)
Other	(2,668)	(2,896)	228
Total expenses	(27,827)	(26,541)	(1,286)
Total net income and expenses	(6,009)	(9,199)	3,190

27. Income or losses from equity investments

For the year 2018 no income or losses from equity investments occurred.

28. Income taxes

Tax expenses allocable to FY 2018, including deferred taxes, totalled 19.3 million euros, and are broken down into current and deferred taxes as follows:

euro 000's	Year 18	Year 17
Current taxes	13,049	23,086
Deferred taxes	6,244	9,449
Total	19,293	32,535
Tax rate	(29.3%)	(31.9%)

The parent company's theoretical tax rate for FY 2018 was 24%.

The following schedule reconciles theoretical taxes, calculated by using the theoretical tax rate of the parent company, and the taxes actually charged to income:

euro mn	Taxes	Rate %
Theoretical income taxes at the rate of parent company	15.8	24.0
IRAP effect	3.4	5.1
Previous year taxes	(0.2)	(0.3)
Permanent differences	4.1	6.2
Patent box tax effect	(2.5)	(3.9)
Effect connected with the different rates of the foreign subsidiaries	(1.1)	(1.7)
Effective income taxes	19.3	29.3

Previous year taxes mainly include deferred tax assets from previous year fiscal losses related to the acquisition of Italianatouch group for 2.3 million euros and the prudent write off, for 1.9 million euros, of deferred tax assets on fiscal losses previously recognized by some Group subsidiaries.

29. Earnings per share

The calculation of base and diluted earnings per share is based on the following:

i. Reference Profit

euro 000's		
For continuing and discontinued operations	Year 18	Year 17
Profit used to determine basic earning per share	47,146	71,007
Dilution effects		
Profit used to determine diluted earning per share	47,146	71,007

euro 000's		
For continuing operations	Year 18	Year 17
Profit for the year	47,146	71,007
Income (Loss) from discontinued operations		
Profit used to determine basic earning per share	47,146	71,007
Dilution effects		
Profit used to determine diluted earning per share	47,146	71,007

In both fiscal 2018 and 2017, there were no dilutions of net consolidated earnings, partly as a result of activities that were discontinued during the periods in question.

ii. Reference number of shares

	Year 18	Year 17
Weighted average number of shares to determine basic earning per share	33,093,539	33,093,539
Share Options		
Weighted average number of shares to determine diluted earning per share	33,093,539	33,093,539

iii. **Base earnings per share.** Calculation of the base earning per share for fiscal year 2018 is based on the net profit attributable to holders of ordinary shares of the parent company TOD'S S.p.A., totalling 47,146 thousand euros (71,007 thousand euros in 2017), and on the average number of ordinary shares outstanding during the same period, totalling 33,093,539 unchanged in respect to 2017.

iv. **Diluted earnings per share.** Calculation of the diluted earnings per share for the period January-December 2018 coincides with calculation of earnings per share, due to the fact that there are no items which produce dilution effects.

30. Transaction with related parties

The Group's related parties transactions were executed in compliance with the procedural sequence and implementing procedures set out in the Related Parties Transactions Procedure approved by the TOD'S S.p.A. Board of Directors in implementation of the Related Parties Regulation adopted by CONSOB with Resolution no. 17221 of March 12th 2010, as subsequently amended. In accordance with market best practices, significant related party transactions are subject to an in-depth review involving, inter alia:

- (i) complete, prompt transmission of material information to the delegated Board of Directors committees (the Control and Risk Committee and the Independent Directors Committee, each within the ambit of their delegated responsibilities, where the majority or all members of these committees are independent directors), who in the performance of their functions also avail themselves of the assistance of independent experts;
- (ii) the issuance of an opinion (either binding or non-binding, as applicable) before approval of the transaction by the Board of Directors (or, if appropriate, by the body delegated to resolve on the transaction).

All transactions – which are connected with the normal operations of TOD'S Group companies – were executed solely on behalf of the Group by applying contractual conditions consistent with those that can theoretically be obtained on an arm's length basis.

Most significant transactions concluded during the period

On September 27th, 2018, with effect from October 1st, 2018, the parent company TOD'S S.p.A. acquired from the related party Diego Della Valle & C. S.r.l., which is owned by directors Diego and Andrea Della Valle and is controlled by the former Director, 100% of the entire quota capital of related party Italianotouch S.r.l., a company that manages a computer technology for the online business of TOD'S Group products (Note 4).

Related party transactions at December 31st, 2018

Further to the information quoted above, TOD'S Group continued to maintain a series of contractual relationship with related parties (directors/controlling or significant shareholders) in 2018. The principal object of the transactions of the year was the sale of products, lease of sales spaces, show rooms and offices and the provision of advertising services.

i. Commercial transactions with related parties – Revenues

euro 000's	Sales of products	Rendering of services	Royalties	Operating lease	Other operations
Year 2018					
Parent Company (*)	14,929	38		5	
Directors					
Exec. with strat. respons.					
Total	14,929	38	-	5	-
Eserc. 2017					
Parent Company (*)	13,263			5	
Directors					
Exec. with strat. respons.					
Total	13,263	-	-	5	-

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

ii. Commercial transactions with related parties – Costs

euro 000's	Costs of products	Rendering of services	Royalties	Operating lease	Other operations
Year 2018					
Parent Company (*)	271	427		5,350	9
Directors					
Exec. with strat. respons.					
Total	271	427	-	5,350	9
Eserc. 2017					
Parent Company (*)	275	292		4,529	254
Directors					
Exec. with strat. respons.					
Total	275	292	-	4,529	254

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

iii. Commercial transactions with related parties – Receivables and payables

Receivables and payables	12.31.18		12.31.17	
euro 000's	Receivables	Payables	Receivables	Payables
Parent Company (*)	4	124	2,882	564
Directors				
Exec. with strat. respons.				
Total	4	124	2,882	564

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle

Due to the fact that the above mentioned amounts are not significant, the disclosure hasn't been provided separately in the face of the financial statements in accordance with CONSOB resolution n. 155519 of July 27th, 2006.

The figure Intangible assets with indefinite useful life, for 415 million euros, include the amount of ROGER VIVIER brand acquired on January 2016 through a related party transaction with Gousson Consultadoria e Marketing S.r.l., a company owned by the President of the board of directors Mr. Diego Della Valle.

Transactions between Group companies included in the scope of consolidation have been eliminated from the consolidated financial statements. Consequently, they have not been highlighted in these notes.

Compensation of Directors, Statutory Auditors, and General Managers

The following table illustrates the compensation accrued in the year 2018 by each of the Directors, Statutory Auditors, Executives with Strategic Responsibilities of TOD'S S.p.A. (including for the activities that they performed at subsidiaries) for any reason and in any form:

euro 000's	Compensation for office	Compensat. for part. in Commit.	Non cash benefits	Bonus and other incentives	Compens. as employ. compens.	Other compens.
Directors						
Diego Della Valle (*)	1,836.5	9.9				
Andrea Della Valle (**)	1,236.5	9.9				
Luigi Abete	35.9	8.9				
Maurizio Boscarato	36.5	12.2				220.0 ⁽²⁾
Marilù Capparelli	26.7					
Sveva Dalmasso	36.5	15.9				
Emanuele Della Valle	35.2					
Gabriele Del Torchio	26.4					
Romina Guglielmetti	36.5	21.4				7.7 ⁽⁴⁾
Umberto Macchi di Cellere (***)	171.1	7.4	9.7		755.6	⁽¹⁾
Emilio Macellari (****)	251.5	9.9				480.0 ⁽²⁾
Vincenzo Manes	36.5	27.2				
Cinzia Oglio	36.5		2.9	31.0	155.4	
Emanuela Prandelli	26.7					
Pierfrancesco Saviotti	35.2	2.5				
Stefano Sincini (*****)	422.6	2.5	1.3			
Total	4,287.0	127.7	13.9	31.0	911.0	707.7
Statutory Auditors						
Giulia Pusterla (*****)	90.0					
Enrico Colombo	60.0					60.1 ^{(3) (4)}
Fabrizio Redaelli	60.0					
Total	210.0					60.1
Executives with strategic responsibilities (*****)		7.4	12.5	34.7	1,116.9	15.0 ⁽¹⁾

Legend

- | | |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| (*) Chairman of Board of Directors | ⁽¹⁾ Director of subsidiary |
| (**) Vice Chairman of Board of Directors | ⁽²⁾ Consultant TOD'S S.p.A. |
| (***) Chief Executive Officer | ⁽³⁾ Statutory Auditor of subsidiary |
| (****) Member of Executive Committee | ⁽⁴⁾ Member of Compliance Program Supervisory Board |
| (*****) Chairman of the Statutory Board | |
| (******) Includes General Directors salaries limited to compensation for the employment relationship. | |
| (******) Includes compensation up to the termination of its office as a Director occurred on April 19 th , 2018. | |

The table above does not include the indemnities for termination of the office as a Director and for the employment relationship of the Chief Executive Officer and General Manager Mr. Stefano Sincini for which reference is made to the press release published on the website www.todsgroup.com on March 13th, 2018.

No severance indemnity is provided for Directors and Executives with Strategic Responsibilities.

31. Events and significant non-recurring transactions

Pursuant to Consob Communication No. DEM/6064293 of July 28th, 2006, the Group did not carry out any significant non-recurring operations in 2018.

32. Items or transactions resulting from unusual and/or exceptional transactions

There were no items or transactions resulting from unusual and/or exceptional transactions during the year.

33. Information in accordance with the Law n. 124/2017

During the year the Group received subsidies, contributions, engagements paid and, anyway, economic advantages in accordance with the Law 124/2017 art. 1, subsection 125, for a total amount of 210,226. The following table summarizes the data related to both the lenders, amount received and a brief description of the reasons why the benefit was achieved.

Beneficiary company	Lender	Allowance received	Reason
TOD'S S.p.A.	IAL Innovazione Apprendimento Lavoro Marche Srl Impresa sociale	8,800	Allowance for projects, coordination and evaluation activities of training sessions in the shoes sector
TOD'S S.p.A.	Fondimpresa - Fondo interprofessionale	141,714	Allowances for training of blue collars, white collars and managers
TOD'S S.p.A.	Fondirigenti - Fondo interprofessionale	6,371	Allowances for training of directors
TOD'S S.p.A.	Agenzia Nazionale Politiche Attive del Lavoro	14,750	Botteghe project - Luxury Digital Factory (Experiments of active politics)
Del Com S.r.l.	For.Te. - Fondo paritetico per la formazione continua	38,591	Allowances for trainings of white collars and managers of retail companies
Total		210,226	

It is highlighted that the benefits have been summarized in accordance with the cash principle and, as a consequence, the table above shows subsidies, contributions, engagements paid and, anyway, economic advantages which have been collected during the year 2018, without taking into consideration the accrual basis.

34. Significant events occurred after the end of the year

Consistently with the regular monitoring of its distribution network, the Group has decided to move the location of the flagship store of the Tod's brand in Tokyo, from Omotesando to another area of the city which has greater traffic. It then caught the opportunity to sell the property of

Omotesando in a moment that sees the Japanese real estate market at its all-time highs. On March 7th, 2019, the company Holpaf BV, a wholly-owned subsidiary of Tod's, signed a preliminary agreement concerning the sale of the property of Omotesando, which hosts the Japanese flagship store of the Tod's brand and the Group's regional offices. The price agreed for the sale of the real estate is equal to 156 million euros, of which one third was cashed in at the signing of the preliminary, as a deposit and advanced payment, and the remaining two thirds at the time of the closing, with the definitive transfer of the real estate. The completion of the sale will result in a gross gain of around 100 million euros, compared to the book value accounted in the financial statements.

The Group will maintain the availability of the property until the date of the closing that will take place, upon indication of the Group, when it will have available both the new store and the new offices, anyway by October 31st, 2019.

TOD'S Group

TOD'S Group

Independent auditor's report



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
TOD'S SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of TOD'S SpA and its subsidiaries (hereinafter also the "TOD'S Group"), which comprise the consolidated statement of financial position as of 31 December 2018, the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the TOD'S Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 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 Consolidated Financial Statements** section of this report. We are independent of TOD'S SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Allowance for inventory write-downs

(See note no. 13 to the consolidated financial statements)

Final inventories of raw materials, semi-finished and finished products, amounting to Euro 362 million at 31 December 2018, are carried net of an allowance for inventory write-downs of Euro 56 million, which is about 13 per cent of the value of final inventories.

The allowance for inventory write-downs is estimated centrally by the Parent Company's management with reference to raw materials on the basis of their possibility of use within the production process and as regards finished products based on the ageing of collections in stock and their foreseeable usage through the Group distribution channels.

We focused on the allowance for inventory write-downs taking account of its relevance in absolute terms and the complexity of the estimates performed by TOD'S SpA's management to evaluate it.

We obtained the calculation of the consolidated allowance for inventory write-downs prepared by TOD'S management and we verified its mathematical accuracy.

In relation to raw materials, we evaluated the adequacy of the allowance by checking the adequacy of the write-down percentages used by the Parent Company that we compared for consistency with those of the previous years, with historical data and with products scrapped in the year, as well as by performing analysis targeted on no or slow - moving raw material categories.

With reference to finished products we evaluated the adequacy of the allowance by verifying the adequacy of the write-down percentages used by the Parent Company on unsold items referred to one season/collection, checking the consistency of these percentages with the previous years, analysing the historical sale trend of non-current collections over the TOD'S Group distribution channels and products scrapped in the year, as well as by verifying the adequacy throughout the years of the amount of the inventory write-down allowance initially accrued in relation to each season/collection.

In order to ascertain whether additional write-downs needed to be made, we also carried out analyses on the sales with negative margins realised in the subsequent year.

Key Audit Matters

Auditing procedures performed in response to key audit matters

Roger Vivier brand

(See notes no.7.1 and 9 to the consolidated financial statements)

The Roger Vivier brand, which was acquired by the Group in January 2016, is recognised among the intangible assets of the consolidated balance sheet at 31 December 2018 in an amount of Euro 416 million, accounting for about 26 per cent of consolidated assets.

This brand is recognised at acquisition cost and is not amortised since it is considered with an indefinite useful life. Accordingly, a test is performed at least once a year in order to verify if the recoverable amount of the brand, determined as the higher of the asset's fair value less costs of disposal and its value in use, is higher than its carrying amount (impairment test).

Specifically, in accordance with the applicable accounting standards and with the impairment test procedure approved by the Board of Directors on 6 March 2019, the Company compared the book value of the Roger Vivier brand at 31 December 2018 with its value in use determined applying the same evaluation methods used on its acquisition.

We focused our attention on the Roger Vivier brand because it consists of a significant amount, its valuation process is complex and it requires a high degree of professional judgement, especially in estimating the expected cash flows and in determining the discount and growth rates.

We obtained the impairment test performed by management on the Roger Vivier brand and the related supporting documentation.

We verified the reasonableness of the Roger Vivier 2019 budget and the additional economic projections for the explicit period of the impairment test, as well as the reasonableness of the underlying key assumptions. In particular, we focused our attention on the reasonability of the increase in revenue checking its consistency with the historical growth trend of revenue.

We also evaluated the reliability of the projections made by management, verifying that the 2018 budget had been achieved and analysing the actual data in the first two months of 2019.

Moreover, we verified, with the support of PwC network experts in evaluations, the consistency of the impairment model adopted by the Company with the standard evaluation practice, as well as the adequacy of the key assumptions used by management and the accuracy of the calculations.

Finally, our controls also covered the notes to the consolidated financial statements in order to verify the adequacy and completeness of the disclosures therein.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate TOD'S SpA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;



- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 19 April 2012, the shareholders of TOD'S SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.



We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of TOD'S SpA is responsible for preparing a report on operations and a report on corporate governance and ownership structure of the TOD'S Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the TOD'S Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of TOD'S SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's Regulation implementing Legislative Decree No. 254 of 30 December 2016

Management of TOD'S SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.

We have verified that management approved the non-financial statement.



Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Ancona, 27 March 2019

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(Partner)

This report has been translated into English from the original, which was issued in Italian language, solely for the convenience of international readers.

TOD'S

TOD'S s.p.a.

D'S

TOD'S S.p.A.

Annual Report **as of December 31st, 2018**

s.p.a.

TOD'S

TOD'S s.p.a.

D'S

Financial Statements

s.p.a.

Income statement

euro 000's	Notes	Year 18	Year 17
Revenues			
Sales revenues (1)	22	636,863	662,576
Other income	22	5,973	7,807
Total revenues and income		642,837	670,383
Operating costs			
Change in inventories of work in progress and finished goods		42,084	3,665
Cost of raw materials, supplies and material for consumption		(250,682)	(232,158)
Costs for services		(193,228)	(178,984)
Costs of use of third party assets	17.3	(26,293)	(24,859)
Personnel costs	23	(88,704)	(86,823)
Other operating charges		(16,507)	(18,831)
Total operating costs		(533,330)	(537,990)
EBITDA		109,506	132,393
Amortisation, depreciation and write-downs			
Amortisation of intangible assets	5	(7,157)	(6,501)
Depreciation of tangible assets	6	(10,863)	(11,145)
Other adjustment	7		
Total amortisation, depreciation and write-downs		(18,020)	(17,645)
Provisions	13-17	(1,774)	(2,002)
EBIT		89,712	112,746
Financial income and expenses			
Financial income	24	14,689	10,556
Financial expenses	24	(19,824)	(18,719)
Total financial income (expenses)		(5,135)	(8,164)
Income (losses) from equity investments	25	6,072	7,283
Profit before taxes		90,650	111,866
Income taxes	10-26	(21,954)	(26,889)
Profit for the period		68,696	84,977
EPS (Euro)		2.08	2.57
EPS diluted (Euro)		2.08	2.57

Note:

(1) Sales revenues include transactions with Group's entities for 278.7 and 277.8 million euros, respectively, in the fiscal year 2018 and 2017.

Statement of Comprehensive Income

euro 000's	Notes	Year 18	Year 17
Profit/(loss) for the period (A)		68,696	84,977
Other Comprehensive Income that will be reclassified subsequently to profit and loss:			
Gain/(Losses) on derivative financial instruments (cash flow hedge)	16.3	(270)	1,400
Total other Comprehensive Income that will be reclassified subsequently to profit and loss (B)		(270)	1,400
Other Comprehensive Income that will not be reclassified subsequently to profit and loss:			
Cumultated actuarial gains/(losses) on defined benefit plans	18	156	(17)
Total other Comprehensive Income that will not be reclassified subsequently to profit and loss (C)		156	(17)
Total Comprehensive Income (A)+(B)+(C)		68,582	86,360

Statement of Financial Position

euro 000's	Notes	12.31.18	12.31.17
Non current assets			
<i>Intangible fixed assets</i>			
Assets with indefinite useful life	5	150,919	150,919
Others	5	22,431	20,949
Total intangible fixed assets		173,350	171,868
<i>Tangible fixed assets</i>			
Buildings and land	6	56,353	57,602
Plant and machinery	6	11,171	12,050
Equipment	6	9,061	8,559
Leasehold improvement	6	3,173	3,662
Others	6	4,576	4,902
Total property, plant and equipment		84,335	86,776
<i>Other assets</i>			
Investments properties	8	18	22
Investments in subsidiaries	9	608,734	583,059
Deferred tax assets	10		
Others	11	4,320	2,588
Total other assets		613,072	585,669
Total non-current assets		870,757	844,312
Current assets			
Inventories	12	233,277	164,421
Trade receivables (1)	13	211,575	182,687
Tax receivables	13	11	9,506
Derivative financial instruments	14	1,307	2,688
Others	13	44,468	41,974
Cash and cash equivalents	15	66,703	100,802
Total current assets		557,342	502,078
Total assets		1,428,099	1,346,390

to be continued

Note:

(1) Trade receivables include receivables from Group's entities for 138.6 and 99.9 million euros, respectively, at December 31st, 2018 and December 31st, 2017.

continuing

euro 000's	Notes	12.31.18	12.31.17
Shareholders' equity			
Share capital	16	66,187	66,187
Capital reserves	16	416,507	416,507
Treasury stock	16		
Hedging reserve	16	(456)	(186)
Other reserves	16	374,291	340,728
Profit/(Loss) for the period	16	68,696	84,977
Shareholders' equity		925,225	908,213
Non-current liabilities			
Provisions for risks	17	5,394	5,210
Deferred tax liabilities	10	16,261	13,241
Employee benefits	18	7,586	7,370
Derivative financial instruments	14	672	1,197
Bank borrowings	19	69,666	137,572
Others	20	14,476	14,340
Total non-current liabilities		114,055	178,928
Current liabilities			
Trade payables (2)	21	145,665	157,268
Tax payables	21	6,142	3,767
Derivative financial instruments	14	2,842	2,020
Others	21	65,516	46,533
Bank borrowings	19	167,999	46,176
Provisions for risks	17	655	3,485
Total current liabilities		388,818	259,250
Total Shareholders' equity and liabilities		1,428,099	1,346,390

Note:

(2) Trade payables include payables to Group's entities for 26.8 and 19.2 million euros, respectively, at December 31st, 2018 and December 31st, 2017.

Statement of Cash Flows

euro 000's	Note	12.31.18	12.31.17
Profit/(Loss) for the period		68,696	84,977
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:			
Amortizat., deprec., revaluat., and write-downs	5-6-7-8-10-12-13	23,520	27,543
Other non monetary expenses/(income)	14-16-17	(1,117)	(1,755)
Income taxes for the period	26	21,954	26,889
Changes in operating assets and liabilities:			
Trade receivables	13	(29,100)	5,378
Inventories	12	(73,447)	(22,469)
Tax receivables and tax payables	13-21	(1,685)	361
Trade payables	21	(11,604)	25,791
Other assets and liabilities	13-21	12,097	(26,848)
Change in reserve for employee	18	372	(1,492)
Cash flows from operating activities		9,686	118,375
Interests (paid)/collected		(121)	(518)
Income taxes (paid)/refunded		(5,378)	(23,366)
Net cash flows from operating activities (A)		4,187	94,490
Net investments in intangible and tangible assets	5-6	(17,058)	(14,857)
Acquisition of Italianouch group		(24,101)	
(Increase) decrease of equity investments	9	(2,272)	(378)
Reduction (increase) of other non-current assets	11	569	66
Cash flows generated (used) in investing activities (B)		(42,863)	(15,169)
Dividends paid	16	(46,331)	(56,259)
Capital increase	16		
Others change in Equity			
Loans to subsidiaries	28	(2,842)	36,000
Repayments of financial liabilities	19	(46,250)	(46,250)
Proceeds from financial liabilities	19	100,000	
Cash flows generated (used) in financing (C)		4,577	(66,509)
Translation differences (D)			
Cash flows from continuing operations (E)=(A)+(B)+(C)+(D)		(34,099)	12,813
Cash flow from assets held for sale (F)			
Cash flows generated (used) (G)=(E)+(F)		(34,099)	12,813
Net cash and cash equivalents at the beginning of the period		100,802	87,989
Net cash and cash equivalents at the end of the period		66,703	100,802
Change in net cash and cash equivalents		(34,099)	12,813

Statement of Changes in Equity

Year 2018 euro 000's					
	Share capital	Capital reserves	Hedging reserve	Retained earnings	Total
Balances as of 01.01.18	66,187	416,507	(186)	425,705	908,213
Changes accounting standards (IFRS 15)				(4,545)	(4,545)
Balances as of 01.01.18	66,187	416,507	(186)	421,160	903,668
Profit & Loss account				68,696	68,696
Directly in equity			(270)	156	(114)
Total Comprehensive Income			(270)	68,852	68,582
Dividends				(46,331)	(46,331)
Capital increase					
Share based payments					
Other (1)				(694)	(694)
Balances as of 12.31.18	66,187	416,507	(456)	442,986	925,225

Year 2017 euro 000's					
	Share capital	Capital reserves	Hedging reserve	Retained earnings	Total
Balances as of 01.01.17	66,187	416,507	(1,586)	397,862	878,970
Profit & Loss account				84,977	84,977
Directly in equity			1,400	(17)	1,383
Total Comprehensive Income			1,400	84,960	86,360
Dividends				(56,259)	(56,259)
Capital increase					
Share based payments					
Other				(858)	(858)
Balances as of 12.31.17	66,187	416,507	(186)	425,705	908,213

Note:

(1) They include the use of the specific reserve for promoting territorial solidarity projects.

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Notes to the Separate Financial Statements

s.p.a.

1. General notes

The parent company TOD'S S.p.A., registered office in Sant'Elpidio a Mare (Fermo) at Via Filippo Della Valle 1, is listed on Mercato Telematico Azionario (MTA) of Borsa Italiana S.p.A..

At December 31st, 2018 TOD'S S.p.A. share capital is owned by DI.VI. FINANZIARIA DI DIEGO DELLA VALLE & C. S.r.l. for 50.291%.

The Separate financial statements has been prepared by the Board of Directors of TOD'S S.p.A. on March 11th, 2019 for the approval of the shareholders meeting on April 18th, 2019 and it is subject to PricewaterhouseCoopers S.p.A. audit.

2. Basis of preparation

The Separate Financial Statements were prepared in accordance with IAS/IFRS (International Accounting Standards – IAS -, and International Financial Reporting Standards – IFRS) issued by IASB, based on the text published on the Gazzetta Ufficiale of European Union (G.U.C.E.). IAS/IFRS refer also to all revised International Accounting Standards (IAS) and all interpretative documents issued by the IFRIC (International Financial Reporting Interpretations Committee), previously nominated Standing Interpretations Committee (SIC).

The Notes have been supplemented by the additional information required by CONSOB and its implementing measures of Article 9 of Legislative Decree 38/2005 (Resolutions 15519 and 15520 of July 27th, 2006 and memorandum DEM/6064293 of July 28th, 2006, pursuant to Article 114(5) of the Consolidated Law on Finance-TUF), Article 78 of the Issuer Regulation, the EC document of November 2003 and, when applicable, the Italian Civil Code. Consistently with the financial statements for the previous year, certain information is provided in the Report by the Board of Directors on Operations.

The separate financial statements has been prepared on the going concern basis, and it includes the statement of financial position, the income statement, statement of comprehensive income, the statement of cash flows, the statement of changes in equity and related notes to the separate financial statements of TOD'S S.p.A. The separate financial statements is prepared in euro currency.

For presentation of its operating income, the Company adopted the presentation of the profit and loss by nature. The format of representing revenues and costs by nature is followed, indicating the EBITDA and EBIT results as in the past, since they are considered representative indicators of company performance. In addition, it has been prepared the statement of comprehensive income which include transactions that are outside the income statement but they produce their effects directly to equity. Transactions represented in the statement of comprehensive income are net of tax effects.

The statement of financial position shows current items, for which it is supposed that they will be realized or closed during the normal operating cycle, separately from non-current items (both assets and liabilities).

The financial statements schemes, joined with both report on operations and supplementary notes, are considered to be those that provide the best organized representation of the Company's financial position and income. In case, for the application of a new accounting standards, there is a change in the nature of the operations or re-examination of the financial statements and it is necessary or more appropriate to modify some figures to provide a clearer information to the stakeholders, the comparative figures will be reclassified in order to improve the comparability of the information between the years. In such a case, if significant, appropriate information in the notes to the separate financial statements will be provided. In accordance with art. 3 of Consob resolution n. 18079 of January 20th, 2012 the Company adopt the waiver resulting in art. 70 c. 8 and 71 c. 1-bis of Consob regulation n. 11971/99 (and subsequent modifications) in connection with making available, to third parties, all the documents related to mergers, corporate splits, capital increases, acquisitions and disposals in the corporate headquarter.

3. Evaluation methods and accounting standards

The accounting standards applied to the preparation of the Separate Financial Statements are consistent with those applied to the preparation of the Separate Financial Statements at December 31st, 2017, except for the information reported below in relation to any amendments, interpretations and new accounting standards applicable from January 1st, 2018.

Accounting standards, amendments and interpretations endorsed by the European Union, which are applicable from January 1st, 2018 and which were first adopted in TOD'S S.p.A. separate financial statements at December 31st, 2018

- *IFRS 15: Revenue from Contracts with Customers*. On May 28th, 2014 the IASB published a document, which was endorsed by the European Union on September 22nd, 2016 and which requires an entity to recognise revenue at the time the control of goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods or services. In order to achieve this purpose, the new revenue recognition model sets out a process in five steps: i) identifying the contract with a customer, which is defined as an agreement between two or more parties that creates enforceable rights and obligations; ii) identifying the performance obligations (POs) in the contract; iii) determining the transaction price, i.e. the amount of consideration to which an

entity expects to be entitled in exchange for transferring promised goods or services to a customer; iv) allocating the transaction price to the performance obligations, on a standalone selling price basis; v) recognising revenue when the entity satisfies a performance obligation through the transfer of goods or services. The standard sets specific indicators to allow the identification of the method to satisfy a PO: a) "a period of time": specific methods of measuring progress; b) "At a point in time": the entity satisfies the PO at a point in time.

The new standard also requires additional disclosures regarding the nature, amount, timing and uncertainty relating to revenues and cash flows arising from these contracts with customers.

Furthermore, on April 12th, 2016 the IASB published amendments to the standard: *Clarifications to IFRS 15 Revenue from Contracts with Customers*, which are also applicable as from January 1st, 2018. These amendments are aimed at clarifying the procedures to identify an entity as a "Principal" or as an "Agent" and to establish whether revenues from licences must be deferred throughout the term thereof.

- **IFRS 9: *Financial Instruments*.** On July 24th, 2014 the IASB published the final document constituting the conclusion of the process, divided into three phases: Classification and Measurement, Impairment and General Hedge Accounting, entirely revising IAS 39. The document introduces new requirements for classifying and measuring financial assets and liabilities. Specifically, as regards financial assets, the new standard adopts a single approach based on how the financial instruments are managed (business models) and on the contractual cash flow characteristics (SPPI, Solely Payments of Principal and Interest) of the financial assets themselves in order to determine the related valuation method, aiming at eventually replacing the various rules laid down under IAS 39.

The three new categories of financial assets introduced by the new standard are: i) hold to collect (HTC), which includes financial instruments measured at amortised cost that the management holds to collect contractual cash flows; ii) fair value through other comprehensive income (FVTOCI): the management's objective is both to hold the instrument in order to collect contractual cash flows and to sell financial assets; iii) fair value through profit or loss (FVTPL) is a residual category under which the management adopt a business model that involves the creation of a trading portfolio.

As regards financial liabilities, the main amendment concerns the method of accounting for fair value changes in a financial liability designated as at fair value through profit or loss, which are due to own credit of the financial liability itself. According to the new standard, these changes must be recognised in the statement of comprehensive income (OCI, Other comprehensive income), without affecting profit or loss.

The main developments relating to hedge accounting are:

- a) Changes in the type of transactions that qualify for hedge accounting; specifically, a more extensive range of risks has been introduced for non-financial assets/liabilities that qualify for hedge accounting;
- b) Change in the method of accounting for forward contracts and options included in a hedge accounting relationship, in order to reduce profit or loss volatility;
- c) Changes in the effectiveness test by replacing the current methods based on the 80-125% range with the principle of the “economic relationship” between the hedged item and the hedging instrument; furthermore, entities are no longer required to perform an assessment of the retrospective effectiveness of the hedging relationship.

A greater flexibility of the accounting methods is offset by improved disclosures on the risk management activities carried out by entities.

The new document includes a single model for the impairment of financial assets based on expected losses. On January 1st, 2018 the additions to Amendments to IFRS 9, *Financial instruments on general hedge accounting* became applicable, which amend some paragraphs of IFRS 9, adding chapter 6 “Hedge accounting”, in order to simplify the understanding of the new standard.

The adoption of this standard has not had any significant impact on the Company’s financial statements.

- *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.* These amendments were issued by the IASB on September 12th, 2016, endorsed by the European Union on November 3rd, 2017. The amendments were intended to address concerns about the application of IFRS 9 on financial instruments before the introduction of the new insurance contract standards. Furthermore, the amendments provide two options for entities that enter into insurance contracts within the scope of IFRS 4: i) an option that would permit entities to reclassify, from profit or loss to comprehensive income, some of the income or expenses arising from designated financial assets; and (ii) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.

The adoption of this standard has not had any impact on the Company’s financial statements.

- *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions.* These amendments, which were published by the IASB on June 20th, 2016, provide some clarifications relating to the method of accounting for the effects of vesting conditions in the case of cash-settled share-based payments, the classification of share-based payments on a net settlement basis and any change in the terms and conditions of a share-based payment implying its reclassification from cash-settled to equity-settled items.

The adoption of this standard has not had any impact on the Company's financial statements.

- Amendments to IAS 40: *Regarding transfers of investment property*, issued by the IASB on December 8th, 2016. The amendment provides as follows: i) paragraph 57 of IAS 40 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use; ii) the list of evidence in paragraph 57(a) – (d) is designated as non-exhaustive list of examples.

The adoption of this standard has not had any impact on the Group's financial statements.

- Amendment to IFRIC 22: *Foreign Currency Transactions and Advance Consideration*. This document, which was issued by the IASB on December 8th, 2016, covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation need not be applied to income taxes, insurance or reinsurance contracts.

The adoption of this interpretation has not had any significant impact on the Company's financial statements.

- “Annual improvements to IFRSs: 2014-2016 Cycle”, issued by the IASB on December 8th, 2016. This session concerned the following topics: i) IFRS 1: short-term exemptions provided for in paragraphs E3-E7 are eliminated, since the reasons for their provision have ceased to exist; ii) IFRS 12: it has been clarified that the information required by the standard, except for paragraphs B10-B16, must be applied to the entities listed in paragraph 5, which are classified as “held for sale”, “held for distribution” or “discontinued operations” in accordance with IFRS 5; iii) IAS 28: it is clarified that it is possible to make the decision to measure, at fair value through profit or loss, any investment in a subsidiary or a joint venture held by a venture capital company, in relation to each investment in subsidiaries or joint ventures since their initial recognition; iv) amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures*, according to which IFRS 9 must be applied to long-term receivables from an associate or a joint venture that in practice form part of the investment in the associate or joint venture.

The adoption of this standard has not had impact on the Company's financial statements.

Accounting standards, amendments and interpretations endorsed by the European Union, which will be applicable from January 1st, 2019 or later and not early adopted by TOD'S S.p.A.

- IFRS 16: *Leases*. In January 2016 the IASB published a document for the initial recognition, measurement, presentation and disclosure of lease agreements for both the parties to a contract, aimed at replacing IAS 17 Leasing. The document is not applicable to service contracts

but only to lease agreements or to the leasing components of other contracts. The standard defines the lease as an agreement that transfers the right of use of an asset to the customer (lessee) for a certain period of time and in exchange for a consideration. The new standard eliminates the classification based on finance and operating leases and introduces a single accounting method that provides for the recognition of assets and liabilities for all the leases with a term of more than 12 months and the separate recognition of amortisation, depreciation and interest expense through profit or loss. As regards the lessor, no significant changes were made to the accounting method with respect to the provisions that are currently set out under IAS 17.

IFRS 16 was endorsed by the European Union on October 31st, 2017 and will become effective from January 1st, 2019.

Based on the current state of progress of the internal analysis, still in progress, conducted on the main existing contracts, aimed at finding the information base necessary to outline the economic and financial effects of this new principle, it comes out that, according to a first estimate of the impact of the transition, the value of the initial financial liability, to be recognized as at January 1st, 2019, would be comprised in a range between 35 and 40 million euros.

- Amendments to IFRS 9: *Financial instruments on prepayment features with negative compensation*. On October 12th, 2017 the IASB issued amendments to IFRS 9 to clarify the classification of certain financial assets, whose early repayment is permitted when IFRS 9 applies. Specifically, if the financial asset contains a contractual clause that might change the timing or amount of contractual cash flows, the entity must determine whether the contractual cash flows that might arise during the life of the instrument under said clause only consist of payments of principal and interest accrued on the capital amount to be repaid. The IASB has set the date of first-time adoption of the amendments at January 1st, 2019, with early adoption permitted. After having consulted the European Financial Reporting Advisory Group (EFRAG), the Commission has concluded that the amendments to IFRS 9 meet the adoption requirements set out in Article 3.2 of Regulation (EC) 1606/2002.

The European Union endorsed these amendments by Regulation (EU) 2018/498 of 22 March of 2018, which makes amendments to Regulation (EC) 1126/2008.

Based on a preliminary analysis, the adoption of these amendments will not have impact on the Company.

- IFRIC 23: *Uncertainty over Income Tax Treatments*. On June 7th, 2017 the IASB issued IFRIC 23 "Uncertainty over Income Tax Treatments", providing instructions to account for (current and/or deferred) tax assets and liabilities relating to income tax as a result of uncertainties in

the application of tax regulations.

The provisions of IFRIC 23 will be effective for periods beginning on or after January 1st, 2019. This standard was endorsed in October 2018.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

- *Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures.* On October 12th, 2017 the IASB issued Amendments to IAS 28 to clarify the application of IFRS 9 Financial Instruments for long-term interests in subsidiaries or joint ventures for which the equity method is not applied. The provisions of Amendments to IAS 28 will be effective for periods beginning on or after January 1st, 2019. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

Accounting standards, amendments and interpretations published by the IASB but not yet endorsed by the European Union.

- *IFRS 17: Insurance Contracts.* On May 18th, 2017 the IASB issued IFRS 17 "Insurance contracts", which sets out the principles for the recognition, measurement, presentation and disclosure of insurance contracts included in the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts, in order to give a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, economical performance and cash flows. On June 21th, 2018 the IASB provided clarifications concerning the standard in order for the related interpretation to reflect the decisions made by the Board. The board has accepted to clarify some issues concerning the contracts subject to variable rates and issues correlated to IFRS 3 "Business combinations". The provisions of IFRS 17 will become effective from periods beginning on or after January 1st, 2021.

Based on a preliminary analysis, the possible future adoption of this standard should not have significant impact on the Company's financial statements.

- *Amendments to IAS 19: Employee benefits'- Plan amendment, Curtailment or settlement.* On February 7th, 2018 the IASB issued these amendments to clarify how to calculate pension costs when there is a change in defined-benefit plans. The provisions of Amendments to IAS 19 will become effective from periods beginning on or after January 1st, 2019.

Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company's financial statements.

- *IFRS 14: Regulatory deferral accounts.* On 30 January 2014 the IASB published IFRS 14 that

only allows entities which are first-time adopters of IFRS to continue to recognise the amounts subject to rate regulation according to the accounting standards previously adopted. The standard has not yet been endorsed by the European Union.

Based on a preliminary analysis, the possible future adoption of this standard should not have significant impact on the Company's financial statements.

- *"Annual improvements to IFRSs 2015-2017 cycle"*. In December 2017 the IASB published these improvements, which included the major amendments to IFRSs: a) IAS 12 Income Taxes. The proposed amendments clarify that an entity should recognise any and all tax effects (tributary relative) concerning the distribution of dividends; b) IAS 23 Borrowing Costs: the proposed amendments clarify that if the specific loans required for the purchase and/or construction of an asset remain outstanding even after that the asset is ready for use or sale, these loans cease to be regarded as specific and therefore are included in the entity's general financing items for the purposes of determining the capitalisation rate of loans; c) IAS 28 "Investments in Associates and joint ventures – Long-term interests in an associate or joint venture". The proposed amendments clarify that IFRS 9 "Financial Instruments", including impairment requirements, also applies to other financial instruments held for a long period of time and issued to an associate or joint venture. The amendments will become effective from January 1st, 2019, with early adoption permitted.

Based on a preliminary analysis, the possible future adoption of this standard should not have significant impact on the Company's financial statements.

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Asset between an Investor and its Associate or Joint Venture. On September 11th, 2014 the IASB published these amendments, firstly setting the effective date at January 1st, 2016, and subsequently postponing the date of first-time adoption to a date to be determined. These amendments were issued to resolve a conflict existing between the provisions laid down under IFRS 10 and those under IAS 28. Furthermore, the IASB and the interpretations committee have concluded that it is necessary to recognise a full gain or loss arising from the loss of control over an entity, regardless of whether the entity is hosted in a subsidiary company or not.

Based on a preliminary analysis, the possible future adoption of this standard should not have significant impact on the Company's financial statements.

- Amendments to IAS 1 and IAS 8 regarding the definition of materiality. The amendment was published by the IASB on October 31st, 2018 and provides for a different definition of "material", i.e. "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information

about a specific reporting entity.”.

The amendments will be effective for annual periods beginning on or after January 1st, 2020, with early adoption permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have any significant impact on the Company’s financial statements.

- **Amendment to IFRS 3 - *Business combinations*.** On October 22nd, 2018 the IASB issued the document named “Definition of a Business (Amendments to IFRS 3)” aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments will be effective for business combinations for which the date of acquisition falls on or after January 1st, 2020, with early adoption permitted. Based on a preliminary analysis, the possible future adoption of this standard should not have significant impact on the Company’s financial statements.
- On March 29th, 2018 the IASB published its revised Conceptual Framework for Financial Reporting.

The major amendments with respect to the 2010 version concern: i) a new chapter on measurement; ii) improved definitions and guidance, with specific reference to the definition of liability; iii) clarifications of important concepts, such as stewardship, prudence and uncertainty in measurements.

A document has been published which updates the IFRS references to the former Conceptual Framework. The amendments, where they consist of actual updates, will be effective for annual periods beginning on or after January 1st, 2020.

The standards listed herein are not applicable since they have not yet been endorsed by the European Union, which, during the endorsement process, may adopt only partially these standards or not adopt them at all.

3.1 Use of estimates. Preparation of the financial statements and notes in conformity with IFRS requires that management make judgments, estimates and assumptions which impact on the values reported for assets and liabilities, as well as disclosures relating to contingent assets and liabilities at the balance sheet date and on the values of revenues and expenses reported on the current period. Estimates and assumptions are based both on elements noted at the date of the reference period, on historical data and other elements deemed significant, as at the end of the accounting period of reference.

3.2 Transactions in foreign currency. The functional currency (the currency used in the principal economic area where the company operates) used to present the financial statements is the euro. Foreign currency transactions are translated into the functional currency by applying

the exchange rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the financial statements are translated by using the exchange rate in effect at the closing date. Non-monetary assets and liabilities are valued at their historical cost in foreign currency and translated by using the exchange rate in effect at the transaction date.

The foreign exchange differences arising upon settlement of these transactions or translation of cash assets and liabilities are recognized on the profit and loss account.

3.3 Derivative financial instruments. The fundamental characteristics of the derivative financial instruments are set out in the paragraph on Financial Assets and in the paragraph on Loans. The company uses derivative financial instruments (mainly currency forward contracts) to hedge the risks stemming from foreign exchange exposure deriving from its operating activity and to hedge interest rate risks on loans, without any speculative or trading purposes, and consistently with the strategic policies of cash management dictated by the Board of Directors. When derivative transactions refer to a risk connected with the variability of forecast transaction cash flow, they are recognized according to the rules for cash flow hedge until the transaction is recorded on the books. Subsequently, the derivatives are treated in accordance with fair value hedge rules, insofar as they can be qualified as instruments for hedging changes in the value of assets or liabilities carried on the balance sheet.

Applying IFRS 9, derivatives financial instruments are accounted in accordance with the hedge accounting method which envisages posting derivatives on the balance sheet at their fair value. Posting of the changes in fair value varies according to the type of hedging at the valuation date:

- for derivatives that hedge forecast transactions (i.e. cash flow hedge), the changes are recognized in the other comprehensive income, while the portion for the ineffective amount is recognized on the profit and loss account, under financial income and expenses; differences in fair value already recognized on specific reserves are booked in profit and loss, adjusting operating margins, once hedged items (trade receivables/payables) have been already recognized. For hedging derivatives related to interest rate risks on loans, the change in fair value, already recognized in the cash flow hedge reserve, are booked in profit and loss, adjusting financial income/charges once hedged items (financial receivables/liabilities) have been already recognized;
- for derivatives that hedge receivables and payables recognized on the balance sheet (i.e. fair value hedge), the fair value differences are recognized entirely on the profit and loss account, under financial income and expenses. Furthermore, the value of the hedged

item (receivables/payables) is adjusted for the change in value attributable to the hedged risk, using the item financial income and expenses as a contra-entry.

The criteria established by IFRS 9 for a hedging relationship to qualify for hedge accounting are the following:

- a) the hedging relationship consists solely of both hedging instruments and hedged items that comply with the provisions of IFRS 9;
- b) at the beginning of the hedging relationship there is a formal designation and documentation of the same hedging relationship together with the objectives and risk management strategies underlying the hedge;
- c) the hedging relationship complies with the provisions of IFRS 9 regarding the effectiveness of the hedge.

3.4 Intangible fixed assets.

iii. **Goodwill.** All business combinations are recognized by applying the acquisition method. Goodwill is measured at the acquisition date as the excess of the assets and liabilities recognised in accordance with IFRS 3 and the fair value of consideration transferred including the amount of any non-controlling interests recognised.

If the company's interest in the fair value of assets, liabilities, and identifiable potential liabilities exceeds the cost of the acquisition (negative goodwill) after redetermination of these values, the excess is immediately recognized on the profit and loss account.

For acquisitions prior to January 1st, 2005, the date of transition to IAS/IFRS, goodwill retained the values recognized on the basis of the previous Italian GAAP, net of accumulated amortization up to the transition date.

Goodwill is recognized on the financial statements at its cost adjusted for impairment losses. It is not subject to amortization, but the adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section *Impairment losses*.

ii. **Trademarks.** These are recognized according to the value of their cost and/or acquisition, net of accumulated amortization at the date of transition to IAS/IFRS. Trademarks TOD'S, HOGAN and FAY are classified as intangible fixed assets with an indefinite useful life and thus are not amortized, insofar as:

- they play a primary role in company strategy and are an essential driver thereof;
- the corporate structure, construed as organized property, plant, and equipment, and organization itself in a figurative sense, is closely correlated with and dependent on dissemination and development of the trademarks on the markets;

- the trademarks are proprietary, properly registered, and constantly protected pursuant to law, with options for renewal of legal protection, upon expiration of the registration periods, that are not burdensome, easily implemented, and without external impediments;
- the products sold by the company with these trademarks are not subject to particular technological obsolescence, which is characteristic of the luxury market in which the company operates; on the contrary, they are consistently perceived by the market as being innovative and trendy, to the point of being models for imitation or inspiration;
- in the national and/or international context characteristic of each trademark, they are distinguished by market positioning and notoriety that ensures their dominance of the respective market segments, being constantly associated and compared with benchmark brands;
- in the relative competitive context, it can be affirmed that the investments made for maintenance of the trademarks are proportionately modest with respect to the large forecast cash flows.

The adequacy of the values is annually subjected to the impairment test, in accordance with the rules set forth in the section *Impairment losses*.

iii. Research and development costs. The research costs for a project are charged fully to the profit and loss account of the period in which they are incurred.

The development costs of an activity are instead capitalized if the technical and commercial feasibility of the relative activity and economic return on the investment are certain and definite, and the company has the intention and resources necessary to complete the development.

The capitalized costs include the costs for materials, labor, and an adequate portion of indirect costs. They are recognized at cost, net of accumulated amortization and depreciation (see below) and impairment losses.

iv. Other intangible fixed assets. These are identifiable non-monetary intangible assets under the control of the company and capable of causing the company to realize future economic benefits.

They are initially recognized at their purchase cost, including expenses that are directly attributable to them during preparation of the asset for its intended purpose or production, if the conditions for capitalization of expenses incurred for internally generated expenses are satisfied.

The cost method is used for determining the value reported on subsequent statements, which entails posting the asset at its cost net of accumulated amortization and write-downs for impairment losses.

v. **Subsequent capitalizations.** The costs incurred for these intangible fixed assets after purchase are capitalized only to the extent that they increase the future economic benefits of the specific asset they refer to. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

vi. **Amortization.** Intangible fixed assets (excluding those with an indefinite useful life) are amortized on a straight-line basis over the period of their estimated useful life, starting from the time the assets are available for use.

3.5 Tangible fixed assets and Investments properties.

i. **Property, plant, and equipment owned by the company.** They are first recognized at their purchase cost or at the cost recalculated at the date of transition to IFRS, including any directly attributable ancillary expenses.

Following first-time recognition, these assets are reported net of their accumulated depreciation and impairment losses (i.e. in accordance with the Cost Model).

For those assets whose depreciation must be calculated using the component approach, the portions of cost allocable to the individual significant components characterized by a different useful life are determined. In this case, the value of land and buildings is kept separate, with only buildings being depreciated.

ii. **Leasing.** Lease agreements in which the Company assumes all the risks and benefits deriving from ownership of the asset are classified as finance leasing. The assets (real estate, plant, and machinery) possessed pursuant to these agreements are recorded under property, plant, and equipment at the lower of their fair value on the date the agreement was made, and the current value of the minimum payments owed for leasing, net of accumulated depreciation and any impairment losses (according to the rules described in the section *Impairment losses*). A financial payable for the same amount is recognized instead under liabilities, while the component of interest expenses for finance leasing payments is reported on the profit and loss account according to the effective interest method.

iii. **Subsequent capitalizations.** The costs incurred for property, plant, and equipment after purchase are capitalized only to the extent that they increase the future economic benefits of the asset. All the other costs are charged to the profit and loss account in the fiscal year in which they are incurred.

iv. **Investments properties.** Real estate investments are originally recognized at cost, and then recognized at their cost as adjusted for accumulated depreciation and impairment losses.

Depreciation is calculated on a systematic, straight-line basis according to the estimated useful life of the buildings.

v. **Depreciation.** Property, plant, and equipment were systematically depreciated at a steady rate according to the depreciation schedules defined on the basis of their estimated useful life. Land is not depreciated. The principal depreciation rates applied are as follows:

	% depreciation
Industrial buildings	3%
Machinery and plant	12,5%
Equipments	25%
Forms and punches, clichés, molds and stamp	25%
Furniture and furnishings	12%
Office machines	20%
Car and transport vehicles	20%-25%

The photovoltaic system is depreciated over a period of 20 years. The costs for leasehold improvements, which mainly include the costs incurred for set up and modernization of the DOS network and all the other real estate that is not owned but used by the company (and thus instrumental to its activity) are depreciated according to the term of the lease agreement or the useful life of the asset, if this is shorter.

3.6 Impairment losses. In the presence of indicators, events, or changes in circumstances that presume the existence of impairment losses, IAS 36 envisages subjecting intangible fixed assets and property, plant and equipment to the impairment test in order to assure that assets with a value higher than the recoverable value are not recognized on the financial statements. This test is performed at least once annually for non-current assets with an indefinite life in the same way as that used for non-current assets that have not yet been placed in service.

Confirmation of the recoverability of the values recognized on the balance sheet is obtained by comparing the book value at the reference date and the fair value less costs to sale (if available) or value in use. The value in use of a tangible or intangible fixed asset is determined according to the estimated future financial flows expected from the asset, as discounted through use of a rate net of taxes, which reflects the current market value of the present value of the cash and risks related to Group's activity.

If it is not possible to estimate an independent financial flow for an individual asset, the cash generating unit to which the asset belongs and with which it is possible to associate future cash

flows that can be objectively determined and independent from those generated by other operating units is identified. Identification of the cash generating units was carried out consistently with the organizational and operating architecture of the Group.

If the impairment test reveals an impairment loss for an asset, its book value is reduced to the recoverable value by posting a charge on the profit and loss account.

When the reasons for a write-down cease to exist, the book value of the asset (or the cash generating unit), with the exception of goodwill, is increased to the new value resulting from the estimate of its recoverable value, but not beyond the net book value that the asset would have had if the impairment loss had not been charged. The restored value is recognized immediately on the profit and loss account.

3.7 Investments in subsidiaries and associated companies. The investments in subsidiaries, joint ventures, and associated companies that are not classified as held for sale in compliance with IFRS 5 are recognised at their historic cost. The value recognised on the financial statements is subjected to the impairment test, in case of trigger events, as envisaged by IAS 36, and adjusted for any impairment losses; the write-off are reversed in case the conditions determining the adjustment no longer exists or has decreased.

3.8 Financial assets.

Financial assets are recognized in the financial statements from the moment in which the Company acquires the legal right to realize the cash flows arising from these assets based on contractual provisions. Financial assets are eliminated from the assets of the balance sheet if and only if the contractual right to obtain the cash flows from the same assets has expired or if these financial assets have been transferred and this transfer meets the requirements of IFRS 9 for elimination from the balance sheet.

Financial assets are initially recognized at fair value, which generally correspond with the initial transaction price, net of transaction costs that are directly attributable to the acquisition or issue of the same financial asset.

Following the initial registration, financial assets are recognised according to one of the following methods:

- a) amortized cost;
- b) fair value with related changes booked to the other comprehensive income;
- c) fair value with related changes recognized in the income statement.

In application of the provisions of IFRS 9 regarding the classification and therefore taking into account the Group's business model and the characteristics of the cash flows contractually

provided, it should be noted that the Company does not hold financial assets as per points b) and c) of which above except for what has already been commented previously on derivative financial instruments.

The financial assets are subject to the impairment procedure envisaged by IFRS 9 in order to reflect the expected losses arising from the same financial assets.

3.9 Inventories. These are recognized at the lower of purchase cost and their estimated disposal value. The net disposal value represents the best estimate of the net sales price that can be realized through ordinary business processes, net of any production costs not yet incurred and direct sales costs.

The cost of inventories is based on the weighted average cost method. The production cost is determined by including all costs that are directly allocable to the products, regarding – for work in progress and/or semi-finished products – the specific stage of the process that has been reached. The values that are thus obtained do not differ appreciably from the current production costs referring to the same classes of assets.

A special depreciation reserve is set aside for the portion of inventories that are no longer considered economically useable, or with a presumed disposal value that is less than the cost recognized on the financial statements.

3.10 Trade receivables and other receivables. They are initially recognized at fair value, which generally coincides with the initial transaction price, net of transaction costs that are directly attributable to the acquisition or issue of the asset. Following the initial recognition, they are valued at amortized cost using the effective interest method. In application of IFRS 9, they are subjected to the impairment procedure in order to reflect the expected losses arising from the same receivables by adjusting the entry value with a specific provision for bad debts thus determined:

- i. receivables under litigation, with certain and precise evidence documenting the impossibility of collecting them, have been analytically identified and then written down;
- ii. for other bad debts, prudent allowances for write-downs have been set aside, estimated on the basis of information updated at the date of this document, also taking into account the expected losses over the life of the receivable.

3.11 Cash and cash equivalents. This includes cash on hand, bank demand deposits, and financial investments with a maturity of no more than three months. These assets are highly liquid, easily convertible into cash, and subject to a negligible risk of change in value.

3.12 Assets and liabilities held for sale. Non-current assets (or disposal groups) are classified as available for sale when their carrying amount is recovered through a sale transaction rather than through continuing use. They are not depreciated and are measured at the lower of carrying amount and fair value, less costs to sell. Assets available for sale and related liabilities are presented separately from other assets and liabilities in the statement of financial position. TOD'S Group doesn't held any assets and liabilities held for sale.

3.13 Reserve for employee. Employee benefits include (i) short-term employee benefits such as wages, salaries and related social security contributions, accrued but not yet paid, paid annual leave and paid sick leave, etc.; (ii) post-employment benefits, such as pensions or retirement benefits; (iii) other long-term benefits; and (iv) termination benefits.

Short-term benefits are recognised periodically on an accruals basis and are made up of liabilities to employees that have not been settled by the reporting date.

Post-employment benefits are divided into two categories:

i. **Defined contribution plans.** The payments for eventual defined contribution plans are charged to the profit and loss account in the period that they are owed.

ii. **Defined benefit plans.** The costs of defined benefit plans are calculated using the Projected Unit Credit Method, carrying out the actuarial measurements at the end of each financial year. Past service costs are recognised immediately to the extent that these benefits have already accrued; otherwise they are amortised on a straight-line basis within the average period within which the benefits are expected to accrue. The financial costs that have accrued on the basis of the annual discounting rate are recognised in the income statement immediately. Actuarial gains and losses are recognised through other changes in comprehensive income under the specific equity item. Liabilities for post-employment benefits recognised in the financial statements represent the present value of liabilities for defined benefit plans. On the other hand, there are no other long-term employee benefits or termination benefits in the financial statements.

iii. **Share based payments.** The payments based on shares are assessed at their fair value on the assignment date. This value is recognized on the profit and loss account on a straight-line basis throughout the period of accrual of the rights. This allocation is made on the basis of a management estimate of the stock options that will actually accrue in favor of vested employees, considering the conditions for use thereof.

The fair value is determined by using the binomial method. No share based payments result in the current consolidated financial statements.

3.14 Payables.

- i. **Bank overdrafts and financing.** Interest-bearing financing and bank overdrafts are initially recognized at fair value net of transaction costs, and subsequently valued at the amortized cost, using the effective interest method.
- ii. **Trade payables and other payables.** These are measured at fair value which generally correspond to their nominal value.

3.15 Provisions for risks. These are certain or probable liabilities that have not been determined at the date they occurred and in the amount of the economic resources to be used for fulfilling the obligation, but which can nonetheless be reliably estimated. They are recognized on the balance sheet in the event of an existing obligation, legal or constructive, resulting from a past event, and it is likely that the company will be asked to satisfy the obligation.

If the effect is significant, and the date of the presumed discharge of the obligation can be estimated with sufficient reliability, the provisions are recognized on the balance sheet discounting future cash flows.

The provisions that can be reasonably expected to be discharged twelve months after the reference date are classified on the financial statements under non-current liabilities. Instead, the provisions for which the use of resources capable of generating economic benefits is expected to take place in less than twelve months after the reference date are recognized as current liabilities.

3.16 Share capital.

- i. **Share capital.** The total value of shares issued by the parent company is recognized entirely under shareholders' equity, as they are the instruments representing its capital.
- ii. **Treasury stock.** The consideration paid for buy-back of share capital (treasury stock), including the expenses directly related to the transaction, is subtracted from shareholders' equity.

3.17 Dividends. The allocation of dividends to persons possessing instruments representing share capital after the reference date of the financial statement is not recognized under financial liabilities on the same reference date.

3.18 Revenues recognition.

Revenues are recognized in the income statement when the contractual obligation relating to the transfer of goods or services has been satisfied. An asset is considered transferred to the end customer when the latter obtains control over the asset itself.

With reference to the main transactions realized by the Company, revenues are recognized on the basis of the following principles:

- i. **Sales of goods – retail.** The Company operates in the retail channel through its DOS network. Revenues are recognised when the goods are delivered to customers. Sales are usually collected in the form of cash or through credit cards.
- ii. **Sales of goods – wholesale.** The Company distributes products on the wholesale market. Following the analysis carried out for the purposes of the first application of the accounting standard IFRS 15 (January 1st, 2018), it was decided that, with regard to this type of transaction, there is a single performance obligation. In particular, the related revenues are accounted for when the customer obtains control of the goods shipped (at a point in time) and taking into account the estimated effects of year-end returns. Following the application of IFRS 15, starting from these financial statements, the representation of the liability for returns to be received in the consolidated statement of financial position has been changed, recording separately, instead of the previous net representation among the Other liabilities (so-called Fund returns), a liability, among the Other Liabilities, express debt repayment of the returns (contract liability) and an asset, among the Inventories, expressing the right to recover the products for returns (contract assets).
- iii. **Provision of services.** These revenues are accounted for in proportion to the stage of completion of the service rendered at the reference date and in accordance with contractual provisions.
- iv. **Royalties.** Royalties in connection with the licensing of the sale of products (sales-based royalties) or the use of certain assets (usage-based royalties) are recognized in the financial statements when the aforementioned sale or use has occurred or, if later, when the obligation to which the royalty refers has been satisfied.

3.19 Financial income and expenses. These include all financial items recognized on the profit and loss account for the period, including interest expenses accrued on financial payables calculated by using the effective interest method (mainly current account overdrafts, medium-long term financing), foreign exchange gains and losses, gains and losses on derivative financial instruments (according to the previously defined accounting principles), received dividends, the

portion of interest expenses deriving from accounting treatment of assets held under finance leasing (IAS 17) and employee reserves (IAS 19).

Interest income and expenses are recognized on the profit and loss account for the period in which they are realized/incurred, with the exception of capitalized expenses (IAS 23).

Dividend income contributes to the result for the period in which the company accrues the right to receive the payment.

3.20 Income taxes. The income taxes for the period include determination both of current taxes and deferred taxes. They are recognized entirely on the profit and loss account and included in the result for the period, unless they are generated by transactions recognized directly to shareholders' equity during the current or another period. In this case, the relative deferred tax liabilities are also recognized under shareholders' equity.

Current taxes on taxable income for the period represent the tax burden determined by using the tax rates in effect at the reference date, and any adjustments to the tax payables calculated during previous periods.

Deferred tax liabilities refer to the temporary differences between the book values of assets and liabilities on the balance and the associated values relevant for determination of taxable income. For all temporary taxable differences, it is recognized the tax liability with the exception of liabilities deriving from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, does not influence either the income (loss) reported on the financial statements or taxable income (tax loss).

Deferred tax assets and liabilities are compensated if and only if there is an executive right to compensate the related current taxes and if deferred tax assets and liabilities are related to income taxes applied by the same tax authority.

Deferred tax assets deriving from temporary deductible differences are recognized on the financial statements only to the extent that it is likely that taxable income will be realized for which the temporary deductible difference can be used. No recognition is posted in case the difference between the carrying amounts and the tax bases relate to goodwill arising from business combinations.

The taxes in question (deferred tax assets and liabilities) are determined on the basis of a forecast of the assumed percentage weight of the taxes on the income of the fiscal years in which the taxes will occur, taking into account the specific nature of taxability and deductibility. The effect of change in tax rates is recognized on the profit and loss account of the fiscal year in which this change takes place. The accrual for taxes that could arise from the transfer of non-

distributed profits from subsidiaries are posted only when there is the real intention to transfer such profits.

3.21 Statement of cash flows. The statement of cash flows is drafted using the “indirect” method. The net financial flows of operating activity are determined by adjusting the result for the period of the effects deriving from change to net operating working capital, non-monetary items, and all the other effects connected with investment and financing activities.

Net cash and cash equivalents are made up cash and cash equivalents net of bank overdrafts.

4. Management of financial risks

The company has implemented a system for monitoring its financial risks in accordance with the guidelines set out in the Corporate Governance Code of Listed Companies. As part of this policy, the financial risks connected with its operations are constantly monitored in order to assess their potential negative impact and undertake appropriate action to mitigate them. These risks are analysed as follows, highlighting the company's level of exposure. It also includes a sensitivity analysis designed to quantify the potential impact of hypothetical fluctuations in benchmark parameters on final results.

i. Credit risk

Credit risk represents the exposure to potential losses stemming from failure to discharge obligations towards trading counterparties. The company generates its revenues through three main channels: Group companies (directly operated store network), franchisees and customers (multi-brand). There is practically no credit risk on receivables from the Company, since almost all the entities belonging to the TOD'S Group are wholly owned by the Group. The receivables from independent customers (*franchisee e wholesale*), are subject to a hedging policy designed to streamline credit management and reduce the associated risk. In particular, company policy does not envisage granting credit to customers, while the creditworthiness of all customers, both long-standing and potential ones, is periodically analysed in order to monitor and prevent possible solvency crises.

The following table shows the ageing of trade receivables to third parties (and thus excluding intercompany positions) outstanding at December 31st, 2018 gross of allowances for doubtful accounts:

euro 000's	Current	Overdue			Total
		0>60	60>120	Over	
Third Parties	49,030	16,448	4,872	9,183	79,534

The prudent estimate of losses on the entire credit mass existing at December 31st, 2018 was 6.4 million euros. The total amount of overdue receivables at December 31st, 2018 for 30.5 million euros is now about 16.6 million euros.

ii. Liquidity risk

The liquidity risk represents the risk stemming from the unavailability of financial resources as necessary to meet the short-term commitments assumed by the Company and its own financial requirements. The main factors that determine the degree of liquidity are the resources generated or used by operating and investment activities and, on the other hand, the due dates or renewal dates of its payables or the liquidity of its financial investments and market conditions.

This risk is limited by taking actions aimed at ensuring a balanced structure of the Company's capital and by maintaining such a level of cash and cash equivalents as is required to meet its financial debt requirements at the relevant maturity dates in an adequate manner. Particular attention is paid to the definition of the credit counterparty that is considered to be suitable for cash operations and that is identified according to increasingly selective liquidity, security and yield criteria and in line with the Management's instructions.

The table below shows the credit lines already used and available at December 31st, 2018 compared with December 31st, 2017:

Credit lines				
euro 000's	Cash Credit lines	Self-liquidating Credit lines	Financial Credit lines	Total
12.31.18				
Credit lines	34,800	151,000	450,000	635,800
Utilizations				
Credit lines available as of 12.31.18	34,800	151,000	450,000	635,800
12.31.17				
Credit lines	41,000	161,000	300,000	502,000
Utilizations				
Credit lines available as of 12.31.17	41,000	161,000	300,000	502,000

Furthermore, it should be noted that, TOD'S S.p.A., in order to borrow the liquid funds needed to meet any possible requirement connected with ordinary business activities and general corporate operations, entered into the following loan agreements, which are related to medium/long-term revolving credit facilities:

- i) Banco BPM S.p.A. signed on January 26th, 2018 for a maximum amount of 100 million euros with expiring date on January 26th, 2022;

- ii) Crédit Agricole Corporate and Investment Bank and Cassa di Risparmio di Parma e Piacenza S.p.A. (Crédit Agricole Group), signed on January 27th, 2016, and renewed on December 5th, 2018, for a maximum amount of 100 million euros, with expiring date on December 5th, 2021;
- iii) Unicredit S.p.A., signed on November 9th 2016, and renewed on November 7th, 2018, for a maximum amount of 100 million euros, with expiring date on November 8th, 2021;
- iv) B.N.L. S.p.A., signed on November 28th 2016, and renewed on December 21st, 2018, for a maximum amount of 100 million euros, with expiring date on November 28th, 2021;
- v) Intesa Sanpaolo S.p.A. signed on December 21st, 2018 for a maximum amount of 50 million euros, with expiring date on December 31st, 2021.

The above credit lines have not been used at December 31st, 2018.

Moreover, TOD'S S.p.A. signed, on December 21st, 2018, two new loan agreements with Intesa SanPaolo S.p.A., for a maximum amount of 125 million euros, and with B.N.L. S.p.A., for a maximum amount of 25 million euros, respectively. Both of them accrue interests to be computed on a variable rate equal to EURIBOR 3M plus a spread of 0.7% on the amount used. None of them have been used at December 31st, 2018, because, in order to optimize and to balance financial cash flows, they will be used during 2019, replacing the following loan agreements currently outstanding, at their respective expiring dates:

- i) loan with Intesa SanPaolo S.p.A. for 100 million euros expiring on January 29th, 2019;
- ii) loan with Intesa SanPaolo S.p.A. for 25 million euros expiring on April 27th, 2019;
- iii) loan with B.N.L. S.p.A. for 25 million euros expiring on May 4th, 2019.

The table below shows the maturity of the outstanding financial liabilities at December 31st, 2018 and 2017:

euro 000's	Within 1 year	Between 1 and 5 years	Beyond 5 years	Total
12.31.18				
Bank borrowings		69,666		69,666
Other non-current liabilities		8,869		8,869
Trade payables	145,665			145,665
Bank	167,999			167,999
Derivative financial instruments	2,842	672		3,514
Other current liabilities	2,587			2,587
Total	319,093	79,207		398,300
12.31.17				
Bank borrowings		137,572		137,572
Other non-current liabilities		10,287		10,287
Trade payables	157,268			157,268
Bank	46,176			46,176
Derivative financial instruments	2,020	1,197		3,217
Other current liabilities	1,063			1,063
Total	206,527	149,056		355,583

Considering the Company profitability and its capacity to generate cash, it's reasonable to believe that liquidity risk is not significant. Moreover, it should be noted that such capacity of generating cash may allow Company to meet these commitments in a period of time that is potentially shorter than that in which the loans and credit facilities are expected to be available. As regards financial operations, the corporate policy is to continue to invest all of its available liquid funds in sight bank deposits, without making use of financial instruments, including those of the money market, and dividing its deposits among an adequate number of banks, which are carefully selected by taking account of the remuneration of deposits, as well as on the basis of their reliability.

iii. Market risk

IFRS 7 includes in this category all risks that are directly or indirectly connected with the fluctuation in prices on physical and financial markets to which the company is exposed:

- exchange rate risk;
- interest rate risk;
- commodity risk, connected with the volatility of prices for the raw materials used in the production process.

The company is exposed to exchange rate and interest rate risk, since there is no physical market subject to actual fluctuations in the purchase prices for raw materials used in the production process.

The following paragraphs analyse the individual risks, using sensitivity analysis as necessary to highlight the potential risk on final results stemming from hypothetical fluctuations in benchmark parameters. As envisaged by IFRS 7, these analyses are based on simplified scenarios applied to the final results for the periods referred to. By their very nature, they cannot be considered indicators of the actual effects of future changes in benchmark parameters of a different asset and liability structure and financial position different market conditions, nor can they reflect the interrelations and complexity of the reference markets.

Exchange rate risk. Due to its commercial operations, the company is exposed to fluctuations in the exchange rates for currencies in which some of its commercial transactions are denominated (particularly USD, GBP, CHF and those of certain countries in the Far East), against a cost structure that is concentrated principally in the Eurozone. The company realises greater revenues than costs in all these currencies; therefore, changes in the exchange rate between the euro and the aforementioned currencies can impact the company's results.

Moreover, due to the geographical composition of the Company's subsidiaries, the Company is exposed to exchange rate risk related to intercompany financial flows (mainly dividends, loans, transactions on share capital).

The general objective of the risk management policy adopted by the Company involves minimizing the economic and transaction exchange risk realized through the conversion into euro of sales receipts in foreign currency, made during each season, net of reference costs, on the basis of an average exchange rate, in line with the relative exchange rate changes, together with the timely conversion into euro of present and future foreign currency cash flows (eg: bank loans, intercompany loans, etc.) based on interest rates market change. The company pursues these aims by entering into forward contracts for each individual currency to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency. These positions are not hedged for speculative or trading purposes, consistently with the strategic policies adopted for prudent management of cash flows.

The company defines its exchange risk a priori according to the reference period budget and then gradually hedges this risk upon acquisition of orders, in the amount according to which they correspond to budget forecasts. The process of hedging exchange rate risk is broken down into a series of activities that can be grouped into the following distinct phases:

- definition of operating limits;
- identification and quantification of exposure;
- implementation of hedges;
- monitoring of positions and alert procedures.

The Company monitors foreign exchange risk in intercompany financial transactions by monitoring the risk underlying outstanding liabilities (loans) and forecast liabilities (dividends and capital increases), in view of guaranteeing that no material operating and financial impact for the entities involved results from these transactions in relation to fluctuations in exchange rates. These goals are pursued by the Company through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects. These forward contracts are made to hedge the individual transactions, and not for speculation or trading. This is consistent with the strategic policies focused on prudent management of cash flows.

The breakdown of forward currency contracts (for sale and purchase) outstanding at December 31st, 2018 is illustrated in Note 14.

The assets and liabilities that are denominated in foreign currency are identified as part of the sensitivity analysis of exchange rates. In order to determine the potential impact on final results, the potential effects of fluctuations in the cross rates for the euro and major non-EU currencies

have been analysed. The following table illustrates the sensitivity to reasonably likely changes in exchange rates on both pre-tax profit (due to changes in the value of current assets and liabilities denominated in foreign currency) and shareholders' equity (due to changes in fair value of financial instruments for the hedging of the exchange risk) while holding all other variables constant:

euro		Impact on pre-tax profit 5% writedown of the foreign currency		Impact on pre-tax profit 5% revaluation of the foreign currency	
Currency	Country	FY 2018	FY 2017	FY 2018	FY 2017
CAD	Canada	(23,708.8)	(9,124.4)	26,204.4	10,084.9
CHF	Switzerland	18,489.6	371.4	(20,435.9)	(410.5)
GBP	UK	43,286.1	129.6	(47,842.5)	(143.3)
HKD	Hong Kong	6,025.6	(12,587.9)	(6,659.8)	13,913.0
JPY	Japan	(56,272.5)	(12,236.3)	62,195.9	13,524.3
KRW	Korea	(11,498.1)	57.8	12,708.5	(63.9)
RMB	China	241,877.9	(191,751.2)	(267,338.8)	211,935.6
SGD	Singapore	(22,418.2)	(16,001.6)	24,778.0	17,685.9
USD	USA	107,094.6	173,995.4	(118,367.7)	(192,310.7)
Other	n.a.	(28,403.7)	(10,004.1)	31,393.6	11,057.1
Total		274,472.5	(77,151.4)	(303,364.2)	85,272.5

euro 000's	Revaluation/Writedown foreign currency	Impact on pre-tax profit	Impact on Shareholders' equity
FY 2018	5%	274.5	(4,983.9)
	-5%	(303.4)	5,508.5

The impact on equity shown above relates to the effects on hedging reserve gross of tax effects. The analysis did not include assets, liabilities and future commercial flows that were hedged, since fluctuations in exchange rates impact income in an amount equal to what is recognised in the fair value of adopted hedge instruments.

Interest rate risk. The Company is exposed to interest rate fluctuations, limited to its variable-rate debt instruments. Interest rate risk is managed in conformity to long-established practice with the aim of cutting down the risk of interest rate volatility, at the same time pursuing the goal of reducing the financial costs involved to a minimum. TOD'S S.p.A. has a syndicated loan signed with Mediobanca and Crédit Agricole with variable interest rate equal to EURIBOR 3M + 55 basis points. To hedge the risk of possible changes in the interest rates on the loan, two derivative contracts (interest rate swaps - IRS), have been signed, for a notional amount equal to the amount drawn for the loan. These derivatives protect the Company from the risk of a generalised rise in interest rates, swapping the variable rate on the loan for a contractually fixed

rate (a quarterly rate of 0.748%). Such transactions have been recognised in accordance with cash flow hedge methodology provided by IFRS 9.

In addition to the above mentioned syndicated loan, TOD'S S.p.A. has the following outstanding loans with variable interest rates:

- loan signed with BNL S.p.A. (BNP Paribas Group) on May 4th, 2015 for an amount of 25 million euros. The reimbursements will be done in 16 quarterly instalments; the expiring date is May 4th, 2019. The interest rate agreed is equal to EURIBOR 3M +0.42% (Note 19);
- loan signed with Intesa SanPaolo S.p.A. on April 27th, 2015 for an amount of 25 million euros. The reimbursement will be one-shot with a single payment at the expiry date on April 27th, 2019. The interest rate agreed is equal to EURIBOR 3M +0.5% (Note 19);
- loan signed with B.N.L. S.p.A. on December 21st, 2018, for 25 million euros. The reimbursements will be done in 16 quarterly instalments; the expiring date is December 21st, 2022; The interest rate agreed is equal to EURIBOR 3M +0.7% (Note 19);
- loan signed with IntesaSanPaolo S.p.A., on December 21st, 2018, for a maximum amount of 125 million euros. The reimbursements will be done in 6 half-year instalments; the expiring date is December 31st, 2021; The interest rate agreed is equal to EURIBOR 6M +0.7% (Note 19).

Considered the current financial markets situation and the current EURIBOR reference rate, the Company doesn't believe necessary to put in place hedging derivatives for such loans. The financial market trend and the related benchmark interests rates are constantly monitored by the Company, and, in case there could be an increase of risks in connection with the above mentioned loans, the Company will put in place appropriate hedging instruments in accordance with the strengthened Company's practice.

The sensitivity analysis carried out on interest rates has shown in addition that a hypothetically unfavourable change of 10% in short-term interest rates applicable to the adjustable rate financial liabilities existing at December 31st, 2018 would not have any impact on the pre-tax result, mainly due to the hedging instruments entered by the Company.

4.1 Categories of measurement at fair value

In accordance with IFRS 13, the financial instruments carried at fair value have been classified according to a hierarchy of levels that reflects the materiality of the inputs used to estimate their fair value. The following levels have been defined:

Level 1 – quoted prices obtained on an active market for the measured assets or liabilities;

Level 2 – inputs other than the quoted prices indicated hereinabove, which are observable either directly (prices) or indirectly (derived from prices) on the market;

Level 3 – inputs that are not based on observable market data.

The tables below show the breakdown of financial assets and liabilities between each financial category, classified in accordance with IFRS 9, and the fair value hierarchy level at December 31st, 2018 and 2017:

2018 euro 000's	Assets				Total	Level 1	Level 2	Level 3	Total
	Loans and receivables at amortized cost	Financial assets at FVOCI	Financial assets at FVPL	Hedge accounting					
Other non-current assets	2,970				2,970				
Total other non-current assets	2,970				2,970				
Trade receivables	211,575				211,575				
Derivative financial instruments				1,307	1,307		1,307		1,307
Other current assets	9,200				9,200				
Bank	66,703				66,703				
Total other current assets	287,478			1,307	288,785		1,307		1,307

2018 euro 000's	Liabilities				Total	Level 1	Level 2	Level 3	Total
	Financial liabilities at amortized cost	Financial liabilities at fair value	Hedge accounting						
Bank borrowings	69,666				69,666				
Other non-current liabilities	8,869				8,869				
Derivative financial instruments			672		672		672		672
Total other non-current liabilities	78,535		672		79,207		672		672
Trade payables	145,665				145,665				
Bank	167,999				167,999				
Derivative financial instruments			2,842		2,842		2,842		2,842
Other current liabilities	2,587				2,587				
Total other current liabilities	316,251		2,842		319,093		2,842		2,842

2017 euro 000's	Assets				Total	Level 1	Level 2	Level 3	Total
	Loans and receivables at amortized cost	Available for sales	Financial assets at fair value						
Other non-current assets	302				302				
Total other non-current assets	302				302				
Trade receivables	182,687				182,687				
Derivative financial instruments			2,688		2,688		2,688		2,688
Other current assets	9,000				9,000				
Bank	100,802				100,802				
Total other current assets	292,489		2,688		295,177		2,688		2,688

2017 euro 000's	Liabilities			Level 1	Level 2	Level 3	Total
	Financial liabilities at amortized cost	Financial liabilities at fair value	Total				
Bank borrowings	137,572		137,572				
Other non-current liabilities	10,287		10,287				
Derivative financial instruments		1,197	1,197		1,197		1,197
Total other non-current liabilities	147,859	1,197	149,056		1,197		1,197
Trade payables	157,268		157,268				
Bank	46,176		46,176				
Derivative financial instruments		2,020	2,020		2,020		2,020
Other current liabilities	1,063		1,063				
Total other current liabilities	204,507	2,020	206,527		2,020		2,020

Note that during the year 2018 there have not been any transfers between fair value levels indicated by the IFRS 13.

In connection with the fair value of financial assets and liabilities measured at amortised cost, given their nature, does not differ significantly from their carrying amounts.

5. Intangible fixed assets

5.1 Intangible assets with indefinite useful life. These include 137,235 thousand euros for the value of the Company owned brands and goodwill from business combinations for 13,685 thousand euros recognised in accordance with the acquisition method (IFRS 3). The value of Brands is broken down amongst the various brands owned by the Company (TOD'S, HOGAN and FAY):

euro 000's	12.31.18	12.31.17
TOD'S	3,741	3,741
HOGAN	80,309	80,309
FAY	53,185	53,185
Total	137,235	137,235

5.2 Other assets. The following table details the movements of these assets in the current and previous fiscal year:

euro 000's	Other trademarks	Software	Other assets	Contract with customers	Total
Balance as of 01.01.17	3,708	7,724	10,229	1,731	23,392
Increases	328	2,632	953	145	4,058
Decreases			(1)		(1)
Impairment losses					
Other changes					
Amortisation of the period	(810)	(3,163)	(1,839)	(689)	(6,501)
Balance as of 12.31.17	3,226	7,193	9,343	1,187	20,949
Increases	270	4,997	2,839	597	8,703
Decreases			(64)		(64)
Impairment losses					
Other changes					
Amortisation of the period	(768)	(3,476)	(2,237)	(677)	(7,157)
Balance as of 12.31.18	2,728	8,715	9,882	1,107	22,431

The increase of "Other trademarks" relates to long-term charges with a defined useful life incurred to protect the brands owned by the Company which are classified as assets with an undefined useful life.

The increase of "Software" mainly relates to the development of the Company's information systems, among which those dedicated to the digital channel and its integration within the Group. The increase of the figure "Contract with customers" mainly relates to long-term investments made for the network of corners and franchising stores.

Other assets includes for 6,119 thousand euros the value of the intangible asset recognised in relation to the agreement made with the Ministry of Cultural Affairs ("Ministero per i Beni e le Attività Culturali") and the Special Archaeological Service of Rome ("Soprintendenza speciale per i beni archeologici di Roma"), with which the Company has undertaken to finance the entire cost of restoration work of the Coliseum.

The amortisation of the asset has been done in accordance with its useful life based on the agreement provisions, and the amount recognised for the period is about 1 million euros.

6. Tangible fixed assets

The following table illustrates the changes during the current and previous fiscal year.

euro 000's	Land and buildings	Plant and machin.	Equip.	Leasehold improv.	Others	Total
Balance as of 01.01.17	56,866	11,639	9,626	3,882	5,103	87,117
Increases	2,632	2,604	4,235	663	1,496	11,629
Decreases	(14)	(24)	(318)	(1)	(468)	(825)
Impairment losses						
Other changes						
Depreciation of the period	(1,882)	(2,169)	(4,983)	(882)	(1,229)	(11,145)
Balance as of 12.31.17	57,602	12,050	8,559	3,662	4,902	86,776
Increases	687	1,501	5,333	244	1,117	8,882
Decreases	(5)	(18)	(279)		(161)	(463)
Impairment losses						
Other changes						
Depreciation of the period	(1,931)	(2,361)	(4,552)	(733)	(1,283)	(10,860)
Balance as of 12.31.18	56,353	11,171	9,061	3,173	4,576	84,335

The increase in the value of Land and Buildings and Plant and machinery is mainly due to investments done for the modernization of the buildings in which it is located the headquarter of the Company.

Equipments' increase is mainly related to the industrial tools acquisition for the creation of new collections (lasts and moulds). Depreciations of the period, related to properties plant and equipments are 10.9 million euros.

7. Impairment losses

The recoverability of the residual value of intangible assets with an indefinite useful life (brands and goodwill) was determined to ensure that assets with a value higher than the recoverable value were not recognised on the financial statements, which refers to their "value in use." The criterion used to determine "value in use" follows the provisions of IAS 36, and is based on the current value of expected future cash flows (discounted cash-flow analysis - DCF), which is presumed to derive from the continual use and disposal of an asset at the end of its useful life, discounted at a net discounting rate (net of taxes) that reflects current market rates for borrowing money and the specific risk associated with the individual cash generating unit.

The recoverability of Assets was verified by comparing the net book value with the recoverable value (value in use). The value in use is represented by the discounted value of future cash flows that are expected from Assets and by the terminal value attributable to them. In connection with the recoverability of Assets, the Company has identified only one CGU and it has been tested the net invested capital.

The discounted cash flow analysis was carried out by using the FY 2019 budget as its basis. That budget was prepared and approved by the Board of Directors on the assumption that the Company would be a going concern for the foreseeable future: the Board of Directors first assessed the methods and assumptions used in developing the model. In particular:

- i. The medium-term projection of budget figures for FY 2019 was carried out on a time horizon of further 4 years, using an average rate of sales growth of 5%, a constant EBITDA margin and a constant tax rate equal to 24.2%. The assumptions related to the sales growth in the middle term reflect reasonable estimates of growth which consider even the development trend of the whole luxury sector in the foreseeable future;
- ii. The terminal value was determined as perpetuity, using, for future forecasts, a prudential long term growth rate in line with the macro-economics estimates performed by the International Monetary Fund.
- iii. To determine the "value in use," a WACC, net of taxes, of 8.60% was used (the WACC rate used at December 31st, 2017 was 8.50%), determined by referring to the discounting rates used by a series of international analysts in financial reports on the TOD'S Group.

The analyses carried out on the recoverability of Company assets (including 137.2 million euros represented by proprietary brands and 13.7 million by goodwill from business combinations) showed an expected overall cash flow figure far higher than the total amount of net invested capital (cover).

The sensitivity analysis performed on the impairment test in accordance with IAS 36, in order to reveal the effects produced on the "value in use" by a reasonable change in the basic assumptions (WACC, growth rates, EBITDA margin) and determination of the terminal value (disposal value), did not reveal an appreciable impact on determination of the "value in use" and its coverage. Given the significant value assumed by the cover, it would be necessary to make unlikely assumptions to render the "value in use" equal to the book value of tested assets (the break-even hypothesis).

Furthermore, it's been performed an estimate of the recoverable amount of equity investments in subsidiaries (worth 608.7 million euros at December 31st, 2018), in accordance with IAS 36, regarding the investments with impairment indicators. Based on results, the carrying amount of the investment in Tod's Danmark APS has been impaired for 0.7 million euros because it's not reasonably predictable, as of today, to recover the carrying amount with future cash flows.

Finally, in accordance with IAS 36, it's been performed an estimate of the recoverable amount of brands using the royalty method with the same assumptions indicated above in terms of growth rates, tax rate, WACC and terminal value. From such analysis, no impairment indicators arose, considered that the brands recoverable value is higher than their book value.

8. Investments property

The residual value of investment property at December 31st, 2018 is equal to euro 18 thousand. It consisted exclusively of real estate leased to third parties. The fair value of these investments is estimated to be euro 250 thousand, according to the market prices for similar properties available for rent at similar conditions.

The following table details the values of these investment property:

euro 000's	
Historic cost	115
Accumulated depreciation	(93)
Balance as of 01.01.18	22
Increases	
Decreases	
Amortisation of the period	(3)
Balance as of 12.31.18	18

9. Investments in subsidiaries, joint ventures and associated companies

Information about the subsidiaries follows below, together with a comparison between the carrying amount of the investments in subsidiaries and the respective value determined according to the equity method:

euro 000's			a)		b)	a) - b)
Investments in subsidiaries	Percentage of share investment	Share capital	Measurement using equity method adjustments	of which profit/(loss)	Carrying amount	Difference
Investments in subsidiaries						
TOD'S Deutschland GmbH	100%	153	14,882	559	3,153	11,728
TOD'S France Sas	100%	780	20,918	224	4,800	16,118
TOD'S Hong Kong Ltd	1%	12,209	1,142	1,065	129	1,013
Holpaf B.V.	100%	5,534	46,111	135	39,043	7,067
Un. Del. Kft	10%	163	52	52	18	34
Del. Com. S.r.l.	100%	31	29,844	(10,856)	51,108	(21,263)
TOD'S Macau Lda.	1%	1,846	36	(836)	19	17
TOD'S International BV	100%	2,600	172,908	(115)	36,171	136,737
An.Del. Inc.	100%	3,056	32,622	(123)	34,656	(2,035)
Roger Vivier S.p.A.	100%	10,000	495,662	12,435	415,479	80,183
TOD'S Danmark APS	100%	67	(187)	(710)	(187)	
TOD'S Austria GmbH	100%	50	295	10	50	245
Italiantouch S.r.l.	100%	10	5,330	1,768	24,101	(18,771)
TOD'S Australia PTY Ltd	100%	63	(93)	(159)	63	(156)
Total			819,523	3,447	608,603	210,919
Investments in other entities						
Other investments	n.s.				131	
Total					131	
Total investments					608,734	

Changes in Investments in subsidiaries in year 2018 have been the following:

- Acquisition of 100% quotas representing the share capital of Italianatouch S.r.l. and its subsidiaries, occurred on September 27th, 2018, effective from October 1st, 2018;
- Incorporation of TOD'S Australia PTY Ltd 100% owned by TOD'S S.p.A., occurred on July 25th, 2018.

Furthermore based on results of the impairment test the carrying amount of the equity investment in Tod's Danmark APS has been impaired for 0.7 million euros (Note 7).

10. Deferred taxes

At the reporting date, recognition of the effects of deferred tax assets/liabilities, shows a net balance (liability) of 16,261 thousand euros (FY 2017: liability for 13,241 thousand euros).

When determining future tax impact, reference was made to the presumed percentage weight of the taxes that will be imposed on income in the years when those taxes will be charged. The balance of deferred tax assets and liabilities is shown in the following table, highlighting those components that contributed to their formation:

euro 000's	12.31.18	12.31.17
	Net liabilities	Net liabilities
Property, plant and equipment	2,185	2,345
Intangible fixed assets	36,670	33,489
Inventory (devaluation)	(14,558)	(13,270)
Derivative financial instruments	(144)	(59)
Costs deductible over several years	(6,159)	(8,295)
Reserves for employees	(275)	163
Provisions for risks and charges	(547)	(1,051)
Other	(913)	(85)
Total	16,260	13,241

11. Other non-current assets

The figure Other non-current assets is mainly related to receivables versus tax authorities to be refunded and two long term loans lent to two subsidiaries during the year:

- a loan with a duration of 5 years, lent to the controlled company TOD'S Australia PTY Ltd on September 21st, 2018 for 550 thousand AUD, which will be all reimbursed at the expiring date. The loan bears quarterly interests computed on a variable rate at a market condition;
- a loan with a duration of 5 years, lent to the controlled company TOD'S Austria GmbH on November 21st, 2018 for 2.3 million euros, which will be all reimbursed at the expiring date. The loan bears quarterly interests computed on a variable rate at a market condition.

12. Inventories

The following table shows the book value of the inventories:

euro 000's	12.31.18	12.31.17	Change
Raw materials	61,408	63,174	(1,767)
Semi-finished goods	11,026	10,040	986
Finished products	212,710	138,482	74,228
Write-downs	(51,866)	(47,275)	(4,590)
Total	233,277	164,421	68,855

The allowance for inventory write-downs reasonably reflects the technical and stylistic obsolescence of the Group's inventories at December 31st, 2018. The table below shows changes occurred during the year of the inventory write-down provision:

euro 000's	12.31.18	12.31.17
Opening balance	47,275	38,346
Increase	8,488	14,355
Utilization	(3,897)	(5,426)
Reversal		
Closing balance	51,866	47,275

13. Trade receivables and other current assets

13.1 Trade receivables.

euro 000's	12.31.18	12.31.17	Change
Third parties	79,534	89,020	(9,486)
Subsidiaries	138,448	99,862	38,586
Allowances for doubtful accounts	(6,407)	(6,194)	(213)
Net trade receivables	211,575	182,687	28,887

Receivables from third parties. These represent the credit exposure stemming from sales made through the wholesale channel.

Receivables from subsidiaries. They include the Company's receivables from Group entities and stem primarily from commercial transactions and, to a lesser extent, provision of services.

Allowances for bad debts. The allowances for doubtful accounts represent the reasonable estimate of impairment due to the expected losses arising from the risk of not being able to

collect the trade receivables recognised on the financial statements. The changes in the allowances for bad debts are illustrated as follows:

euro 000's	12.31.18	12.31.17
Balance as of 01.01.18	6,194	5,691
Increase	800	900
Decrease	(587)	(396)
Balance as of 12.31.18	6,407	6,194

13.2 Tax receivables. Totalling 11 thousand euros (FY 2017: 9,506 thousand euros), they are mainly represented by receivables for withholding taxes on self-employment. Last year this figure included even the net tax receivables on corporate income taxes.

It should be noted that, in order to improve the clarity of the figures shown in the balance sheet of the separate financial statements, starting from the 2018 financial year, the receivables relating to value added tax are shown in the item Other current assets instead of under Tax receivables. In this regard, for the purposes of correct comparability and intelligibility of information, the receivables relating to value added tax relating to 2017 have consequently been reclassified to Other current assets.

13.3 Other.

euro 000's	12.31.18	12.31.17	Change
Prepaid expenses	3,427	2,140	1,287
Financial assets	9,200	9,000	200
Others	31,841	30,834	1,007
Total	44,468	41,974	2,494

The item "Others" mainly relates to receivables versus manufacturers for the raw materials sold in connection with manufacturing activities, to receivables for credit cards, to receivables for value added tax and other current receivables.

Financial assets are comprised exclusively by loans granted to the Group's companies:

euro 000's	12.31.18	12.31.17	Change
Financing within 12 months	9,200	9,000	200
Current account overdraft			
Total current assets	9,200	9,000	200
Financing beyond 12 months	-	-	-
Total financial assets	9,200	9,000	200

The amount for 9.2 million euros related to the following outstanding loans;

- For 9 million euros related to the outstanding loan lent to subsidiary Roger Vivier S.p.A. on 27 January 27th, 2016 with a duration of 12 months, renewed up to January 27th, 2019;
- For 0.2 million euros related to the credit line lent to subsidiary TOD'S Danmark APS on December 12th, 2018 for a maximum amount of 0.2 million euros with a duration limit of 12 months. Interests are variable and computed on a quarterly basis applying EURIBOR 3m + *spread* 1.18%.

14. Derivative financial instruments

The Company is exposed to both exchange rate risk, principally for revenues denominated in currencies other than the euro (see Note 4), and interest rate risk limited to its variable-rate debt instruments. The principal currencies that pose this risk are the U.S. dollar, Chinese yuan, Hong Kong dollar, Swiss franc, and British pound. In order to realise the objectives envisaged by the Risk Management policy, the Company enters in derivative contracts with primary banks for the hedging of the above mentioned risks; in particular, in connection with exchange rate risk, the Company entered in sell and/or buy foreign currency contracts (forward), while for the hedging of a variable interest rate risk, the Group entered in interest rate swaps agreements.

Moreover, the Company is exposed to exchange rate risk related to intercompany financial flows with subsidiaries with functional currencies different from euro (Note 4). These risks are managed by the Company through monitoring the foreign exchange rate trends related to outstanding or expected capital transactions and entering into forward contracts if they will have material contingent effects.

Forward contracts have been put in place, for each individual currency, to hedge a specific percentage of the expected revenue (and cost) volumes in the individual currencies other than the functional currency.

At the closing date, the notional amount of the currency forward sales and purchase agreements are summarized as follows:

Currency 000's	Sale		Purchase	
	Notional currency	Notional euro	Notional currency	Notional euro
US Dollar	51,200	44,716		
Hong Kong Dollar	480,000	53,527		
Japanese Yen			1,460,000	11,601
British Pound	29,800	33,314		
Swiss Franc	7,300	6,478		
Chinese Renmimbi	487,000	61,840		
Canadian Dollar	5,700	3,653		
Total		203,527		11,601

All derivative contracts will expire during the year 2019.

Below is summarized the composition of the outstanding derivatives at December 31st, 2018 and 2017, with information related to carrying amounts, current and non-current, in connection with fair value and cash flow hedge reserve, the latter presented net of its related tax effects.

euro 000's	12.31.18			12.31.17		
	Assets	Liabilities	Hedging Reserve	Assets	Liabilities	Hedging Reserve
<i>Non-current</i>						
Interest rate swaps - cash flow hedges		672	(340)		1,197	(909)
Forward foreign exchange contracts - cash flow hedges						
Forward foreign exchange contracts - fair value hedges						
Total non-current		672	(340)		1,197	(909)
<i>Current</i>						
Interest rate swaps - cash flow hedges		1,015	(771)		1,467	(880)
Forward foreign exchange contracts - cash flow hedges	884	568	655	1,318	532	1,603
Forward foreign exchange contracts - fair value hedges	423	1,258		1,370	21	
Total current	1,307	2,842	(116)	2,688	2,020	723
Total	1,307	3,514	(456)	2,688	3,217	(186)

The cash flow hedge reserve used for the exchange rate risk was equal to 2,335 thousand euros, of which 983 thousand euros were represented as an increase of revenues, 165 thousand euros as a reduction of equity investments and 1,186 thousand euros represented in financial income as a consequence of hedging ineffectiveness of a transaction related to future capital increase in foreign currency which will be not done anymore.

The overall effect recognised in the income statement in connection with derivatives for the hedging of interest rate risk amounted to 1,386 thousand euros, totally represented in the financial expenses.

15. Cash and cash equivalents

Cash and cash equivalents are related to cash and bank deposits for 66,703 thousand euros (100,802 thousand euros at December 31st, 2017). For further information see the statement of cash flows.

16. Shareholders' equity

16.1 Share Capital. At December 31st, 2018, the Company share capital totalled 66,187,078 euros (unchanged in respect of December 31st, 2017), and is divided into 33,093,539 shares having a par value of 2 euros each, fully subscribed and paid in. All shares have equal voting rights at the general meeting and participation in profits. At December 31st, 2018, Mr. Diego Della Valle, President of the Board of Directors, hold, directly and indirectly, 60.663% of TOD'S S.p.A. share capital. At December 31st, 2018 the Company did not own treasury shares, and it did not execute any transactions on those shares during the year.

16.2 Capital reserves. Capital reserves are exclusively related to share premium reserve, amounting to 416,507 thousand of euros as of December 31st, 2018 (416,507 thousand of euros as of December 31st, 2017).

16.3 Hedging reserve. The following schedule illustrates the changes occurred in 2018:

euro 000's	Hedging reserve
Balance as of 01.01.17	(1,586)
Change in fair value of hedging derivatives	5,167
Transfer to Profit and Loss Account of hedging derivatives	(3,767)
Other	
Balance as of 01.01.18	(186)
Change in fair value of hedging derivatives	451
Transfer to Profit and Loss Account of hedging derivatives	(721)
Other	
Balance as of 12.31.18	(456)

For comments related to the changes of hedging reserve please see Note 14.

16.4 Other reserves and profit for the period. The following schedule illustrates the changes in fiscal 2018:

euro 000's	Other reserves	Profit (loss) of the period	Total
Balance as of 01.01.17	333,681	64,180	397,862
Allocation of 2016 result	7,921	(7,921)	
Dividends		(56,259)	(56,259)
Profit for the period		84,977	84,977
Other changes	(874)		(874)
Balance as of 01.01.18	340,728	84,977	425,705
Changes accounting standards (IFRS 15)	(4,545)		(4,545)
Balance as of 01.01.18	336,183	84,977	421,160
Allocation of 2017 result	38,646	(38,646)	
Dividends		(46,331)	(46,331)
Profit for the period		68,696	68,696
Other changes	(538)		(538)
Balance as of 12.31.18	374,291	68,696	442,987

Other changes for the year 2018 are mainly related to both the use of the specific reserve for promoting territorial solidarity projects, for 694 thousand euros at December 31st, 2018 and to the recognition of cumulated actuarial gains/(losses) for the period (IAS 19).

16.5 Information on distributable reserves. The following table provides information on the possible use and distribution of each specific account under shareholders' equity and their possible use during the past three years:

euro 000's	Use in the previous 3 years				
Nature/Description	Amount	Possibility of use	Available amount	Not available amount	coverage of losses others
Share capital	66,187			66,187	
Capital reserves					
Share premium reserve	416,507	A,B,C ⁽¹⁾	416,507		
Retained earnings reserves					
Legal reserve	13,237	B	13,237	13,237	
Retained earnings	361,932	A,B,C	361,932		171,249
Other profits/(losses) in OCI	(1,334)			(1,334)	
Total share capital and reserves	856,530		791,677	78,090	
Non-distributable reserves					
Residual distributable reserves			791,677		

⁽¹⁾ Pursuant to section 2431 Italian Civil code, to entire amount of the reserve may be distributed only when the legal reserve has reached the limits set forth in Section 2430 Italian Civil code

A – for capital increase.

B – for coverage of losses.

C – for distribution to shareholders.

Tax suspension reserves, The following information is provided on reserves in shareholders' equity that, if distributed, will constitute taxable income for the company, in connection with the

situation following the capital transactions carried out pursuant to the August 5th, 2000 resolution of the extraordinary Shareholders' Meeting:

- a. for the reserves in equity, only the extraordinary reserve remains; formed with income that was regularly subjected to taxation, it would not constitute taxable income for the company were it to be distributed;
- b. previously defined reserves have been converted into the form of share capital, as follows:

euro	
Reserve for adjustments art. 15 c. 10 DL 429/82	149,256.04
Reserve for greater deduction of VAT	508.19
Reserve for inflation adjustments pursuant to Law n. 72/'83	81,837.76
Reserve for deduction art. 14 c. 3 – Law n. 64/'86	5,783.80

for a total of euro 237,385.80, which, if distributed, would represent taxable income for the company.

16.6 Dividends. During 2018, the parent company TOD'S S.p.A. paid to the shareholders dividends for the net income realised in 2017. The aggregate amount of paid dividends is 46.3 million euros (shareholder meeting on April 19th, 2018), at the rate of 1.4 euros for each of the 33,093,539 shares representing the share capital at the coupon detachment date (May 21st, 2018). Regarding the net profit for FY 2018, totalling 68,695,558.92 the Board of Directors has proposed to distribute a dividend for 1 euros per share, totalling 33,093,539 euros in accordance with the current shares. The dividend is subject to approval by the annual Shareholders' Meeting in April 18th, 2019, and was not included among the liabilities reported on this balance sheet.

17. Provisions and contingent liabilities and assets

17.1 Provisions. They include the estimate of liabilities, with uncertain maturity date or amount, on which the Company might incur in case of a legal or constructive obligation in connection with a past event. The figures mainly include provisions related to both legal and tax lawsuits and risks and costs for employees. The table below shows the changes of provisions occurred during the period:

euro 000's	12.31.18	12.31.17
Provisions for risks - non current		
Opening balance	5,210	4,328
Increase	204	882
Utilization		
Reversal		
Other	(20)	
Closing balance	5,394	5,210
Provisions for risks - current		
Opening balance	3,485	678
Increase	20	3,090
Utilization	(2,870)	(208)
Reversal		(75)
Other	20	
Closing balance	655	3,485

17.2 Contingent liabilities and other commitments

i. **Guarantees granted to others.** A total of euro 54,078 thousand euros have been granted to others at December 31st, 2018 (49,849 thousand euros in 2017). The amount is mainly related to guarantees granted to secure the contractual commitments of subsidiaries, comprised for 48,489 thousand euros to bank credit lines provided to the subsidiaries, for which the company acts as guarantor (FY 2017: 44,260 thousand euros).

ii. **Guarantees received from third parties.** Guarantees received by the company from banks as security for contractual commitments totalled 15,064 thousand euros (5,471 thousand euros in 2017).

iii. **Other guarantees.** TOD'S S.p.A. is guarantor (by taking over from the previous guarantor for the contractual obligations assumed by Holpaf B.V.) in favour of the banks that subscribed the two non-convertible, amortised and fixed-rate bond loans (Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque), issued in 2006 by the subsidiary Holpaf B.V. to refinance the debt assumed to purchase the land and construction of the building in Omotesando, Tokyo. In detail, these covenants concern:

a) *Property Purchase Option:* a put option granted to Intesa San Paolo Bank Ireland PLC on the Omotesando property, which may be exercised only if Holpaf B.V. defaults during the term of the bonds and the creditor demands payment of the mortgage. In this scenario, TOD'S S.p.A. must purchase the property at a specific price that varies over the term of the option (decreasing price, equal to the amount of the residual debt of the two bonds not repaid by Holpaf B.V. at the time of default).

b) *Earthquake Indemnity Letter*: TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property in an earthquake.

c) *All Risks Indemnity Letter*: TOD'S S.p.A. has undertaken to hold harmless the rights to repayment of the bonds held by Intesa San Paolo Bank Ireland PLC and Société Européenne de Banque even in the event of damage or destruction of the property due to any event.

d) *Pledge on the fire insurance policy*: in the event of loss due to building fire, any reimbursement by the insurance company constitutes a pledge in guarantee of the bonds whose value has not yet been repaid to Intesa Sanpaolo Bank Ireland PLC and Société Européenne de Banque.

At December 31st 2018, the outstanding face value of the principal for the bond amounted to JPY 1,271 million (10.1 million euros). Please note that the financial debt has been reimbursed in advance on February 18th, 2019 and the activities to cancel all related guarantees have been started.

17.3 Operating lease agreements. The operating leases entered into by the Company are for use of properties used to conduct its operating activities (offices, production plants). The amount of minimum lease payments pursuant to these agreements is as follows:

euro millions	2018	2017
2018		6.4
2019	8.9	5.5
2020	8.7	5.0
2021	8.0	4.4
2022	6.9	4.0
2023	3.4	
Over 5 years	3.2	2.8
Total	39.1	28.1

Operating lease instalments, included in the item Costs of use of third party assets, totalled euros 8.3 million in fiscal year 2018 (FY 2017: 7.9 million euros).

18. Employee benefits

The main actuarial assumptions used for the computation of TFR (termination benefit provided by Italian law on behalf of the Company employees) are summarized below:

- Discounting rate: 1.57%

It is related to the average yield curve from IBOXX Eurozone Corporates AA of December 2018.

- Inflation rate: 1.5%;
- TFR incremental rate: 2.625%.

The table below shows the variation of the liability occurred in 2018:

euro 000's	Year 2018	Year 2017
Opening balance	7,339	7,642
Service costs		
Interest costs	98	101
Benefits paid	(248)	(421)
Actuarial (gains)/losses	(156)	17
Other		
Closing balance	7,033	7,339

Employee benefits include even other long term employee benefits.

19. Financial liabilities

euro 000's	12.31.18	12.31.17	Change
Current account overdraft			
Financing	237,665	183,747	53,917
Total	237,665	183,747	53,917

Currency 000's				Res. Debt in	Res. Debt in
Type	Counterpart	Currency	Maturity	currency	euros
Medium and long term bank pool loan	Mediobanca - Crédit Agricole	Eur	2021	109,524	109,524
Medium and long term loan	Banca Nazionale del lavoro S.p.A.	Eur	2019	3,127	3,127
Medium and long term loan	Intesa SanPaolo S.p.A.	Eur	2019	25,013	25,013
Short term loan	Intesa SanPaolo S.p.A.	Eur	2019	100,000	100,000
Total financing					237,665

The medium and long term bank pool loan is related to the financing agreement signed on July 2014 by TOD'S S.p.A. and Mediobanca/Crédit Agricole, which has a variable interest rate equal to EURIBOR 3M + 55 basis points. The loan was hedged with two derivative contracts (interest rate swaps - IRS) for the same notional amount and duration (Note 14). The duration of such loan is 7 years from the signing date (July 2014) and it will be refunded on a quarterly basis.

The medium and long term loans are related to two loan agreements signed in 2015 between the Company and BNL S.p.A. (BNP Paribas Group) and Intesa SanPaolo S.p.A. respectively, for an amount of 25 million euros each; the reimbursements will be respectively in four years with a payment of 16 instalments at the end of every quarter and one-shot with a single payment at the

expiry date. Interests rates are variables and equal to the EURIBOR 3m +0.42% and EURIBOR 3m +0.5% respectively.

These loans contains, among others, specific financial covenants; in particular, it is requested to respect the following parameters computed at a Group level:

Bank	Financial covenants	Limit at 31 st December
Mediobanca/Crédit Agricole	Net financial liabilities/EBITDA	≤ 3,5
Banca Nazionale del Lavoro S.p.A.	Net financial liabilities/EBITDA	≤ 3,5
Intesa SanPaolo S.p.A.	Net financial liabilities/EBITDA	< 3

The parameters indicated above are constantly monitored by the Company, and all financial covenants are fulfilled at December 31st, 2018.

The short term loan relates to an agreement signed by TOD'S S.p.A. on January 29th, 2018 with Intesa SanPaolo S.p.A. which will be reimbursed all in one at the expiring date on January 29th, 2019. This loan doesn't bear any interest.

The table below illustrates the breakdown of financial liabilities, which include the accrual for interests at the reporting date.

euro 000's	Medium and long term loan (BNL)	Medium and long term loan (Intesa)	Medium and long term pool loan (Mediobanca/Crédit Agricole)	Short term loan (Intesa)	Total
2019	3,125	25,000	40,000	100,000	168,125
2020			40,000		40,000
2021			30,000		30,000
2022					
2023					
Over 5 years					
Total	3,125	25,000	110,000	100,000	238,125
Accruals and amortized cost	2	13	(476)		(461)
Total	3,127	25,013	109,524	100,000	237,665

For the sensitivity analysis on interest rates (IFRS 7) and the disclosures on further financing agreements related to credit lines available for the Company, but not yet used at December 31st, 2018, see Note 4.

20. Other non-current liabilities

The balance for this item, 14.5 million euros (14.3 million euros at December 31st, 2017), refers for about 8.9 million euros to the liability recognised in relation to the agreement made for

financing the restoration work of the Coliseum (Note 5), for 4.4 million euros to the non-current part of the return reserve and for 1.2 million euros to other non-current liabilities. The liability in relation to the Coliseum was recognised at the discounted value of the financial outlays that are reasonably foreseeable on the basis of the multi-year plan for restoration work.

21. Trade payables and other current liabilities

21.1 Trade payables.

euro 000's	12.31.18	12.31.17	Change
Third parties	118,954	138,055	(19,101)
Subsidiaries	26,711	19,213	7,498
Total	145,665	157,268	(11,603)

The decrease of trade payables is due to the normal business trend.

To Third parties. These stem exclusively from commercial transactions as part of ordinary processes for purchase of goods and services.

To subsidiaries. These represent payables to Group entities, principally for provision of services.

21.2 Tax payable.

At December 31st, 2018 tax payables are 6,142 thousand euros (3,767 thousand euros in 2017) and they mainly relate to corporate income taxes net of tax installments already paid.

It should be noted that, in order to improve the clarity of the figures shown in the balance sheet of the separate financial statements, starting from the 2018 financial year, the payables relating to value added tax are shown in the item Other current liabilities instead of Tax payables. In this regard, for the purposes of correct comparability and intelligibility of information, the payables relating to value added tax relating to 2017 have consequently been reclassified to Other current liabilities.

21.3 Other.

euro 000's	12.31.18	12.31.17	Change
Payables to employees	6,755	6,453	302
Social security institutions	4,720	4,318	402
Others	54,042	35,762	18,280
Total	65,516	46,533	18,983

Payables to employees reflected amounts accrued in their favor (including unused holiday leave) that had not yet been paid at the reporting date. Other liabilities is mainly related to advance from customers for 2.1 million euros, the current portion of estimated returns at the end of the financial year for 47.4 million euros, and other liabilities for 4.5 million euros.

22. Revenues

Net sales during the year totalled 636.9 million euros (662.6 million euros in 2017). For further comments on sales revenues see the report on operations.

With reference to the adoption of the new accounting standard IFRS 15, effective from January 1st, 2018, it is specified that the Company has chosen, for the transition, the modified retrospective application and, consequently, the comparative data referring to the year 2017 haven't been modified. The new definition of the moment in which the recognition of revenues deriving from the sale of finished products (At a point in time) takes place, with specific reference to any goods in transit referred to wholesale sales, led to a reduction of the initial consolidated shareholders' equity at January 1st, 2018 for approximately 4.5 million euros, as the margin net of the related tax effects; in connection with the above, the overall economic effect, deriving from the modified retrospective application, on the net profit for the year 2018, was positive for around 4.5 million euros. Furthermore, again with reference to the new definition of the moment in which the recognition of revenues deriving from wholesale sales takes place, following the adoption of the new standard, sales revenues relating to goods in transit at December 31st, 2018 were deferred to the following year, for about 2.8 million euros.

The item "Other revenues and income" amounts 6 million euros (7.8 million euros in 2017) and it mainly includes active royalties, extraordinary income and insurance reimbursements.

23. Personnel costs

The personnel costs incurred by the Group in FY 2018 as compared with those for FY 2017 are illustrated as follows:

euro 000's	Year 2018	Year 2017	Change	% on revenues	
				2018	2017
Wages and salaries	65,186	61,577	3,609	10.2	9.3
Social security contribution	19,289	21,225	(1,936)	3.0	3.2
Employee sev. indemn.	4,229	4,021	208	0.7	0.6
Total	88,704	86,823	1,882	13.9	13.1

The following table illustrates the breakdown of the Group's employees by category:

	12.31.18	12.31.17	Aver. 18	Aver. 17
Executives	43	42	42	39
White-collar Employees	820	815	840	814
Blue-collar Employees	939	912	930	891
Total	1,802	1,769	1,813	1,743

24. Financial income and expenses

The breakdown of financial income and expenses in FY 2018 is as follows:

euro 000's	Year 2018	Year 2017	Change
Income			
Interest income on current account	170	302	(133)
Foreign exchange gains	14,286	9,749	4,537
Other	234	504	(271)
Total income	14,689	10,556	4,134
Expenses			
Interest on medium-long term financing	(642)	(1,126)	484
Foreign exchange losses	(16,691)	(14,873)	(1,818)
Other	(2,491)	(2,720)	229
Total expenses	(19,824)	(18,719)	(1,105)
Total net income and expenses	(5,135)	(8,164)	3,029

25. Income and expenses from subsidiaries

During the year, the Company received dividends from subsidiaries Tod's Hong Kong Ltd. and Tod's International B.V. for 70 thousand euros and 6.7 million euros respectively.

It is highlighted that, as a consequence of the impairment test on equity investments of controlled entities, the Company written off the investment in the controlled entity TOD'S Danmark APS for a total amount of 698 thousand euros (Note 7).

26. Income taxes

The tax liability for fiscal 2018 (current and deferred) is equal to 22 million euros, giving a tax rate of 24.2% (FY 2017: 24%), Income taxes for the period are broken down into current and deferred taxes, as follows:

euro 000's	Year 18	Year 17	Change
Current taxes	16,860	22,534	(5,674)
Deferred taxes	5,094	4,355	739
Total	21,954	26,889	(4,935)

The theoretical tax rate for FY 2018 was 24% computed applying the current rates for IRES (income tax on company's profits). The following schedule reconciles theoretical taxes and the taxes actually charged to income:

euro 000's	Taxes	Rate %
Theoretical income taxes	21,756	24.0%
IRAP effect	3,360	3.7%
Tax effects of non-deductible or partially deductible costs	355	0.4%
Non-taxable income	(3,649)	(4.0%)
Other	726	0.8%
Previous year taxes	1,950	2.2%
"Patent box" IRES tax effect	(2,544)	(2.8%)
Effective income taxes	21,954	24.2%

The tax effect of the so-called "Patent box" is related to the agreement signed by the Parent company on December 23rd, 2016 with the competent office of the Italian Tax Authorities, with which it's been defined the methods and criteria used to calculate the amount of the quota of income exempt from income taxes for the purpose of the so-called "Patent box" regime. This is a tax relief regime for the benefit of Italian companies that produce income through the direct use or the licensing to third parties of intellectual property rights.

Tax consolidation program. The company, exercising the option envisaged by the new version of the TUIR and the implementing decree pursuant to ex Art. 129, together with the Italian subsidiaries that are presumably subject to a controlling relationship pursuant to ex Art. 120 TUIR, decided to have the Group participate in the national tax consolidation program for IRES. According to this law, TOD'S S.p.A., as controlling company, has aggregated its income with that of the subsidiaries participating in the national tax consolidation program since fiscal 2004. It does so by fully offsetting all the positive and negative taxable amounts, thereby benefiting from any losses contributed by the subsidiaries and assuming the expenses transferred from those subsidiaries with positive taxable income.

TOD'S S.p.A. essentially acts as a "clearing house" for taxable income (profits and losses) of all Group companies participating in the tax consolidation program, as well as financial relationships with revenue agency offices. At the same time, it recognizes liabilities or credits vis-à-vis those subsidiaries that produced tax losses and those that, on the contrary, transferred taxable income. Independently of the taxes that are paid, the company's net result is impacted exclusively by the income taxes accrued on its own taxable income.

27. Earnings per share

The calculation of base and diluted earnings per share is based on the following:

i. Reference profit.

euro 000's		
For continuing operations	Year 18	Year 17
Profit used to determine basic earning per share	68,696	84,977
Dilution effects		
Profit used to determine diluted earning per share	68,696	84,977

euro 000's		
For continuing operations	Year 18	Year 17
Net profit of the year	68,696	84,977
Income (loss) from discontinued operations		
Profit used to determine basic earning per share	68,696	84,977
Dilution effects		
Profit used to determine diluted earning per share	68,696	84,977

In both fiscal 2018 and 2017, there were no dilutions of net consolidated earnings, partly as a result of activities that were discontinued during the periods in question.

ii. Reference number of shares.

	Year 18	Year 17
Weighted average number of shares to determine basic earning per share	33,093,539	33,093,539
Share Options		
Weighted average number of shares to determine diluted earning per share	33,093,539	33,093,539

iii. **Base earnings per share.** Calculation of the base earning per share for fiscal year 2018 is based on the net profit attributable to holders of ordinary shares of the company TOD'S S.p.A., totalling 68,696 thousand euros (84,977 thousand euros in 2017), and on the average number of ordinary shares outstanding during the same period, totalling 33,093,539 (unchanged in respect to 2017).

iv. **Diluted earnings per share.** Calculation of the diluted earnings per share for the period January-December 2018 is the same as the base earnings per share, due to the fact that there are no items which produce dilution effects.

28. Transactions with related parties

The Company's related parties transactions were executed in compliance with the procedural sequence and implementing procedures set out in the Related Parties Transactions Procedure approved by the TOD'S S.p.A. Board of Directors in implementation of the Related Parties

Regulation adopted by CONSOB with Resolution no. 17221 of March 12th, 2010, as subsequently amended.

In accordance with market best practices, significant related party transactions are subject to an in-depth review involving, inter alia:

- (i) complete, prompt transmission of material information to the delegated Board of Directors committees (the Control and Risk Committee and the Independent Directors Committee, each within the ambit of their delegated responsibilities, where the majority or all members of these committees are independent directors), who in the performance of their functions also avail themselves of the assistance of independent experts;
- (ii) the issuance of an opinion (either binding or non-binding, as applicable) before approval of the transaction by the Board of Directors (or, if appropriate, by the body delegated to resolve on the transaction). All transactions – which are connected with the normal operations of TOD'S S.p.A. – were executed solely on behalf of the company by applying contractual conditions consistent with those that can theoretically be obtained on an arm's length basis.

Most significant transactions concluded during the year

On September 27th, 2018, effective October 1st, 2018, TOD'S S.p.A. has acquired from the related party Diego Della Valle & C. S.r.l. 100% of the shares representing the share capital of the company Italiantouch S.r.l., a company that manages an IT platform for the online distribution of the TOD'S Group products. The transaction is configured as a "transaction between related parties" as the company Italiantouch S.r.l. is wholly owned by Diego Della Valle & C. S.r.l. which is owned by the directors Diego and Andrea Della Valle and is controlled by the former who, in addition to being Chairman of the Board of Directors of TOD'S S.p.A., is also the controlling shareholder.

Related party transactions pending at December 31st, 2018

In continuation of contractual relationships already existing in 2017, the Company continued to maintain a series of contractual relationship with related parties (directors/controlling or significant shareholders) in 2018. The principal object of the transactions of the year was the sale of products, lease of sales spaces, show rooms and offices and the provision of advertising services.

i. Commercial transactions with related parties – Revenues

euro 000's	Sales of Products	Rendering of services	Sales of assets	Royalties	Operating leases	Other operations
Year 2018						
Parent Company (*)	10,865				5	
Directors						
Executives with strat. resp.						
Other related parties						
Total	10,865	-	-	-	5	-
Year 2017						
Parent Company (*)	9,739				5	
Directors						
Executives with strat. resp.						
Other related parties						
Total	9,739	-	-	-	5	-

ii. Commercial transactions with related parties – Costs

euro 000's	Purchases of products	Rendering of services	Purchases of assets	Royalties	Operating leases	Other operations
Year 2018						
Parent Company (*)	271	280			3,748	
Directors						
Executives with strat. resp.						
Other related parties						
Total	271	280	-	-	3,748	-
Year 2017						
Parent Company (*)	275	271			3,786	252
Directors						
Executives with strat. resp.						
Other related parties						
Total	275	271	-	-	3,786	252

iii. Commercial transactions with related parties – Receivables and payables

Receivables and payables	12.31.18		12.31.17	
euro 000's	Receivables	Payables	Receivables	Payables
Parent Company (*)	2	116	2,001	550
Directors				
Exec. with strat. respons.				
Total	2	116	2,001	550

(*) Companies directly or indirectly controlled by Chairman of the Board of Directors Diego Della Valle.

Due to the fact that the above mentioned amounts are not significant, the disclosure hasn't been provided separately in the face of the financial statements in accordance with CONSOB resolution n. 155519 of July 27th, 2006.

Compensation of Directors, Statutory Auditors, and General Managers

The following table illustrates the compensation accrued in fiscal 2018 by each of the Directors, Statutory Auditors, Executives with Strategic Responsibilities of TOD'S S.p.A. (including for the activities that they performed at subsidiaries) for any reason and in any form:

euro 000's	Compensation for office	Compensat. for part. in Commit.	Non cash benefits	Bonus and other incentives	Compens. as employ. compens.	Other compens.
Directors						
Diego Della Valle (*)	1,836.5	9.9				
Andrea Della Valle (**)	1,236.5	9.9				
Luigi Abete	35.9	8.9				
Maurizio Boscarato	36.5	12.2				220.0 ⁽²⁾
Marilù Capparelli	26.7					
Sveva Dalmasso	36.5	15.9				
Emanuele Della Valle	35.2					
Gabriele Del Torchio	26.4					
Romina Guglielmetti	36.5	21.4				7.7 ⁽⁴⁾
Umberto Macchi di Cellere (***)	171.1	7.4	9.7		755.6	⁽¹⁾
Emilio Macellari (****)	251.5	9.9				480.0 ⁽²⁾
Vincenzo Manes	36.5	27.2				
Cinzia Oglio	36.5		2.9	31.0	155.4	
Emanuela Prandelli	26.7					
Pierfrancesco Saviotti	35.2	2.5				
Stefano Sincini (*****)	422.6	2.5	1.3			
Total	4,287.0	127.7	13.9	31.0	911.0	707.7
Statutory Auditors						
Giulia Pusterla (****)	90.0					
Enrico Colombo	60.0					60.1 ^{(3) (4)}
Fabrizio Redaelli	60.0					
Total	210.0					60.1
Executives with strategic responsibilities (*****)		7.4	12.5	34.7	1,116.9	15.0 ⁽¹⁾

Legend

- | | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| (*) Chairman of Board of Directors | ⁽¹⁾ Director of subsidiary |
| (**) Vice Chairman of Board of Directors | ⁽²⁾ Consultant TOD'S S.p.A. |
| (***) Chief Executive Officer | ⁽³⁾ Statutory Auditor of subsidiary |
| (****) Member of Executive Committee | ⁽⁴⁾ Member of Compliance Program Supervisory Board |
| (***** Chairman of the Statutory Board | |
| (***** Includes General Directors salaries limited to compensation for the employment relationship. | |
| (***** Includes compensation up to the termination of its office as a Director occurred on April 19 th , 2018. | |

The table above does not include the indemnities for termination of the office as a Director and for the employment relationship of the Chief Executive Officer and General Manager Mr. Stefano

Sincini for which reference is made to the press release published on the website www.todsgroup.com on March 13th, 2018.

No severance indemnity is provided for Directors and Executives with Strategic Responsibilities.

Intercompany transactions

TOD'S S.p.A. has commercial and financial relationships with the companies in which it directly or indirectly owns a controlling equity interest. The transactions executed with them substantially involve the exchange of goods, provision of services and the provision of financial resources. They involve ordinary operations and are settled on an arm's length basis. The following table shows the country breakdown of the value of commercial relationships with subsidiaries in 2018:

euro 000's	N° Companies	12.31.18			12.31.17		
		Receivables	Payables	Net Revenues/ (costs)	Receivables	Payables	Net Revenues/ (costs)
Italy	6	31,472	22,477	27,412	21,791	14,645	34,767
Albania	1		737	(4,512)		352	(2,442)
Austria	1	1,034	1	3,534	3,193		4,199
France	3	3,144	3,234	5,978	4,897	3,191	10,284
Germany	2	2,594	513	8,188	2,909	536	9,686
Great Britain	4	5,750	640	14,771	7,000	397	20,185
Denmark	1	66	23	18	123	1	254
Netherlands	2	1,085	9	4,694	1,533	305	5,625
Switzerland	2	2,940	45	9,196	3,272	11	9,982
Spain	2	2,530	78	5,355	1,215	74	5,132
Hungary	1	(325)	484	(1,646)	-	570	(1,353)
Belgium	1	87	9	653	207	19	487
Usa	14	20,242	1,670	21,986	8,983	1,982	17,465
Japan	2	262	11	863	172	5	649
Hong Kong	2	27,244	2,271	75,307	18,051	1,044	58,984
Singapore	2	27	3	130	13	5	78
Korea	2	12,401	1	23,785	8,235	21	20,704
Macao	2	44	0	125	14		74
China	3	27,710	5,261	42,604	22,458	2,421	45,186
Brazil							103
Australia	2	26	1	62			
India	1	123	13	31	154	5	28
Total	56	138,456	37,482	238,535	104,222	25,584	240,076

The receivables and payables recognised by the Italian companies include the receivables and payables resulting from the tax consolidation program, totalling 9 thousand euros and 10,741 thousand euros, respectively.

Following below are the details of the financial and capital transactions:

euro 000's	Financing	
	12.31.18	12.31.17
ROGER VIVIER S.p.A.	9,000	9,000
TOD'S AUSTRIA GMBH	2,300	
TOD'S DANMARK APS	200	
TOD'S AUSTRALIA PTY LTD	339	
Total	11,839	9,000

Financial receivables relate to:

- For 9 million euros related to the outstanding loan lent to subsidiary Roger Vivier S.p.A. on January 27th, 2016 with a duration of 12 months, renewed up to January 27th, 2019;
- For 2.3 million euros related to a loan lent to the controlled company TOD'S Austria GmbH on November 21st, 2018, which will be all reimbursed at the expiring date. The loan bears quarterly interests computed on a variable rate at a market condition;
- For 0.2 million euros related to the credit line lent to subsidiary TOD'S Danmark APS on December 12th, 2018 for a maximum amount of 0.2 million euros with a duration limit of 12 months. The loan bears quarterly interests computed on a variable rate at a market condition;
- For 0.3 million euros related to a loan with a duration of 5 years, lent to the controlled company TOD'S Australia PTY Ltd. on September 21st, 2018, for an amount of 550 thousand AUD, which will be all reimbursed at the expiring date. The loan bears quarterly interests computed on a variable rate at a market condition.

29. Events and significant non-recurring transactions

Pursuant to Consob Communication No. DEM/6064293 of July 28th, 2006, the Company did not carry out any significant non-recurring operations in 2018.

30. Independent Auditors compensation

Pursuant to Article 149-*duodecies* of the Issuers Regulation, the compensation received in FY 2018 by the independent auditor PricewaterhouseCoopers S.p.A. and the companies belonging to its network are illustrated below, as broken down into auditing services and the provision of other services:

Type of service	Company	Receiver	Fees euro's 000
Auditing services	PricewaterhouseCoopers S.p.A.	TOD'S S.p.A.	153
Other services	PricewaterhouseCoopers S.p.A.	TOD'S S.p.A.	20
Auditing services	PricewaterhouseCoopers S.p.A.	Subsidiaries	33
Total PricewaterhouseCoopers S.p.A.			206
Auditing services	PricewaterhouseCoopers (Network)	Subsidiaries	159
Other services	PricewaterhouseCoopers (Network)	TOD'S S.p.A.	29
Other services	PricewaterhouseCoopers (Network)	Subsidiaries	121
Total PricewaterhouseCoopers Network			308

31. Items or transactions resulting from unusual and/or exceptional transactions

There were no items or transactions resulting from unusual and/or exceptional transactions during the year.

32. Information in accordance with the Law n. 124/2017

During the year the Company received subsidies, contributions, engagements paid and, anyway, economic advantages in accordance with the Law 124/2017 art. 1, subsection 125, for a total amount of 171,635 euro. The following table summarizes the data related to both the lenders, amount received and a brief description of the reasons why the benefit was achieved.

euro		
Lender	Allowance received	Reason
IAL Innovazione Apprendimento Lavoro Marche Srl Impresa sociale	8,800	Allowance for projects, coordination and evaluation activities of training sessions in the shoes sector
Fondimpresa - Fondo interprofessionale	141,714	Allowances for training of blue collars, white collars and managers
Fondirigenti - Fondo interprofessionale	6,371	Allowances for training of directors
Agenzia Nazionale Politiche Attive del Lavoro	14,750	Botteghe project - Luxury Digital Factory (Experiments of active politics)
	171,635	

It is highlighted that the benefits received have been summarized in accordance with the cash principle and, as a consequence, the table above shows subsidies, contributions, engagements paid and, anyway, economic advantages which have been collected during the year 2018, without taking into consideration the accrual basis.

33. Significant events occurring after the end of the fiscal year

No significant events occurred after the end of the reporting period.

34. Certification of the Separate Financial Statements of TOD'S S.p.A. and the Consolidated Financial Statements of the TOD'S Group pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14th, 1999, as amended

1. The undersigned Umberto Macchi di Cellere, Chief Executive Officer of TOD'S S.p.A., and Rodolfo Ubaldi, manager responsible for the drawing up of the financial reports of TOD'S S.p.A., certify, in accordance with the provisions of Article 154-bis, subsections 3 and 4, of Legislative Decree no. 58 of February 24th, 1998:

- the adequacy in terms of the company's characteristics and
- effective application

of administrative and accounting procedures for preparation of the Separate Financial Statements and Consolidated Financial Statements during the period January 1st, 2018 to December 31st, 2018.

2. They also certify that the Separate Financial Statements and Consolidated Financial Statements:

- a) have been prepared in compliance with the International Financial Reporting Standards recognised in the European Union pursuant to Regulation EC 1606/2002 of the European Parliament and Council of July 19th 2002;
- b) correspond with the account books and ledger entries;
- c) give a true and fair view of the assets, liabilities, income and financial position of the issuer and entities included in the scope of consolidation.

3. Report on operations provides a reliable analysis of the issuer's operating performance and income, as well as the financial position of the issuer and all the businesses included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Milan, March 11th, 2019

Umberto Macchi di Cellere
Chief Executive Officer

Rodolfo Ubaldi
Manager responsible for the drawing up of the financial reports

TOD'S

TOD'S s.p.a.

D'S

Independent auditor's report

s.p.a.



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
TOD'S SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of TOD'S SpA (the "Company"), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of comprehensive income, the statement of changes in equity and 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 of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 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 this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Allowance for inventory write-downs

(See note no. 12 to the separate financial statements)

Final inventories of raw materials, semi-finished and finished products, amounting to Euro 233 million at 31 December 2018 (about 16 per cent of total assets), are carried net of an allowance for inventory write-downs of Euro 52 million, which is about 18 per cent of the value of final inventories.

The allowance for inventory write-downs is estimated with reference to raw materials on the basis of their possibility of use within the production process and as regards finished products based on the ageing of collections in stock and their foreseeable usage through the TOD'S Group distribution channels.

We focused on the allowance for inventory write-downs taking account of its relevance in absolute terms and the complexity of the estimates performed by TOD'S management to evaluate it.

We obtained the calculation of the consolidated allowance for inventory write-downs prepared by TOD'S management and we verified its mathematical accuracy.

In relation to raw materials, we evaluated the adequacy of the allowance by checking the adequacy of the write-down percentages used by the Parent Company that we compared for consistency with those of the previous years, with historical data and with products scrapped in the year, as well as by performing analysis targeted on no or slow - moving raw material categories.

With reference to finished products we evaluated the adequacy of the allowance by verifying the adequacy of the write-down percentages used by the Parent Company on unsold items referred to one season/collection, checking the consistency of these percentages with the previous years, analysing the historical sale trend of non-current collections over the TOD'S Group distribution channels and products scrapped in the year, as well as by verifying the adequacy throughout the years of the amount of the allowance for inventory write-downs initially accrued in relation to each season/collection.

In order to ascertain whether additional write-downs needed to be made, we also carried out analyses on the sales with negative margins realised in the subsequent year.

Key Audit Matters

Auditing procedures performed in response to key audit matters

Equity investment in Roger Vivier

(See note no.9 to the separate financial statements)

The investment in Roger Vivier SpA, fully owned by TOD'S SpA, is recorded in the separate financial statements as at 31 December 2018 at the historical cost of Euro 415 million, accounting for about 29 per cent of total assets.

The investment is valued at historical cost and tested for impairment, i.e. a testing aimed to verify if the recoverable amount is higher than its carrying amount, when impairment indicators exist.

Specifically, in order to identify any impairment indicator, the Company verified that the impairment test performed in the financial statements of Roger Vivier SpA at 31 December 2018 on the Roger Vivier brand, recognised for Euro 416 million, did not highlight the need to make any write-downs.

We focused our attention on the investment in Roger Vivier SpA because it consists of a significant amount, its valuation process is complex and it requires a high degree of professional judgement, since the recoverability of its value is closely connected with that of the Roger Vivier brand.

We verified if any impairment indicators existed in relation to the investment in Roger Vivier SpA by reviewing the results of the impairment test performed on the Roger Vivier brand by TOD'S management.

Within this context, we verified the reasonableness of the Roger Vivier 2019 budget and the additional projections for the explicit period of the impairment test, as well as the reasonableness of the underlying key assumptions. In particular, we focused our attention on the reasonability of the increase in revenue checking its consistency with the historical growth trend of revenue.

We also evaluated the reliability of the projections made by management, verifying that the 2018 budget had been achieved and analysing the actual data in the first two months of 2019.

Finally, we verified, with the support of PwC network experts in evaluations, the consistency of the impairment model adopted by the Company with the standard evaluation practice, as well as the adequacy of the key assumptions used by management and the accuracy of the calculations.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in 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.



Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses 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, in the terms prescribed by law, 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

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



We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and 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 these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 19 April 2012, the shareholders of TOD'S SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of TOD'S SpA is responsible for preparing a report on operations and a report on corporate governance and ownership structure of TOD'S SpA as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of TOD'S SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.



In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of TOD'S SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Ancona, 27 March 2019

PricewaterhouseCoopers SpA

Signed by

Edoardo Orlandoni
(Partner)

This report has been translated into English from the original, which was issued in Italian language, solely for the convenience of international readers.