# OVS

**ANNUAL REPORT**

**2017**

# CONTENTS

# COMPANY INFORMATION

**Registered office of the Parent Company**

OVS S.p.A.

Via Terraglio n. 17 – 30174

Venice – Mestre

**Legal details of the Parent Company**

Authorised share capital €227,000,000.00

Subscribed and paid-up share capital €227,000,000.00

Venice Companies Register no. 04240010274

Tax and VAT code 04240010274

Corporate website: www.ovscorporate.it

# CORPORATE OFFICERS

## *Board of Directors*

| | |
|---|---|
| Nicholas Stathopoulos (2) | Chairman |
| Stefano Beraldo | Chief Executive Officer and General Manager |
| Vincenzo Carriello (1) (2) | Director |
| Stefania Criveller | Director |
| Gabriele Del Torchio (1) (2) | Director |
| Stefano Ferraresi | Director |
| Heinz Jürgen Krogner-Kornalik (2) | Director |
| Chiara Mio (1) | Director |
| Marvin Teubner | Director |

(1) Member of the Control, Risks and Sustainability Committee

(2) Member of the Appointments and Remuneration Committee

## *Board of Statutory Auditors*

| | |
|---|---|
| Paola Camagni | Chairman |
| Roberto Cortellazzo Wiel | Standing Auditor |
| Eleonora Guerriero | Standing Auditor |
| Antonella Missaglia | Alternate Auditor |
| Stefano Poggi Longostrevi | Alternate Auditor |

## *Independent auditor*

PricewaterhouseCoopers S.p.A.

## *Director responsible for preparing the company's accounting statements*

Nicola Perin

# REPORT ON OPERATIONS

## Further growth and consolidation of leadership in the domestic market in a context that is still difficult. Expansion continues in foreign markets.

In 2017 OVS continued the consolidation of the domestic market thanks to the growth of both brands, allowing to strengthening the leadership in Italy and generating further increase in market share, which rose from 7.37% to 7.84% in one year. Moreover, the presence of the brands in international markets was further developed. The growth achieved through the organic expansion of the network led the Group to reach a total of 307 stores abroad, with a turnover of Euro 58.8 million (+34% compared to the previous year). On top of this, the conversion of the Swiss and Slovenian network of Sempione Fashion AG (formerly Charles Vögele) took place.

- ✓ Net sales for the year were €1,525.7 million, up 12% compared with the previous year, or up 4% excluding the sell-in to Sempione Fashion AG.
- ✓ Adjusted EBITDA was €196.5 million, up €9.8 million (+5.3% vs. 2016). See page 6 for further details.
- ✓ The net result adjusted was €106.5 million, up €14.7m (+16.0%). See page 6 for further details.
- ✓ Market share in Italy has now reached 7.84%, gaining 47 bps compared with the beginning of the period: this was again better than any other group and strengthened our leadership role. European market share is also expanding.
- ✓ The adjusted net financial position was €317.9 million (excluding the non-cash item of -€59.9 million relating to the mark-to-market impact of outstanding derivatives).
- ✓ In light of the foreseeable plans for the physical and digital expansion, as well as the network restructuring planned for the current year from which a significant positive contribution is expected, it is proposed to not distribute any dividend for the financial year ending 31 January 2018.

## Summary consolidated figures

The following table summarizes the Group's consolidated data.

| €mln | 31 January '18 | 31 January '18 Adjusted | 31 January '17 | 31 January '17 Adjusted | chg. (Adjusted) | chg. % (Adjusted) |
|---|---|---|---|---|---|---|
| **Net Sales** | 1,525.7 | 1,525.7 | 1,362.6 | 1,362.6 | 163.1 | 12.0% |
| Net Sales excluding sell in SF * | | 1,415.1 | | 1,362.6 | 52.5 | 3.9% |
| **Gross Profit** | 824.3 | 828.8 | 774.7 | 785.8 | 43.1 | 5.5% |
| *% on net sales* | *54.0%* | *58.6%* | *56.9%* | *57.7%* | | |
| **EBITDA** | 174.8 | 196.5 | 169.3 | 186.7 | 9.8 | 5.3% |
| *% on net sales* | *11.5%* | *13.9%* | *12.4%* | *13.7%* | | |
| **EBIT** | 112.0 | 142.4 | 110.3 | 136.3 | 6.1 | 4.5% |
| *% on net sales* | *7.3%* | *10.1%* | *8.1%* | *10.0%* | | |
| **EBT** | 9.5 | 133.6 | 105.8 | 121.6 | 12.0 | 9.9% |
| *% on net sales* | *0.6%* | *9.4%* | *7.8%* | *8.9%* | | |
| **Net Profit** | 5.1 | 106.5 | 78.0 | 91.8 | 14.7 | 16.0% |
| *% on net sales* | *0.3%* | *7.5%* | *5.7%* | *6.7%* | | |
| **Net Financial Debt** | 377.8 | 317.9 | 265.8 | 283.2 | 34.7 | 12.3% |
| **Market Share (%)** | | 7.8 | | 7.4 | 0.5 | 6.4% |

The table above illustrates the adjusted results, used to represent the Group's operating performance, net of non-recurring events; the adjusted results therefore allow an analysis of the Group's performance based on more homogeneous data for the two periods that are being represented. The differences are the following:

1. the EBITDA was adjusted mainly for: a) €13.5 million for the accrual to the provision for doubtful accounts related to a portion of the receivable from Sempione Fashion AG, b) €4.6 million for the reclassification of financial incomes, which reflects the impact of the hedging for the merchandising sold during the year, and c) €3 million for the non-cash impact relating to stock option costs;
2. profit before tax and the net result were adjusted, other than the elements above, for the following items: a) €77.3 million for the non-cash impact of the mark-to-market deriving from the EUR/USD hedge for purchases of merchandise in 2018 and 2019, b) €12.8 million of one-off costs relating to the write-down of the Sempione Retail AG financial receivable and c) €8.3 million of one-off costs related to the write-down of the equity investment in Sempione Retail AG;
3. the adjusted net financial position is presented excluding the liability relating to mark-to-market of outstanding derivatives accounting (€59.9 million). Accounting method of these derivatives will result in

a switch of its negative effect (from negative to positive) in 2018 and 2019 with a foreseeable material positive impact on the Group's profitability;

4. the write down of the commercial receivable (see above 1.a), the financial receivable (see above 2.b) and the investment (see above 2.c), reflected the difficult turnaround of the companies of Sempione Fashion Group resulting from negative trading performance in the last period.

* In order to give a picture of the organic business and make it comparable to the previous year, the net sales figure used to calculate the financial KPIs was adjusted to exclude sales under the service contract with the companies of Sempione Fashion Group.

## Performance

2017 was a year of acceleration in economic growth and a first sign of return to inflation in Europe. GDP growth in the Eurozone, came in at +2.3%. In 2017, the Italian economy saw a strengthening of the recovery of the previous year, with a GDP growth of 1.5% (+0.9% in 2016), but was nevertheless affected by political and economic uncertainties, particularly towards the end of the year and the start of the new year, mainly due to the imminent general election. The recovery at the macroeconomic level has resulted, in part, in an upturn in consumption, which however did not affect the clothing sector that fell by 1.5% with reference to FY 2017.

Our industry is undergoing a period of profound, structural and rapid transformation. Many of our competitors, which are present in Italy and abroad, have long been reporting discouraging results and this is something that stimulates us to continue the constant process of improvement of our business model. Some changes may be considered epochal, such as the new paradigms of the “value” segment (or perhaps better to say “super-value” segment) that characterise businesses driven by volumes, with new and lower price positioning, or like the digital and multi-channel revolution, bringing challenges for the physical sales network. Other, long-term changes will be more gradual, but no less significant, such as the increasing focus on business sustainability and the circular economy. There is more than one response to these and other changes: companies in the sector must be agile, reactive, and able to clearly convey to their customers the reason why they should be chosen in preference to their rivals. Competitive prices are necessary, but they can no longer be considered sufficient. Stores have to be more attractive. The digitisation process is essential, not only to support multi-channel relationships with the end-customer, but also to accelerate and implement internal processes, from planning to distribution. The supply chain must be ever more flexible and responsive, getting closer and closer to a complete “pull” model, able to satisfy all customer needs and sometimes anticipate them.

Consumption in Italy that is still weak, combined with an industry undergoing profound change, as well as unfavorable weather conditions and the significant level of inventory of all the competitors which caused strong promotions, resulted in a contraction of 1.3% with reference to 2017 in the Italian clothing market and high volatility in 2017, with sharp decreases in October and January (-8.6% and -5% respectively). The contraction of the clothing market in Switzerland, the core market of OVS's main franchisee, Sempione Fashion and its subsidiaries, was even more pronounced, dropping by as much as -5.2%. Both markets were subject to significant pressure on margins, the consequence of a further increase in competition among the various players, and a decrease in store traffic, partly due to the growth of the online channel.

Despite the difficult context, the Group's results have been solid. The OVS Group's like-for-like sales were flat throughout 2017, before contracting in January due to a steep decline in the market, which took total like-for-like sales for the full year into slightly negative territory (-1.1%).

The consolidation of the domestic market continued in line with the Group strategy. OVS' Italian market share topped 7.8%, again growing more than that of all our other competitors in absolute terms, and demonstrating that the company, with the OVS and UPIM brands, is well positioned to respond to the challenges described than any other.

In 2017, the network grew by 151 stores between Italy and abroad, reaching a total network of 1,624 stores, 744 of which are directly operated. To this figure can be added the 140 Swiss and 11 Slovenian stores in franchising, converted into OVS stores thanks to the commercial agreement signed with Sempione Fashion AG. 2017 was an exceptional year for the OVS Group in terms of international growth: excluding the commercial agreement with Sempione Fashion AG, the sales area of the OVS brand grew by 43% with expansion in eight new markets, 62 new stores (including 14 full-format stores), mainly in franchising, and the consolidation of the Spanish market, which had 50 stores from a total of 238 in 33 foreign countries at the end of the year. To date, openings in Italy and in countries that are the result of organic growth, from Spain to Saudi Arabia, from Iran to the Balkans, perform in line or above expectations. The Swiss market, on the other hand, is proving to be more difficult than expected, requiring more time because of the current difficult market moment, as well as the need for a radical change in the customer base, which is now certainly rejuvenated. The flow of new customers in the first season after the conversion of the stores did not entirely offset the loss of the traditional clientele . Numerous research has shown that the OVS brand has been well received, but the need to intervene on some of its components has emerged to make them more coherent with the specificities of the market.

Total sales exceeded €1.5 billion, up 12% (or 3.9% excluding the sell-in to Sempione Fashion Group) compared to the same period of the previous year. E-commerce sales continued in line with forecasts in 2017, doubling by comparison with 2016, thanks to both the OVS website and the marketplaces in European countries. The attention to the multi-channel approach and the consequent better customer service provided, contributed among other things, to an increase in the in-store conversion rate of +4.7%. The investments made by the Group in 2017, with the introduction of a new Digital Transformation Director and a new CRM manager, demonstrate the clear path taken by the company in this regard.

Thanks to the synergies deriving from the greater volumes purchased as a result of the growth of the business, as well as the continuous diversification in the procurement of merchandise, Gross Margin is improving.

Furthermore, given the recent trend of the EUR/USD exchange rate and in light of accounting of derivatives, OVS will benefit from a favourable exchange rate both in 2018 and 2019.

The operating margins are therefore significantly higher than in the previous period. On the other hand, it has to be emphasised that the Group's international growth in 2017 entailed certain costs as well as long-term benefits. However, most of the costs are one-offs, while synergies in sourcing are ongoing positive components for the benefit of the present and the years to come.

The net income is affected by one-offs and extraordinary costs, while the net income adjusted, generated by the recurring business and cleared of the aforementioned elements, is equal to €106.5m, increasing by €14.7m (+16.0%) compared to the previous year.

## Consolidated results

| €mln | 31 January '18 | 31 January '18 Adjusted | 31 January '17 | 31 January '17 Adjusted | chg. (Adjusted) | chg. % (Adjusted) |
|---|---|---|---|---|---|---|
| **Net Sales** | **1,525.7** | **1,525.7** | **1,362.6** | **1,362.6** | **163.1** | **12.0%** |
| **Net Sales excluding sell in to Sempione Fashion *** | | **1,415.1** | | **1,362.6** | | |
| Purchases of consumables | 701.4 | 696.8 | 587.9 | 576.8 | 120.0 | 20.8% |
| **Gross Margin** | **824.3** | **828.8** | **774.7** | **785.8** | **43.1** | **5.5%** |
| *GM%* | *54.0%* | *58.6%* | *56.9%* | *57.7%* | | |
| Personnel costs | 293.0 | 289.5 | 277.8 | 275.2 | 14.3 | 5.2% |
| Costs for services | 191.8 | 191.7 | 176.3 | 175.4 | 16.4 | 9.3% |
| Rent costs | 125.3 | 125.2 | 126.0 | 126.0 | (0.8) | (0.6%) |
| Provisions | 15.2 | 1.7 | 1.2 | 1.2 | 0.5 | 43.3% |
| Other operating costs | 24.2 | 24.2 | 24.1 | 21.4 | 2.8 | 13.3% |
| Total operating costs | 649.5 | 632.3 | 605.4 | 599.1 | 33.2 | 5.5% |
| *Total operating costs on net sales %* | *42.6%* | *44.7%* | *44.4%* | *44.0%* | | |
| **EBITDA** | **174.8** | **196.5** | **169.3** | **186.7** | **9.8** | **5.3%** |
| *EBITDA%* | *11.5%* | *13.9%* | *12.4%* | *13.7%* | | |
| Depreciation & Amortization | 62.7 | 54.1 | 59.0 | 50.4 | 3.7 | 7.4% |
| **EBIT** | **112.0** | **142.4** | **110.3** | **136.3** | **6.1** | **4.5%** |
| *EBIT %* | *7.3%* | *10.1%* | *8.1%* | *10.0%* | | |
| Net financial (income)/charges | 102.5 | 8.8 | 4.5 | 14.7 | (5.9) | (40.3%) |
| **PBT** | **9.5** | **133.6** | **105.8** | **121.6** | **12.0** | **9.9%** |
| Taxes | 4.5 | 27.1 | 27.8 | 29.8 | (2.7) | (8.9%) |
| **Net Income** | **5.1** | **106.5** | **78.0** | **91.8** | **14.7** | **16.0%** |

| €mln | 31 January '18 | 31 January '17 | Chg % |
|---|---|---|---|
| **Net Sales** | | | |
| OVS | 1,186.3 | 1,150.9 | 3.1% |
| UPIM | 228.8 | 211.7 | 8.0% |
| Sempione Fashion AG | 110.6 | | |
| **Total Net Sales** | **1,525.7** | **1,362.6** | **12.0%** |
| **EBITDA** | | | |
| OVS | 169.9 | 164.3 | 3.4% |
| *EBITDA margin* | *14.3%* | *14.3%* | |
| UPIM | 26.6 | 22.4 | 18.7% |
| *EBITDA margin* | *11.6%* | *10.6%* | |
| **Total EBITDA** | **196.5** | **186.7** | **5.3%** |
| ***EBITDA margin*** | ***13.9%*** | ***13.7%*** | |
| Depreciation | (54.1) | (50.4) | 7.4% |
| **EBIT** | **142.4** | **136.3** | **4.5%** |

## Net sales

Total sales increased by €163.1 million (+12%), thanks to the development of the network (+3.9%) and sales to companies of Sempione Fashion Groups (+8.1%). Like-for-like growth was flat throughout 2017, with the exception of January, the month in which the entire sector suffered a sharp contraction with a double-digit decline for both brands as for the market. The single month of January has thus led to a decrease in sales on a like-for-like whole basis of 1.1% over the entire year.

The network branded OVS registered an increase in sales of 3.1% (+€35.4 million), driven by the steady expansion of the network in Italy and abroad and the growth of the e-commerce channel. The results have to be considered positive, in an Italian market which contracted in 2017.

UPIM brand registered strong sales growth of 8.0% (+€17.0 million), benefiting from the positive development of the full-format UPIM network and kids franchising (Blukids).

## Gross margin

The gross margin on sales net of the sell-in to companies of Sempione Fashion Group grew markedly compared with the previous year (+90 bps year-on-year), increasing from 57.7% of net sales in 2016 to 58.6% in 2017. The growth was entirely attributable to growth in the intake margin, only partly offset by a greater use of promotional leverage to counteract the weak sales trend. It should be noted that the good performance in terms of intake benefited from the effect of the synergies that the company was able to develop in its sourcing activities thanks to the expansion resulting from international development.

While considering exogenous factors such as the inflationary impact on the costs of raw materials, the company expects that in the next year it will be able to maintain, if not increase, the effect of the synergies already partly achieved this year due to the incremental volume of expected purchases.

Looking instead at sales to the Swiss partner and its subsidiaries (made at zero margin), the gross margin was diluted and equal to 54.3% of total revenues.

### EBITDA

EBITDA adjusted to better reflect the company's operating performance was €196.5 million, up €9.8 million, or 5.3%, compared with €186.7 million in 2016. EBITDA margin (excluding the sell-in to companies of Sempione Fashion Group) improved by about 20 bps (from 13.7% to 13.9%). This was made possible by an increase in the gross margin from 57.7% to 58.6%, as well as another benefit in terms of operating leverage due to new openings and profitable network restructurings.

Both brands achieved growth in their results, despite a difficult end to the year: OVS contributed with €169.9 million, up +€5.7 million (+3.4%) compared with 2016, while UPIM grew by +€4.2 million (+18.7%) year-on-year.

### EBIT

EBIT adjusted to better reflect the company's operating performance, was €142.4 million, an improvement of €6.1 million, or 4.5%, compared with the previous year. Depreciation and amortisation increased slightly as a result of the network expansion activities and investments in operations.

### Net result

The adjusted net result[1] was €106.5 million, up +€14.7 million compared with 2016, with a lower tax rate due to the lower IRES rate and other benefits (R&D, iper-amortization, etc). Main adjustments compared to the net result arise from costs related to the accounting of the mark-to-market of outstanding derivatives, and from the write-downs of trade and financial receivables from the investee Sempione Retail AG, as well as to the investment as a minority. At this regard, it needs to be underlined that Sempione Retail is continuing the turnaround process, which will require more time than expected, also because impacted by a Swiss market that declined significantly in 2017.

### Net financial position

At 31 January 2018, the Group's adjusted net financial position was €317,9 million net of the mark-to-market effect of outstanding derivatives (-€59.9 million). OVS purchases most merchandise in USD, and therefore uses forward management hedging instruments to guarantee costs for the purchase of goods not influenced by exchange rate fluctuations if compared to forecast ones. The accounting standards require the mark-to-market valuation of the instruments used and the accounting impact is due to the strengthening of the Euro against the Dollar recorded in the second half of the period. The cost entry is a non-cash item mainly deriving from the difference between the exchange rate hedging of the goods expected to be purchased mainly in 2018 in USD and the actual exchange rate EUR/USD at the closing date of 31 January 2018. The ratio of net financial position to EBITDA at year-end, excluding the mark-to-market

[1] Please see note 2 on page 6.

effect, was 1.6x, largely in line with January 2017. The current spot interest rate is 2.50% + Euribor 3M (currently around 0%).

### Summary statement of financial position

| €m | 31 January '18 | 31 January '17 | Chg |
|---|---|---|---|
| Trade Receivables | 113.0 | 75.3 | 37.7 |
| Inventory | 387.9 | 340.6 | 47.4 |
| Trade Payables | (403.4) | (367.7) | (35.7) |
| **Net Operating Working Capital** | **97.5** | **48.2** | **49.3** |
| Other assets/(liabilities) | (51.2) | (79.0) | 27.8 |
| **Net Working Capital** | **46.3** | **(30.9)** | **77.2** |
| Tangible and Intangible Assets | 1,365.8 | 1,368.9 | (3.0) |
| Net deferred taxes | (134.3) | (140.9) | 6.7 |
| Other long term assets/(liabilities) | (14.7) | (11.8) | (2.9) |
| Pension funds and other provisions | (43.7) | (47.7) | 4.0 |
| **Net Capital Employed** | **1,219.5** | **1,137.6** | **81.9** |
| Net Equity | 841.7 | 871.7 | (30.0) |
| Net Financial Debt | 377.8 | 265.8 | 112.0 |
| **Total source of financing** | **1,219.5** | **1,137.6** | **81.9** |

### Shareholders' equity

Consolidated shareholders' equity stood at €841.7 million at 31 January 2018, up year-on-year due to the profit generated in the year, net of dividends of €34 million paid out in June 2017.

## Summary statement of cash flows

| €m | 31 January '18 | 31 January '17 |
|---|---|---|
| **EBITDA Adjusted** | **196.5** | **186.7** |
| Adjustments | (21.7) | (17.4) |
| Change in Net Operating Working Capital | (49.3) | (56.3) |
| Other changes in Working Capital | 9.9 | 7.3 |
| Capex | (68.0) | (62.5) |
| **Operating Cash Flow** | **67.3** | **57.8** |
| Financial charges | (14.2) | (15.3) |
| Corporate taxes | (46.9) | (36.6) |
| Dividends | (34.1) | (34.1) |
| Financial receivables depreciation | (5.5) | |
| Others | (1.4) | (1.7) |
| **Net Cash Flow (excl derivatives MtM and amortised costs)** | **(34.7)** | **(29.9)** |
| MtM derivatives | (77.3) | (0.9) |
| **Net cash flow** | **(112.0)** | **(30.8)** |

## Cash flow

Operating cash flow improved by +€9.5 million in 2017, compared with the previous year, despite (i) the increase in investments of €5.5 million, and (ii) the impact on trade working capital of the phase of international expansion through the franchising network, particularly that relating to Sempione Fashion. The increase in net working capital remained under control, in line with the activities implemented and the process of the Group's international expansion. Excluding the absorption deriving from Sempione Fashion, the working capital would have increased by about €10m. Net cash flow was largely in line with the previous year, despite larger outflows for tax, which will benefit the payment of the balance next year.

## Dividends

The Board of Directors has resolved not to propose the payment of dividends to the shareholders' meeting.

## Consolidated results for 2017

The following table shows the Group's consolidated results for 2017, including the effect of non-recurring expenses, the Stock Option Plan, amortisation of PPA operations of previous periods, write-downs of trade receivables, the fair value of derivatives held for trading and foreign exchange gains and losses (recorded under financial income from net foreign exchange gains) on forward instruments relating to this period:

| €mio | 31 January 2018 | of which non-recurring | forex reclassification | | of which Stock Option plan, derivatives, PPA, depreciation of receivables | | 31 January 2018 adjusted |
|---|---|---|---|---|---|---|---|
| Net sales | 1,525.7 | 0.0 | 0.0 | | 0.0 | | 1,525.7 |
| Other income | 73.4 | 0.0 | 0.0 | | 0.0 | | 73.4 |
| **Revenues and other income** | **1,599.1** | **0.0** | **0.0** | | **0.0** | | **1,599.1** |
| Purchases of consumables | 701.4 | 0.0 | 4.6 | (a) | 0.0 | | 696.8 |
| Personnel cost | 293.0 | 0.6 | 0.0 | | 3.0 | (b) | 289.5 |
| Other opereting costs | 430.0 | 0.1 | 0.0 | | 13.5 | (c) | 416.4 |
| **EBITDA** | **174.8** | **(0.7)** | **(4.6)** | | **(16.5)** | | **196.5** |
| Depreciation & Amortization | 62.7 | 0.0 | 0.0 | | 8.6 | (d) | 54.1 |
| **EBIT** | **112.0** | **(0.7)** | **(4.6)** | | **(25.1)** | | **142.4** |
| Net financial income/(charges) | (102.5) | (21.1) | 4.6 | (a) | (77.3) | (e) | (8.8) |
| **PBT** | **9.5** | **(21.8)** | **0.0** | | **(102.3)** | | **133.6** |
| Taxes | (4.4) | 0.2 | 0.0 | | 22.5 | | (27.1) |
| **Net Profit** | **5.1** | **(21.6)** | **0.0** | | **(79.8)** | | **106.5** |

(a) they include foreign exchange differences on forward hedges of goods purchases in foreign currency, reclassified from "Financial income (charges)", and positive for € 4.6 million in 2017.
(b) they refer to cost of Stock Option Plan, for € 3.0 million.
(c) they refer to depreciation of receivables from companies of Sempione Fashion Group for € 13.5 million.
(d) they refer to depreciation of PPA operations, for € 8.6 million.
(e) they refer to the change in fair value of non-hedging derivatives, negative for € 77.3 million.

The Group's consolidated results for 2016 are reported below, with the same records as the table relating to results for 2017.

| €mio | 31 January 2017 | of which non-recurring | forex reclassification | of which Stock Option plan, derivatives, PPA | 31 January 2017 adjusted |
|---|---|---|---|---|---|
| Net sales | 1,362.6 | 0.0 | 0.0 | 0.0 | 1,362.6 |
| Other income | 66.8 | 0.0 | 0.0 | 0.0 | 66.8 |
| **Revenues and other income** | **1,429.4** | **0.0** | **0.0** | **0.0** | **1,429.4** |
| Purchases of consumables | 587.9 | 0.0 | 11.1 (a) | 0.0 | 576.8 |
| Personnel cost | 277.8 | 0.2 | 0.0 | 2.5 (b) | 275.1 |
| Other opereting costs | 394.4 | 3.6 | 0.0 | 0.0 | 390.8 |
| **EBITDA** | **169.3** | **(3.8)** | **(11.1)** | **(2.5)** | **186.7** |
| Depreciation & Amortization | 59.0 | 0.0 | 0.0 | 8.6 (c) | 50.4 |
| **EBIT** | **110.3** | **(3.8)** | **(11.1)** | **(11.1)** | **136.3** |
| Net financial income/(charges) | (4.5) | 0.0 | 11.1 (a) | (0.9) (d) | (14.7) |
| **PBT** | **105.8** | **(3.8)** | **0.0** | **(12.0)** | **121.6** |
| Taxes | (27.8) | 1.0 | 0.0 | 1.0 | (29.8) |
| **Net Profit** | **78.0** | **(2.8)** | **0.0** | **(11.0)** | **91.8** |

(a) they include foreign exchange differences on forward hedges of goods purchases in foreign currency, reclassified from "Financial income (charges)", and positive for € 11.1 million in 2016.
(b) they refer to cost of Stock Option Plan, for € 2.5 million.
(c) they refer to depreciation of PPA operations, for € 8.6 million.
(e) they refer to the change in fair value of non-hedging derivatives, negative for € 0.9 million.

- Revenues, which came in at €1,599.1 million, mainly include the retail sales generated by the OVS and UPIM brands.
- Given by the difference between revenues and operating costs after depreciation and amortisation, net of non-recurring expenses, the Stock Option Plan, depreciation and amortisation of PPA operations of previous periods, write-downs of trade receivables and derivatives held for trading, and adjusted to take account of foreign exchange gains and losses realised on forward instruments stipulated by the Group for management hedging purposes, EBITDA came in at €196.5 million, or 12.9% of revenues. It should be noted that trade receivables from companies of Sempione Fashion Group have been written down for €13.5 million as a risk of recoverability is assumed.
- The net result before tax was positive for €9.5 million, and €133.6 million net of non-recurring expenses and other costs, which are shown in the second and fourth columns of the prospectus.
- Net taxes amounted to €4.4 million, benefiting from a tax credit of €3.1 million for research and development activities in 2015 and 2016.
- The net result was positive for €5.1 million, and positive for €106.5 million net of the above expenses.

## Results of OVS S.p.A.

Profit performance

The tables below set out OVS S.p.A.'s results for 2017 and 2016, showing the effect of non-recurring expenses, the Stock Option Plan, depreciation and amortisation from PPA operations of previous periods, write-downs of trade receivables and derivatives held for trading for the period under review, and are adjusted to take account of foreign exchange gains and losses realised on forward instruments stipulated by the Company for management hedging purposes (€4.6 million in 2017).

| €mio | 31 January 2018 | of which non-recurring | forex reclassification | of which Stock Option plan, derivatives, PPA, depreciation of receivables | 31 January 2018 adjusted |
|---|---|---|---|---|---|
| Net sales | 1,519.5 | 0.0 | 0.0 | 0.0 | 1,519.5 |
| Other income | 72.4 | 0.0 | 0.0 | 0.0 | 72.4 |
| **Revenues and other income** | **1,591.9** | **0.0** | **0.0** | **0.0** | **1,591.9** |
| Purchases of consumables | 743.6 | 0.0 | 4.6 | 0.0 | 739.0 |
| Personnel cost | 282.2 | 0.6 | 0.0 | 3.0 | 278.6 |
| Other opereting costs | 421.0 | 0.1 | 0.0 | 13.5 | 407.4 |
| **EBITDA** | **145.1** | **(0.7)** | **(4.6)** | **(16.5)** | **166.9** |
| Depreciation & Amortization | 61.3 | 0.0 | 0.0 | 8.6 | 52.7 |
| **EBIT** | **83.8** | **(0.7)** | **(4.6)** | **(25.1)** | **114.2** |
| Gains (losses) from equity investments | (2.9) | 0.0 | 0.0 | 0.0 | (2.9) |
| Net financial income/(charges) and exchange rate differences | (85.1) | (21.1) | 4.6 | (77.3) | 8.7 |
| **PBT** | **(4.2)** | **(21.8)** | **0.0** | **(102.3)** | **119.9** |
| Taxes | (3.5) | 0.2 | 0.0 | 22.5 | (26.2) |
| **Net Profit** | **(7.7)** | **(21.6)** | **0.0** | **(79.8)** | **93.7** |

| €mio | 31 January 2017 | of which non-recurring | forex reclassification | of which Stock Option plan, derivatives, PPA, foreign exchange differences | 31 January 2017 adjusted |
|---|---|---|---|---|---|
| Net sales | 1,357.9 | 0.0 | 0.0 | 0.0 | 1,357.9 |
| Other income | 66.1 | 0.0 | 0.0 | 0.0 | 66.1 |
| **Revenues and other income** | **1,424.0** | **0.0** | **0.0** | **0.0** | **1,424.0** |
| Purchases of consumables | 620.4 | 0.0 | 11.1 | 0.0 | 609.3 |
| Personnel cost | 268.6 | 0.2 | 0.0 | 2.5 | 265.9 |
| Other opereting costs | 387.7 | 3.6 | 0.0 | 0.0 | 384.1 |
| **EBITDA** | **147.3** | **(3.8)** | **(11.1)** | **(2.5)** | **164.7** |
| Depreciation & Amortization | 58.5 | 0.0 | 0.0 | 8.6 | 49.9 |
| **EBIT** | **88.8** | **(3.8)** | **(11.1)** | **(11.1)** | **114.8** |
| Gains (losses) from equity investments | 19.0 | 0.0 | 0.0 | 0.0 | 19.0 |
| Net financial income/(charges) and exchange rate differences | (4.0) | 0.0 | 11.1 | (0.9) | (14.2) |
| **PBT** | **103.8** | **(3.8)** | **0.0** | **(12.0)** | **119.6** |
| Taxes | (27.3) | 1.0 | 0.0 | 1.0 | (29.3) |
| **Net Profit** | **76.5** | **(2.8)** | **0.0** | **(11.0)** | **90.3** |

- Revenues, which came in at €1,591.9 million, mainly include the retail sales generated by the OVS and UPIM brands.
- Depreciation and amortisation, amounting to €61.3 million, mainly relate to store improvements and refits.
- Other operating expenses, which totalled €421.0 million, mainly comprise costs for the use of third-party assets (€194.7 million), miscellaneous operating expenses (€23.1 million), sales service costs (€47.9 million), utility costs (€32.5 million), maintenance, cleaning and security costs (€34.9 million), professional services (€26.1 million) and advertising expenses (€25.1 million). Net of one-off costs and the €13.5 million write-down of trade receivables from companies of Sempione Fashion Group for which a recoverability risk is assumed, the amount relating to "Other operating expenses" would have been €407.4 million.
- Gains (losses) on equity investments include income for dividends received from subsidiary OVS Hong Kong Sourcing Ltd for €21.2 million and expenses arising from the write-down of investments on the foreign investee companies totalling €24.1 million. Due to the negative results recorded by the companies in the Sempione Retail Group, it should be noted that the equity investment was written down by €8.3 million and that the financial receivable was written down by €12.8 million.
- Net financial expenses came in at €85.1 million, deriving from financial expenses of €15.7 million, financial income of €1.2 million, foreign exchange losses and the fair value of derivatives for €70.6 million.
- Taxes were negative for €3.5 million; without the charges shown in the second and fourth columns of the income statement, taxes would be negative for €26.2 million.
- The net result was negative for €7.7 million, and would be positive for €93.7 million if the Company had not incurred the costs indicated in the second and fourth columns of the statement.

## Financial performance

The financial performance is shown below, and is described in more detail in the notes to the separate financial statements.

| €m | 31 January 2018 | 31 January 2017 |
|---|---|---|
| Working capital (A) | (175.2) | (252.8) |
| Net capital employed (B) | 1,370.8 | 1,377.5 |
| Net Financial position | 379.4 | 269.4 |
| Shareholders' equity | 816.2 | 855.3 |

(A) The item includes: Trade receivables and payables, current and deferred tax assets, other receivables, inventories, current and deferred tax liabilities, other payables, employee benefits and provisions for risks and charges.
(B) The item includes: Property, plant and machinery, intangible assets, goodwill and equity investments.

## Financial management

Net debt was €379.4 million at 31 January 2018, compared with €269.4 million at 31 January 2017.

The breakdown is as follows (in millions of euros):

| €mio | 31 January 2018 | 31 January 2017 |
|---|---|---|
| Cash and net financial assets | 58.1 | 86.2 |
| Credits/(Debts) on derivatives | (59.9) | 17.4 |
| Credits/(Debts) to related company | 0.0 | 5.5 |
| Credits/(Debts) to subsidiaries | 0.8 | 0.0 |
| Credits/(Debts) to banks | (376.3) | (375.2) |
| Credits/(Debts) to other financial institutions | (2.1) | (3.3) |
| **Net financial position** | **(379.4)** | **(269.4)** |

Payables to banks are shown later in this report.

## Main subsidiaries

**OVS Hong Kong Sourcing Ltd**

OVS Hong Kong Sourcing Ltd, which has its registered office in Hong Kong, operates in the Far East (mainly China, Bangladesh and India), and, more generally, in areas outside Europe, aiming to select suppliers, win orders, manage the entire product development phase up to the point of quality control, support production activities and ensure, by monitoring with its own structures, that product costs and quality comply with Group standards. Specifically, the company focuses on strengthening existing supplier relationships in the Asian region, further boosting its presence in Bangladesh and China by increasing purchasing volumes. At the same time, purchasing has also increased in the India, Myanmar and Pakistan region, and the search has continued for more sources of supply in countries in that area that can meet the quality standards required by the Group in a context of lower costs (e.g.Cambodia and Vietnam).

The company recorded net profit of €35.2 million in 2017 (compared with €21.7 million in 2016).

**OVS Maloprodaja d.o.o.**

The company operates in the Croatian market, directly operating nine OVS stores. There were two new openings and no closures of stores in 2017.
OVS will mainly pursue expansion in the region through the franchising formula.
The company is not material for the purposes of the consolidated financial statements.

**OVS Department Stores d.o.o.**

The company operates in the Serbian market, directly operating six OVS stores.
There was one new opening and one closure of stores in 2017.
OVS will mainly pursue expansion in the region through the franchising formula.
The company is not material for the purposes of the consolidated financial statements.

**OVS Bulgaria EOOD**

The company was definitively wound up in 2017.

**OVS Fashion España S.L.**

OVS Fashion España S.L., which was acquired in 2016 in order to achieve more direct operation of the major Spanish retail market, operates the sales network in Spain, with 47 stores in franchising and three directly operated stores. There were two new openings and no closures of stores in 2017.
The company is not material for the purposes of the consolidated financial statements.

**82 S.r.l.**

On 28 September 2017, the company 82 S.r.l. was incorporated, 70% held by OVS S.p.A. and 30% by Massimo Piombo, with the aim of developing, during 2018, some stores under the Piombo brand for upper casual men’s clothing, with either a directly operated or franchising formula.
The company is not material for the purposes of the consolidated financial statements.

## Management of financial and operating risks

The Group operates in the commercial sphere, both retail and wholesale, with exposure to market risks relating to changes in interest rates, exchange rates and merchandise prices. The risk of changes in prices and cash flows is connected to the very nature of the business and can be only slightly mitigated by the use of appropriate risk management policies.

**Credit risk**

Credit risk represents the Group's exposure to the risk of potential losses arising from default by a counterparty.
The current macroeconomic context has made continual monitoring of credit increasingly important, so that situations in which there is a risk of insolvency and delayed payment deadlines can be anticipated.
For the year under review, there are no significant concentrations of credit risk, with the exception of a portion of the receivables due from the Sempione Fashion Group, for which a risk of recoverability is presumed.
To reduce risk generally, the Group also obtains guarantees in the form of sureties in respect of loans granted for the supply of merchandise.
Financial assets are recognised in the financial statements net of write-downs calculated on the basis of the risk of counterparty default, determined by using available information on the solvency of the customer and taking historical data into account.

**Liquidity risk**

Liquidity risk represents the risk that financial resources may be difficult to access.
Currently, the Group believes that it can access, through available sources of financing and lines of credit, sufficient funds to meet its foreseeable financial requirements.

**Market risk**

Market risk includes the effects that changes in the market might have on the group's commercial activity that is sensitive to consumer spending choices.

Positive results can be influenced, *inter alia*, by the business environment, interest rates, taxation, local economic conditions, uncertainty over the economic outlook and shifts to other goods and services in consumer spending choices. Consumer preferences and economic circumstances may change from time to time in every market in which we operate.

We have to be able to combat the deflationary price pressure associated with increased competition and changes in consumer choices, which could have adverse effects on the financial situation and results.

Risk of change in prices and cash flows

The Group's margins are influenced by changes in the prices of the goods it deals in.

Any reduction in the price of items sold, if not accompanied by a corresponding reduction in purchase cost, generally entails a decrease in operating results.

The Group's cash flows are also exposed to the risk of changes in market exchange rates and interest rates. Specifically, exposure to exchange rates arises because the Group operates in currencies other than the euro, in which it purchases a substantial part of the products it sells and which are listed or pegged to the US dollar.

Interest rate fluctuations affect the market value of the Group's financial liabilities and its net financial expenses.

Objectives and policies for managing the risk of cash flow changes

The Group has guidelines in place for financial operations that involve the use of derivatives to reduce exchange rate risk against the US dollar (forward currency purchase contracts) and the risk of interest rate fluctuations.

Derivative contracts

*Nominal value of financial derivative contracts*

The nominal value of a financial derivative contract is the amount of each contract in monetary terms. The monetary amounts in foreign currency are converted into euros at the spot exchange rate on the reporting date.

**Management of interest rate risk**

With regard to the new financing structure defined during 2015, as discussed in the appropriate section of the notes to the financial statements in the 2015 Annual Report, on 2 August 2015, interest rate cap agreements were entered into, matured on 7 September 2017, to partially manage the risk in question. Given the projections for the 6-month Euribor rate until the expiry of the loan agreement (March 2020), it was decided not to take further action to hedge the risk of interest rate fluctuations.

**Management of foreign exchange risk**

The OVS Group purchases most of the products intended for sale from foreign suppliers whose reference currency is the US dollar (USD). In order to ensure reliability in the planning of sales prices and the relative industrial margin (understood as the difference between the sales prices in euros and the purchase costs of the products in USD), the OVS Group ordinarily enters into derivative contracts with the aim of stabilising the exchange rate for the purchase of the goods. The nature of such instruments is rather simple, involving forward purchases of USD (forward derivatives), implemented in proportion to budgeted incoming volumes and timed in relation to the expected cash outflows, usually with a time horizon of 12 to 14 months after the date on which the relative hedges are contracted. The instruments in question are initially contracted, specifically, according to estimates based on the purchases made for the previous collection and in view of the outlook for operations. This operational hedging of purchasing flows takes place on a collection-by-collection and month-by-month basis. The instruments are then continuously monitored and updated by the OVS Group, according to potential changes in the purchasing and payment flows, and therefore to varying requirements for the stabilisation of exchange rates as commercial planning unfolds in operational terms.

The derivative instruments described are recorded at fair value at 31 January 2018, according to the recognition and measurement methods stipulated by IAS 39. Pursuant to this accounting standard, the company is still permitted to use the hedge accounting method for derivative financial instruments under certain conditions. Given the operational complexity of managing the correspondence between the theoretical underlyings (the flows subject to the operational hedging described above) and the derivative financial instruments (also considering the high number of the same instruments), with effect from hedges contracted on or after 1 January 2016, the OVS Group has opted not to use hedge accounting. Consequently, the fair value of the existing financial instruments and subsequent changes in this fair value are directly entered to the income statement at every reporting date. The fair value of the derivative financial instruments is quantified with commonly used financial measurement techniques, and is mainly determined from the difference between the notional value in USD converted into euros at the forward exchange rate when the contract is entered into and the notional value in USD converted into euros at the exchange rate at the end of the reporting period. This difference may be positive or negative, depending on the euro/USD exchange rate.

## Investment and development

Gross investments of €68 million were made in 2017. Most investments were focused on Group growth, and mainly related to (i) the opening of new stores (approximately €28 million) under the Group brands, (ii) restructuring of the existing network (approximately €9.0 million), (iii) extraordinary store maintenance (approximately €8 million), (iv) development of IT and digital transformation systems (approximately €15.0 million) and (v) the upgrade of the main logistics structure (approximately €8 million), to improve distribution efficiency.
The net investments made in 2016 amounted to €62.5 million.

At Group level, the sales network comprised a total of 1,624 stores at 31 January 2018 (including the small-format stores) including 724 DOS in Italy, 20 DOS abroad and 757 affiliated stores (including 218 abroad) and 122 administered stores (including 68 abroad).
In 2017 (1 February 2017 – 31 January 2018), the network continued to grow in terms of stores (net of closures) by 151 units, including 39 DOS and 119 affiliated stores, while administered stores decreased in number by seven units.
At the end of 2016, the network comprised a total of 1,473 stores (including small-format stores), including 691 DOS in Italy, 14 DOS abroad, 638 affiliated stores (including 162 abroad) and 130 administered stores (including 51 abroad).

## Management and coordination

At 31 January 2018, OVS S.p.A. was a 17.12% owned investee company of Gruppo Coin S.p.A.. Despite the equity investment held by Gruppo Coin, OVS does not believe itself to be subject to management and coordination by the latter, as:

- it operates completely independently;
- Gruppo Coin does not provide any cash pooling services for the Company;
- key decisions relating to management of the Company and its subsidiaries are taken by the Company's own management bodies;
- the Company's Board of Directors is responsible, *inter alia*, for reviewing and approving the strategic, business, financial plans and budgets of the Company and the OVS Group, reviewing and approving the organisational structure of the OVS Group, and assessing the adequacy of the organisational, management and accounting structure of the Company and the OVS Group.

## Research and development

The Group did not carry out any research and development activities in the year pursuant to the provisions of the accounting standards.
However, a number of people are continuously employed in creating and developing collections, to ensure an exclusive offering that is consistent with the positioning of the Group's various brands.
Specifically, the activities carried out by dedicated teams are classified as subject to the “Community framework” Directive 2006/c 323/01, which defines “industrial research” as:
“industrial research or planned research or critical investigation aimed at acquiring new knowledge and skills for developing new products, processes or services or bringing about a significant improvement in existing products, processes or services. …”

## Treasury shares

At the date of this annual report, the Parent Company, OVS S.p.A., does not hold (and did not hold at any time in 2017), treasury shares or shares/units of controlling companies, either directly or indirectly.

## Related-party transactions

In accordance with the applicable laws and regulations, the Board of Directors of the Parent Company, by resolution of 23 July 2014, effective as of 2 March 2015, approved the “Rules on related-party transactions”, to govern transactions that are significant in terms of strategy, profit and financial performance, including transactions with related parties, to define the competencies and duties that relate to significant transactions and to ensure the substantive and procedural transparency and correctness of these transactions.

Information on, and details of, relations with related entities are provided in the notes to the consolidated financial statements and the separate financial statements, pursuant to IAS 24.

## Compliance with the Privacy Code

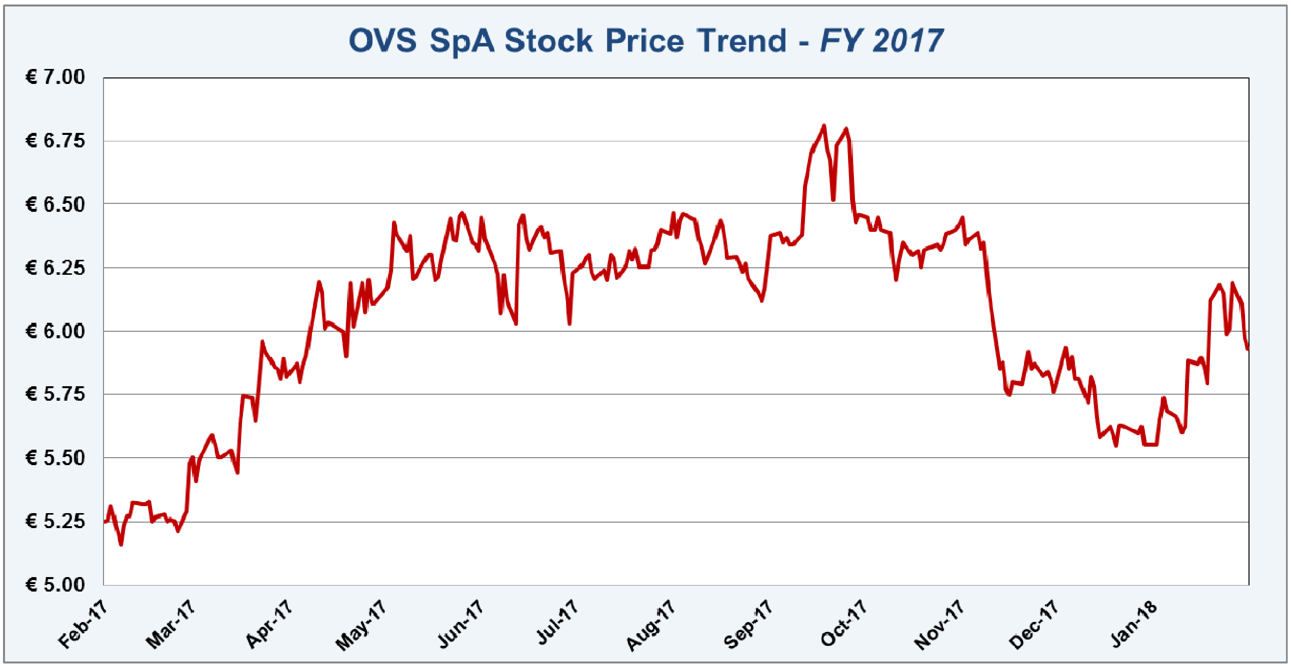
Pursuant to Appendix B, point 26 of Legislative Decree 196/2003, relating to the Data Protection Code, the management body acknowledges that the Company is in compliance with data protection measures in light of the provisions introduced by Legislative Decree 196/2003, according to the terms and procedures set forth therein.

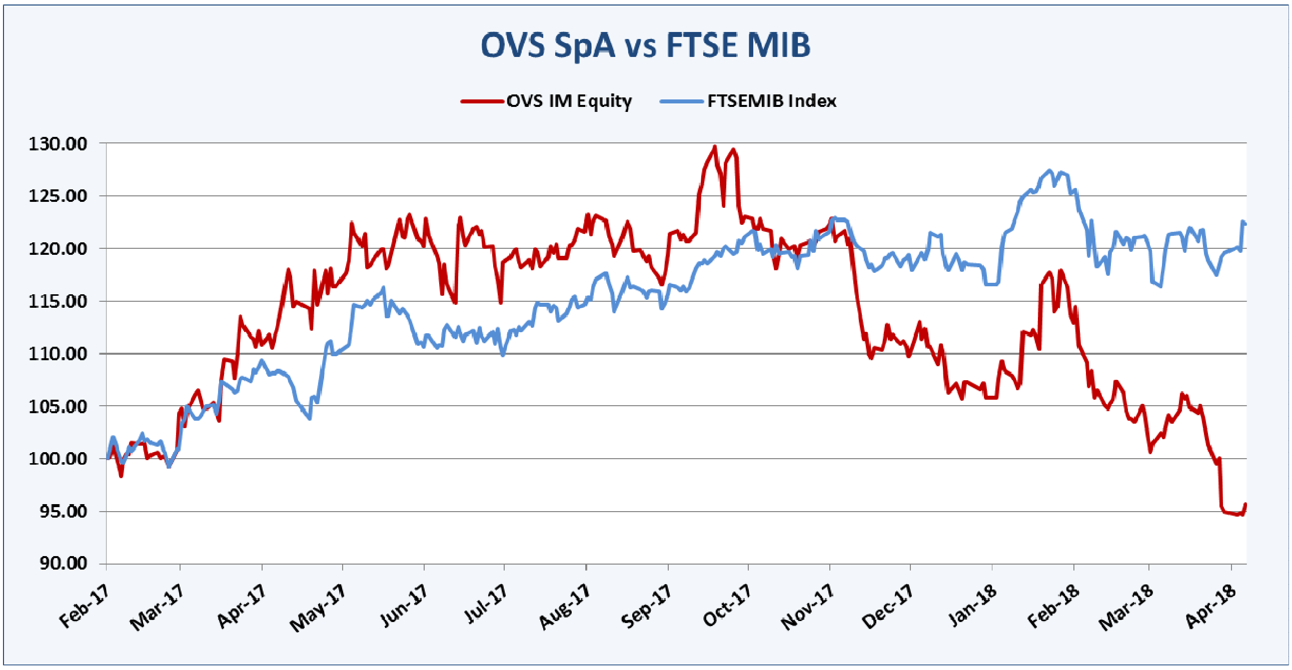
In particular, the Security Planning Document, filed at the registered office and freely available, is updated by the data controller as required by law.

## Significant events during the reporting period

With the exeption of what already described in the previous pages, no other significant events occurred during the reporting period.

### Notes on share performance






The OVS stock was listed on the Milan Stock Exchange on 2 March 2015 at a placement price of €4.10. The stock closed the year at €5.165 on 31 January 2017. One year later, on 31 January 2018, the stock was trading at €5.97 (up by 46% compared with the placement price and up by 15.6% compared with the closing price for the previous year).

Specifically, the OVS stock price hit a peak of €6.81 on 18 September 2017 before trending downwards like all of the benchmark sector, particularly from early January 2018. Management believes that this trend is entirely due to sectoral factors specific to the retail business in question.

In the first months of the 2018 financial year, the stock continued its downward trend to reach €4.98 on 29 March 2018, also affected by competitors' results that were far below market expectations.

At 9 April 2018, of the nine brokers that monitor OVS S.p.A., three had an "outperform" recommendation on the stock, four had a "buy" recommendation and two had a "neutral" recommendation. The average target price for all coverage at this date was €7.28.

For more information and updates on share performance, and for the latest corporate information, please visit the "Investor Relations" section of the website at www.ovscorporate.it.

## Stock Option Plan

It should be recalled that on 26 May 2015, the shareholders' meeting approved the Stock Option Plan for the period 2015-2020, which will be implemented through the allocation of free options for subscription to ordinary newly issued shares of OVS S.p.A.. The Plan is reserved for directors who are also employees, managers with strategic responsibilities and/or other employees of OVS S.p.A. and its subsidiaries. The Plan is intended to create value for shareholders by improving long-term corporate performance and attracting personnel that play a key role in the Group's development.

The Plan provides for the issue of up to 5,107,500 options, which will be freely allocated to the beneficiaries if certain performance targets are met, and confers on each of them the right to subscribe to one ordinary share of the Company for each option assigned.

The same meeting was also convened in an extraordinary session to resolve upon the proposal to give the Board of Directors, for a period of five years from the date of the resolution, the power to increase the share capital, pursuant to Article 2443 of the Italian Civil Code, in tranches, excluding option rights pursuant to Article 2441, paragraph 8 of the Italian Civil Code, for a total maximum nominal amount of €35,000,000, through the issue, in one or more tranches, of up to 5,107,500 ordinary shares with no par value, to be reserved for the beneficiaries of the “Stock Option Plan 2015-2020”, with the consequent amendment of Article 5 of the Articles of Association.

To date, 4,911,375 stock options have been allocated.

It should also be noted that the shareholders' meeting of 31 May 2017 approved a new stock option plan, called the “Stock Option Plan 2017-2022”, reserved for directors who are also employees, managers with strategic responsibilities and/or other employees of OVS S.p.A. and its subsidiaries, which may be implemented using either (i) treasury shares bought back under the authorisation pursuant to Article 2357 of the Italian Civil Code granted by the shareholders' meeting from time to time; or (ii) shares deriving from a capital increase by the Board of Directors, after the granting of a mandate to the same to increase the share capital pursuant to Article 2443 of the Civil Code, in tranches, excluding option rights pursuant to Article 2441, paragraph 8 of the Civil Code, for a total maximum nominal amount of €4,080,000.00, through the issue, in one or more tranches, of up to 4,080,000.00 new ordinary shares of OVS, to be reserved for the beneficiaries of the "Stock Option Plan 2017-2022".

The new Plan is also intended to create value for shareholders by improving long-term corporate performance and attracting personnel that play a key role in the Group's development.

The Plan provides for the free allocation to each beneficiary of up to 4,080,000 options, which give the right to subscribe or purchase ordinary shares of OVS in the ratio of one share for each option exercised. The options are allocated when determined performance targets are met.

At the time of writing, 3,935,000 options had been assigned under the new “Stock Option Plan 2017-2022”.

For details of the Plan, see the reports of the Board of Directors and the information memorandum, pursuant to Article 84-bis of Consob Regulation 11971/1999, which is available on the Company website at www.ovscorporate.it, in the Governance/Shareholders' Meeting section.

**Significant events after the reporting period**

During the month of April the Company, with the aim of mitigating the credit risk towards some companies of the Sempione Fashion Group, finalized an agreement with the same group concerning the purchase of approximately €32.3 million of OVS and UPIM brands products, available in the Swiss and Austrian stores of the Group network. This transaction was mainly completed by clearing existing receivables on the transaction date.
The goods thus repurchased were put on sale in the network of Sempione Fashion stores, through the "consignment" supply model, that allows the Company to maintain control and ownership of the goods up to the time of sale to the final consumer, reducing the risk deriving from a credit from a customer with financial difficulties. This model is part of the most common management practice of a customer or a commercial partner and has already been adopted by the OVS Group in relations with other important customers.

## Business outlook

The first few months of the new financial year showed a non-positive trend, which had already emerged in January, when the end-of-season sales performance was very weak. Strong promotional pressure in the sales period resulted from a general overstock situation on the part of all our main competitors, to which was added very unfavourable weather, with temperatures that were completely untypical for spring: in fact, it snowed on several occasions, not only in Italy, but also in most of Europe in February and March.
However, in light of the numerous commercial actions undertaken and the development of new projects involving the sales network and multi-channel transactions, management is looking ahead with confidence at the next few months of this year. At the same time, the Group is strongly committed to analyze the Swiss market, in order to support sales, in a difficult contest, not only for the OVS brand, but also for all the other players. In this regard, it should be noted that, given the financial difficulties of companies of Sempione Retail Group, and in light of the sales trend in these early months of the year, further write-downs of unrecoverable trade receivables may take place, while we are confident about the potential of the business outside national borders.

**Art. 36 of Consob Regulation 16191/2007 relating to market governance**

Investee companies with registered offices in countries not within the European Union, of which the biggest is OVS Hong Kong Sourcing Ltd, are not significant within the meaning of Article 151 of the Issuers' Regulation, as their respective assets make up less than 2% of the assets in the Group's consolidated financial statements at 31 January 2018, and their respective revenues make up less than 5% of the Group's consolidated revenues at 31 January 2018.

## PROPOSED RESOLUTION ON NET RESULT FOR THE YEAR

Dear Shareholders,

We submit the following resolution for your approval:

“The shareholders' meeting of OVS S.p.A., in ordinary session,

- having heard and approved the statements of the Board of Directors;
- having examined the data in the separate financial statements of OVS S.p.A. at 31 January 2018 and the Report on Operations of the Board of Directors;
- having acknowledged the reports of the Statutory Auditors and the external auditor;
- having examined the consolidated financial statements at 31 January 2018;

resolves

1. to approve the separate financial statements of OVS S.p.A. at 31 January 2018;
2. to approve the coverage of the loss of OVS S.p.A. at 31 January 2018, equal to € 7,715,929.00, through the use, for the same amount, of the retained earnings reserve, which after this use will amount to € 64,075,374.00.”

for the Board of Directors
the Chief Executive Officer
Stefano Beraldo

Mestre, Venice, 18 April 2018

# CONSOLIDATED NON-FINANCIAL STATEMENT (LEGISLATIVE DECREE NO. 254/2016)

**2017**

# METHODOLOGICAL NOTE AND READING GUIDE

As a public interest entity (pursuant to Article 16, paragraph 1, of Legislative Decree No. 39 of 27 January 2010)[2] with numbers of employees, assets and liabilities and net revenues higher than the thresholds stipulated in Article 2, paragraph 1, OVS is subject to the application of Legislative Decree No. 254 of 30 December 2016 (hereinafter, "Decree 254")[3].

This consolidated Non-Financial Statement (NFS) of OVS as at 31 January 2018 has therefore been prepared in accordance with the provisions of Decree 254 and is an integral part of the documentation relating to the 2017 Annual Report. The Non-Financial Statement is to be regarded as supplementary and complementary to the Report on Operations and other documentation relating to the financial statements.

## Reporting scope, process and measurement

This document is published annually. Unless otherwise indicated, the data refer to the period from 1 February 2017 to 31 January 2018, and, where possible, are compared with the same period of 2016.
The reporting scope includes the Parent Company OVS S.p.A., with certain exceptions in some areas that also include foreign subsidiaries operating in the Countries[4].

The NFS reports on topics relating to combating active and passive corruption, the environment, personnel management, social aspects and respect for human rights assessed as significant and material according to a specific, consolidated process, which takes into account the specific activities of OVS, which are described below (see the section entitled "Material topics related to business activities").

With regard to the topic of human rights, OVS has expressed its commitment to the protection of human rights in various documents, the Code of Ethics, and the whistleblowing procedures.
In order to standardise the reporting of information and make it easier to relate it to the contents of the

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[2] "Public interest entities" is intended to mean the entities referred to in Article 16, paragraph 1, of Legislative Decree No. 39 of 27 January 2010, i.e.: Italian companies issuing securities admitted to trading on regulated Italian and EU markets; banks; the insurance companies referred to in Article 1, paragraph 1(u) of the Private Insurance Code; the reinsurance companies referred to in Article 1, paragraph 1(cc) of the Private Insurance Code, with their registered offices in Italy, and the secondary offices in Italy of the non-EU reinsurance companies referred to in Article 1, paragraph 1(cc-*ter*), of the Private Insurance Code.

[3] "Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU regarding the disclosure of non-financial information and information on diversity by certain companies and certain large groups"

[4] Subsidiaries (foreign companies) are excluded from the scope of this NFS, as they represent, in total, 0.4% of the Group's turnover, and have a total number of employees equal to 4.1% of the Group's number of employees.

above legislation, for each thematic area the materiality of the topic is demonstrated with respect to OVS’s activities, the associated risks, the Company's policies and commitments and the results obtained and monitored through ad hoc indicators that are able to represent the operational results.
The data and information contained in this Statement relate to events that took place during the reference year indicated above, deriving from the Company's business activities, that are material based on the materiality analysis carried out in accordance with the Decree. They were collected and consolidated by OVS's various responsible functions, which used extractions from corporate reporting systems, billing and internal and external reporting, and were coordinated by the Corporate Sustainability function.

The data shown are in their final form, except where specified in the table.

Specifically, in this regard, OVS S.p.A. has adopted the indicators provided by the GRI Standards of the Global Reporting Initiative. The coverage of the Standards is associated with the material aspects and complies with the “Core” application level.

From this year, OVS has therefore made the transition from the “GRI-G4” guidelines to the new “GRI Sustainability Reporting Standards”.

Based on this premise and taking on board the approaches described by the new Standards, the document therefore refers to the indicators shown in the “Annex” hereto.

This document been assessed for compliance by an auditing company.

The assessment was carried out according to the procedures indicated in the “Independent Auditor’s Report”, provided at the end of the document.

The Board of Directors of OVS approved the Non-Financial Statement on 18 April 2018.

The NFS is published in the “Sustainability” section of the Company's website (wecare.ovscorporate.it/it).

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# LETTER TO THE STAKEHOLDERS

Sustainability is an essential characteristic for a company, since it is closely connected with the capacity to flourish over time. I think that a sustainability strategy is an absolute priority for OVS S.p.A. and it definitely is for me, as CEO. In the past, sustainability was mainly understood in many companies as a concern for financial and economic stability and compliance with laws and regulations. For some years, the more evolved companies like OVS S.p.A., have understood that their sustainability coincides with the capacity to systematically create value for all the stakeholders, while also producing economic value and a positive impact on people and on nature. In the coming years this need will increase due to the exponential acceleration of environmental, social, technological and cultural trends require a more active role of companies in helping face some of the great challenges of our time.

Environmental and social impact has always been of great concern to OVS S.p.A., since our policy has always been to act on the basis of the highest standards of respect for people and the environment. In recent years, the innovative push in this direction has been increasing, with greater awareness and skills both in top management and in all the company personnel. They have been fully involved in a complete training programme. We have organised an innovation programme based on the principles of sustainability, involving all the dimensions, such as corporate culture, design, products, materials, the supply chain, logistics and sales outlets which in some cases, have been international examples of design complying with the highest standards of sustainability.

In 2017 we achieved important results, with a strong acceleration in sourcing more sustainable materials and collaborating with international initiatives aimed to improve working conditions in our supply chain (i.e. Sustainable Apparel Coalition, Accord, …)

The topics of sustainability involve all the functions, coordinated in the OVS S.p.A. "#WeCare" programme, under the guidance of the Sustainability Director. Dozens of actions interrelated in a strategy defining clear operational priorities, in line with the objectives of the business plan. As to the quantitative aspect of our sustainability, we have identified as series of indicators that we constantly keep monitored to promptly verify critical aspects and improvements.

OVS S.p.A. makes available quality garments and accessories and Italian design at accessible costs for millions of people. We want to create a sustainable fashion affordable to all.

Working with large volumes, our activities have wide-ranging impact, which we know of and constantly monitor. We are thus active on various fronts, including a focus on equal opportunities between men and women wherever we operate, the systematic search for efficiency in all our production processes and all our operations, trials on how to 'close cycles' to operate with zero waste and zero emissions. The frontier for the future consists in managing to produce all our items starting from natural materials, ethically cultivated and without the use of chemical substances that accumulate in the environment, or starting

from closed-cycle materials (such as recycled synthetic fibres). Obviously, we are also proceeding in the area of energy efficiency with increasing use of forms of renewable energy to power our activities, being aware of the challenge/opportunity of the decarbonisation of our company, highlighted in the COP22 agreements. During 2017 we converted all our energy sourcing agreements in order to source exclusively certified renewable energy .
Since we are a market leader in Italy, with millions of consumers and a range mostly dedicated to the family market, we are firmly convinced of the cultural and educational role we have to play in society. Continuing the activities undertaken in recent years, we will thus provide correct information and educate our clients on the important topics of sustainability. This will start with the young generation using projects to involve them such as the Kids Creative Lab, or tools for transparency such as this Sustainability Report.

We believe that in the fashion industry there is still inadequate awareness of the challenges and opportunities connected with a sustainable dimension. Not everybody understands the acceleration, which is not linear but exponential, of the pressure of social and environmental trends that make it indispensable to spread more evolved business paradigms. There is still a lack of competences in top company teams, since in the past they have often delegated these topics to more operational levels, such as Quality or Safety, without fully understanding the strategic aspect, and closely connected with the results of the business in the medium/long term. The enhancement of this awareness leads to a rapid dissemination of tools, protocols and methodologies allowing various actors, including competitors, to join forces to speed up the positive transformation of the entire industry. The progress made in recent months is very promising in this respect. For example, we can cite the protocol, accepted by us, of the National Chamber of Italian Fashion for the elimination of toxic substances; the development of initiatives for Industry Collaboration, such as the Sustainable Apparel Coalition or the Better Cotton Initiative, in which OVS S.p.A. is the first Italian Brand. OVS S.p.A. is also the first company in Italy in our sector a to monitor its performance and a define objectives for improvement with Benefit Impact Assessment, the most advanced international protocol for measuring social and environmental impact.

I would like to highlight three prospects of our sustainability strategy: the first one is connected with the return on investment in terms of innovation, which is enormous and constantly perceivable inside and outside the company. In order to act in a sustainable manner, we must necessarily set higher, more challenging targets, which requires us to constantly rethink and improve what we do. There is always a better way to do things, and sustainability guarantees a strong incentive to innovation, as well as being a necessary condition for innovation to occur. The second prospect is more financial, and is linked to recognition of the risks and costs of non-sustainability, i.e. the incapacity to move early with respect to the problems that must inevitably be faced if sustainability is not developed carefully and skilfully. A third aspect regards consumers, already acquired or potential, who increasingly take for granted that the company they patronise complies with the highest standards of product safety and health and care for people and the environment, from the production of the raw materials to the disposal of used products. We have to develop the confidence of millions of our customers on a daily basis, acting with a sense of responsibility. It is therefore essential to act every day in accordance with a profound commitment to sustainability.

With the “#WeCare” programme we have given our commitment a strategic orientation. We have started a complete path involving a systemic approach to all the company sectors. We keep their development under control, measuring the material aspects with a series of quantitative indicators. For some years we have measured these indicators for internal use, but now we want to make them public to further share and improve our commitment and our way.

## 2017 HIGHLIGHTS

Scope 2 emissions -94%, due to the supply of electricity from renewable sources

71 million OEKO-TEX certified garments

Tenfold growth in sustainable cotton compared with 2016

+13% increase in recycled used clothes

62,863 hours of training delivered

6,602 people worldwide

## PROFILE AND MAIN ACTIVITIES OF OVS

OVS S.p.A. is the leading company in the Italian clothing market engaged in the creation, production and marketing of clothing for women, men and children through the OVS and UPIM brands.
The OVS brand was created within Gruppo Coin in 1972. As its network has expanded over time, it has developed a bond of trust with its customers, achieving brand awareness on the Italian market of 97% in 2013 (source: Doxa).
OVS S.p.A. also owns the UPIM brand, which is positioned in the value segment of the women's, men's and children's Italian clothing products market and is mainly aimed at families. UPIM, which has been present in Italy since 1928, was acquired in January 2010.
The Company’s business model is typical of vertically integrated retailers and includes the following activities: product development, entrusted to a team of product managers, designers and merchandisers that leverages an organisational structure highly specialised in sourcing with a strong presence in the key geographical areas to design, develop and implement the merchandise mix with external suppliers, under the artistic guidance of the fashion coordinator and the organisational guidance of the category managers.

OVS S.p.A. operates through its countrywide sales network with stores that differ in terms of sales area and management approach (direct sales or franchising). The Group is also the leader in the children’s category in Italy, and in recent years has won the “Retailer of the Year” award for some product categories.

### THE HISTORY OF THE OVS GROUP

OVS was initially created in 1972 as “Magazzini Oviesse”, a division of the company Coin S.p.A. engaged in department store management. The department store model was developed in the 1970s and 1980s with the sale of clothing products; the product sectors then expanded, with the introduction of household items, sports equipment, toys, perfumery and leather goods.

In 1999, in order to further grow its presence in Italy, Gruppo Coin acquired the non-food business arm of “La Standa”, comprising over 160 sales outlets, which in the following years were converted into what are now OVS stores. In July 1999, ordinary shares of Gruppo Coin were admitted to trading on the MTA (Mercato Telematico Azionario), the Italian screen-based stock exchange.

In 2005, the Coin group transferred the business arm comprising the activities of the then OVS to the newly established company OVS S.r.l., wholly owned by Gruppo Coin, which was subsequently transformed into Oviesse S.p.A.. In May 2005, mutual funds managed by the French asset management company PAI partners S.A.S. acquired, through Financière Tintoretto S.A., a controlling stake in the Coin group from Finanziaria Coin S.r.l., a company owned by the Coin family.

In December 2008, Oviesse S.p.A. acquired 100% of the share capital of Tre.bi S.p.A., owner of the Melablu chain of clothing stores, with over 60 sales outlets, mainly located in shopping centres in the north-west of

Italy, which were converted into branded stores after the acquisition.

In January 2010, Gruppo Coin acquired 100% of the share capital of Upim S.r.l., one of the leading Italian clothing companies, with a presence in the country of 135 directly operated stores under the UPIM brand and 15 under the BluKids brand, as well as over 200 stores in franchising.

In June 2011, Icon S.p.A., a company controlled by funds assisted by BC Partners, acquired the controlling stake held in Gruppo Coin from the reference shareholder, Financière Tintoretto S.A.. From September 2011, after the mandatory public tender offer by Icon S.p.A. for the remaining outstanding shares was completed, the ordinary shares of Gruppo Coin were withdrawn from listing on the MTA.
In December 2011, Oviesse S.p.A. acquired the “IANA” children's clothing and products business unit from Unitessile S.p.A., with 397 stores (45 directly operated and more than 150 in franchising). During the first half of 2012, the retail network that had operated under the “IANA” brand was converted, mainly into the OVS Kids and Blukids formats.

In August 2012, continuing to consolidate its leadership in the clothing market and in line with the strategy shared with its reference shareholder (the funds assisted by BC Partners), Gruppo Coin acquired the more than 100 stores in the Bernardi chain, a major clothing retailer operating under the Bernardi and Go Kids banners (the latter provides an offer in the children’s segment). Some of the Bernardi stores acquired were converted into OVS stores, while the majority were or are being incorporated into the UPIM division.

In January 2013, the merger by absorption of the subsidiaries Oviesse S.p.A., Coin S.p.A., Upim S.r.l., Oviesse Franchising S.p.A. and Coin Franchising S.p.A. into Gruppo Coin S.p.A. became effective. After this corporate reorganisation, Gruppo Coin S.p.A. became the parent company of Gruppo Coin.

In April 2014, Gruppo Coin launched a corporate reorganisation project to hive off the business unit comprising the “OVS-UPIM division”, which was transferred to OVS S.p.A. on 1 August 2014.

OVS S.p.A. has been listed on Borsa Italiana since March 2015.

## MISSION AND VALUES

OVS S.p.A. it has set itself the task of “making beauty accessible to everybody”, basing its success on concrete values that inspire the behaviour of all the people who play a part in its business processes.
The values and behaviours described below form the foundations of the day-to-day thoughts and actions of every person making up OVS's great team.
This team, always in a cohesive and motivated way and by adhering consistently to these values and behaviours, determines, on a daily basis, the path of extraordinary growth and development that the Company has embarked upon with passion, pragmatism, determination and success, and will enable it to achieve ever-more challenging goals in a sustainable way.

**Value creation**
Generate value in everything we do for customers, colleagues, the Company and the communities in which we operate.

**Imagination**
Imagine without limits, beyond the ordinary.

**Innovation**
Have a natural attitude to change and continuous improvement.

**Team work**
One team, as the sum of the value of the individuals within it.

Italian lifestyle
The excellence of Italian style offers the appeal of a unique lifestyle to everyone.

**Respect**
Always act with respect for ourselves, others and the environment in which we live.

**Openness**

Be open to new experiences and to diversity.

We have based our sustainability strategy on a manifesto that fully conveys the spirit of the #WeCare programme.

## #WeCare MANIFESTO

We are aware of the role we can play in **TAKING RESPONSIBILITY** for a **MORE SUSTAINABLE FUTURE** for the environment, the millions of customers who trust us and all the people who work with us.

We want to create **BEAUTIFUL AND ACCESSIBLE CLOTHES** that have a **POSITIVE IMPACT** on the world and the people who live here.

We know we have a **LONG JOURNEY** ahead of us, and we are committed to improving with **EVERY STEP**.

We ask ourselves every day what is **RIGHT**, and we rethink what we do to **DESIGN FASHION** where the **BEAUTIFUL** is necessarily also **GOOD**.

## BUSINESS ACTIVITIES

OVS S.p.A.'s business model is typical of vertically integrated retailers and includes the following activities: product development, entrusted to a team of product managers, designers and merchandisers that leverages a group structure highly specialised in sourcing with a strong presence in the key geographical areas to design, develop and implement the merchandise mix with external suppliers, under the artistic guidance of the fashion coordinator and the organisational guidance of the category managers.

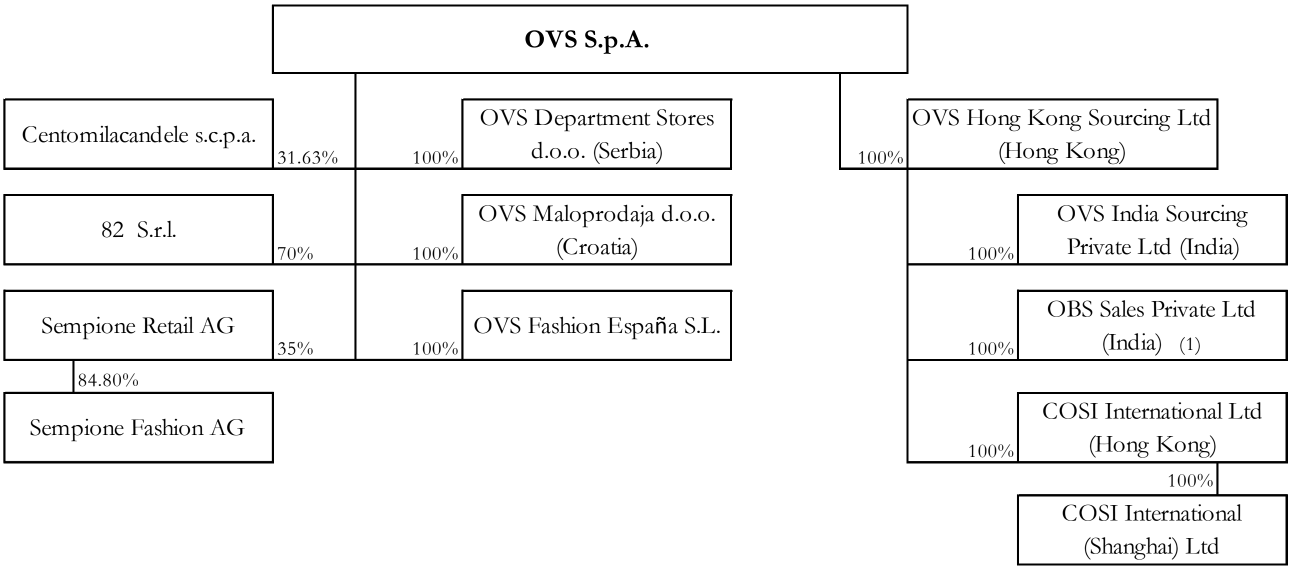
Product development begins with the selection of both fabrics and models on the basis of early analysis of market trends. The clothing production phase is monitored in terms of quality and procurement times, and carried out by teams resident in the various producing countries.

The sales policy is entirely managed by OVS S.p.A. and includes the definition of prices, and consequently margins, the formulation of the commercial calendar (an essential and distinctive component in maintaining interest in the brand), and the in-season management of the stores, with the appropriate markdown activities, in order to allocate the products during the season to stores requiring replenishment.

OVS S.p.A. operates through its countrywide sales network with OVS and UPIM stores that differ in terms of sales area and management approach (direct sales or franchising).

## THE STRUCTURE OF THE GROUP

The following chart shows how the OVS Group is organised, indicating the relative equity investments as percentages.




(1) Winding up

# BRANDS

## OVS

The OVS brand is Italy's leading clothing brand for women, men and children (source: Euromonitor International, 2013), with a market share in Italy of 7.7% (2016).

OVS's leadership position is also confirmed by its high brand recognition: it has achieved a brand awareness level of 97% in Italy, thanks to the long history of the brand, which has been present in Italy since 1972, the countrywide sales network and the shift towards more style-based collections.
The brand renewal process launched in 2007 has allowed OVS to be recognised and appreciated by the market as a brand capable of combining day-to-day and quality fashion content at the best possible price and interacting with its customers in both institutional forms and through new multimedia channels.
The brand identity is reflected in the product portfolio, which is well balanced by gender and categories, and an offer that combines basic garments with more style-oriented items. The strength of the brand is based on price leadership with no compromise on product quality.

## UPIM

Upim was established in 1928, when it opened its first store in Verona. Its long history as a department store saw a turning point in 2009, when Gruppo Coin acquired the brand and completely revamped its formula.

The Bernardi stores acquired by the Group in 2012 also took on the Upim banner.

Upim's central value is being "close to people": territorially, due to its local presence; commercially, due to its day-to-day convenience and broad offer that responds to service needs in several segments; and finally, due to its clear and direct communication.

UPIM's offer is mainly aimed at families, with a particular focus on the quality/price ratio and the provision of current, tasteful products that are also basic and functional, so not completely influenced by fashion trends, but with the characteristics of ongoing collections that may be re-offered and enjoyed over time.

## OVS Kids

With a market share of over 10%, OVS Kids is Italy's leading supplier of clothing for infants, boys and girls aged 0-14.

It is present in Italy with 45 directly operated stores and 186 franchises.

## Blukids

Blukids is the clothing brand of Upim dedicated to children aged 0-14 years with an "active" clothing line.

It became part of Gruppo Coin in 2009, and has become a benchmark for convenient, accessible shopping aimed at meeting the daily needs of mothers and children.

It is present in Italy with 46 directly operated stores and 138 franchises.

## CROFF

CROFF is Upim's historic Italian textiles and home accessories brand. Its collections express the various worlds of the home, ranging from textiles to table and kitchen ware and from accessories to furnishings, with an offer of basic quality products at affordable prices.

It is present in Italy as a corner inside UPIM and OVS stores and in three dedicated stores.

**Shaka**

Shaka INNOVATIVE BEAUTY

Shaka Innovative Beauty is the OVS S.p.A. brand dedicated to perfumery, make-up products, professional make-up accessories and a bath and skincare line.

**BUSINESS MODEL**

OVS designs and develops its collections through an integrated process that starts with the study of trends and styles, creating an accessible fashion offering that can satisfy the requirements of families, young people and older consumers.

The collection is organised with a focus on various scenarios for wearing the clothes, ranging from everyday life to school, sport and more formal occasions. Everything is designed to respond to the desire to dress with Italian style at an affordable price.

The products are made using a model that is outsourced but strongly integrated within the internal value chain, thanks to cutting-edge logistics and sourcing organisation.
The products are sold in a very extensive network of shops (DOS and franchising) located across Italy and and constantly expanding abroad.
Meanwhile, the ongoing growth of e-commerce with a multi-channel approach represents another major factor in development, both now and in the future.
The main features and success factors of the OVS business model are: speed of execution, dynamic projects, innovative drive and close attention to costs, together with extremely flexible implementation and a strong focus on results.

**INNOVATION**

In 2014, OVS signed a partnership with Google For Work, which has made cutting-edge technologies available to the brand to offer customers a multi-sensory experience both in-store and online and make business processes faster and more efficient.

An innovative digital experience to ensure greater interconnection and value-added services for the customer, new ways of in-store involvement through an enjoyable and rewarding shopping experience, and more streamlined and effective inter-company communication through 100% web and Enterprise Search solutions are some of the areas of innovation introduced by the partnership.
OVS offers the customer an innovative omni-channel experience, thanks to the click & collect services, virtual dressing rooms and interactive totems at its stores.
OVS won the Innovative@retail Award for the best Italian webshop in 2014, and the Demandware Innovative Customer Experience award in Las Vegas in 2015.

OVS's e-commerce site manages more than 18 million contacts every year and is growing at an increasingly rapid rate.

## CORPORATE MANAGEMENT MODEL AND ORGANISATION OF BUSINESS ACTIVITIES

### GOVERNANCE

Since 2 March 2015, OVS S.p.A. (hereinafter OVS)[5] has been listed on the Mercato Telematico Azionario (screen-based stock market) organised and managed by Borsa Italiana S.p.A..
OVS's corporate governance system is based on the "traditional" organisational model and is based on the regulations in force and applicable to the sector. It complies with the legal regime for listed companies and the recommendations of Borsa Italiana's Self-regulation Code, to which OVS adheres voluntarily. OVS's organisation is also influenced by the best practices derived from national and international comparison.
OVS exercises management and coordination with respect to its subsidiaries, which are legally autonomous and apply the principles of correct corporate and business management.

The Company's main governance bodies are:

→ the shareholders' meeting: composed of the shareholders of OVS S.p.A., it expresses the corporate will, deliberating in accordance with the procedures and on the matters envisaged by the law and by the Articles of Association, in ordinary and extraordinary form;

→ the Board of Directors: together with the Board of Statutory Auditors, it is the most senior body in the Group's governance structure. It is vested with all powers of ordinary and extraordinary management, except for those that the law expressly assigns to the shareholders' meeting;

→ the Board of Statutory Auditors: has the task of supervising compliance with the law, the Articles of Association and the principles of correct management of the Company;

→ The Director responsible for preparing the corporate accounting statements: has the task of drawing up the corporate accounting documents.

The Board of Directors of OVS also operates through the CEO and the directors with powers of representation and is assisted by Committees, set up within the Board itself, which make recommendations and give advice:

→ Control, Risks and Sustainability Committee: supports the assessments and decisions of the Board of Directors relating to the internal control and risk management system and the sustainability strategy;

→ Nomination and Remuneration Committee: is responsible for assisting the Board of Directors in making assessments and decisions regarding the composition of the Board of Directors and the remuneration of

[5] For more information, see the Governance section of the Company's website at www.ovscorporate.it, where the Report on Corporate Governance and Ownership Structure is available.

directors and managers with strategic responsibilities.

As of the reporting date, an Executive Committee has not been established.

The office of Chief Executive Officer is held by Stefano Beraldo, who also holds the position of General Manager.

The Board of Directors, supported by the Control, Risks and Sustainability Committee, is tasked with analysing aspects with major impact or that are critical for the development of the business while fully respecting the environment and satisfying stakeholders' expectations, defining a sustainable development strategy shared by the entire organisation, identifying all possible synergies and the most effective methods of coordination, and monitoring their effective implementation.

To manage and promote the #WeCare sustainable innovation programme, OVS S.p.A. has identified and formed a Sustainability Team of 15 internal experts (Sustainability Ambassadors) that support the OVS S.p.A. departments as they implement the programme in the various business areas, reporting functionally to the Corporate Sustainability Manager for these activities.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS

The appointment and replacement of Directors is governed by current legislation, as implemented and supplemented, within the permitted limits, and by the provisions of the Articles of Association in compliance with the provisions of the Code.

Appointment as a director is subject to possession of the requirements established by the law, the Articles of Association and other applicable provisions.

The provisions of the Articles of Association governing the composition and appointment of the Board of Directors are appropriate to ensure compliance with the provisions of the law pursuant to Article 147-*ter et seq*. of the TUF and the relative implementing rules. Pursuant to Article 19.3 of the Articles of Association and in line with best practices, the Chief Executive Officer promptly reports to the Board of Directors and to the Board of Statutory Auditors on at least a quarterly basis and in any case at Board meetings, on the activity carried out, the general operational performance and the business outlook, as well as on significant economic, financial and equity transactions, or transactions that are significant in any case due to their size or characteristics, carried out by the Company and its subsidiaries; in particular, he/she reports on transactions in which he/she has an interest on his/her own behalf or on behalf of third parties or that are influenced by a party that exercises
management and coordination activities, if such a party exists.

On 31 May 2017, the Company's shareholders' meeting appointed a new Board of Directors for three years, until the approval of the financial statements for the year ended 31 January 2020, the composition of which complies with the current legislation and regulatory provisions regarding listed companies in respect of the number of independent directors pursuant to Article 147-ter, paragraph 4, and Article 148, paragraph 3, of the TUF, and in respect of the less represented gender, composed of nine members.

## COMPOSITION OF THE BOARD OF DIRECTORS

| Full name | Position | MEN | WOMEN | 31-40 YEARS OLD | 41-50 YEARS OLD | OVER 50 | EXECUTIVE | NON-EXECUTIVE | INDEPENDENT | NOT INDEPENDENT | NO. OF YEARS ON THE BOARD | NATIONALITY | EDUCATION |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Nicholas Stathopoulos (***) | Chairman | X | | | X | | | X | | X | 4 | Greek | Degree in Business Administration |
| Stefano Beraldo (**) | Chief Executive Officer and General Manager | X | | | | X | X | | | X | 4 | Italian | Degree in Economics and Business |
| Stefano Ferraresi (***) | Director | X | | | X | | | X | | X | 4 | Italian | Degree in Economics and Business |
| Marvin Teubner (***) | Director | X | | X | | | | X | | X | 3 | German | Degree in Economics and Operations Research |
| Gabriele Del Torchio (*) (***) | Director | X | | | | X | | | X | | 4 | Italian | Degree in Economics and Banking |
| Heinz Jurghen Krogner Kornalik (*) (***) | Director | X | | | | X | | | X | | 4 | German | Degree in Business Administration and Industrial Engineering |
| Stefania Criveller (***) | Director | | X | | | X | | X | | X | 1 | Italian | Degree in Economics and Business |
| Chiara Mio (*) (***) | Director | | X | | | X | | | X | | 1 | Italian | Degree in Business Administration |
| Vincenzo Cariello (*) (***) | Director | X | | | | X | | | X | | 1 | Italian | Degree in Law |

(*) Director who meets the independence requirements pursuant to Article 148, paragraph 3, of the TUF and Article of the Corporate Governance Code

(**) Executive director

(**) Non-executive director

## Board of Statutory Auditors

On 31 May 2017, the Company's shareholders' meeting appointed a new Board of Statutory Auditors, consisting of three Standing Auditors and two Alternate Auditors, for a period of three financial years, until the approval of the financial statements for the year ended 31 January 2020.

### COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

| Full name | Position | MEN | WOMEN | 31-40 YEARS OLD | 41-50 YEARS OLD | OVER 50 | EXECUTIVE | NON-EXECUTIVE | INDEPENDENT | NOT INDEPENDENT | NO. OF YEARS ON THE BOARD | NATIONALITY | EDUCATION |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Paola Camagni | Chairman of the Board of Statutory Auditors | | X | | X | | | X | X | | 1 | Italian | Degree in Economics and Business |
| Roberto Cortellazzo Wiel | Standing Auditor | X | | | | X | | X | X | | 4 | Italian | Degree in Economics and Business |
| Eleonora Guerriero | Standing Auditor | | X | X | | | | X | X | | 1 | Italian | Degree in Economics and Business |
| Antonella Missaglia | Alternate Auditor | | X | | | X | | X | X | | NA | Italian | Degree in Economics and Business |
| Stefano Poggi Longostrevi | Alternate Auditor | X | | | | X | | X | X | | NA | Italian | Degree in Economics and Business |

For further information regarding the functioning and appointment of the corporate bodies, please see the Corporate Governance Report.

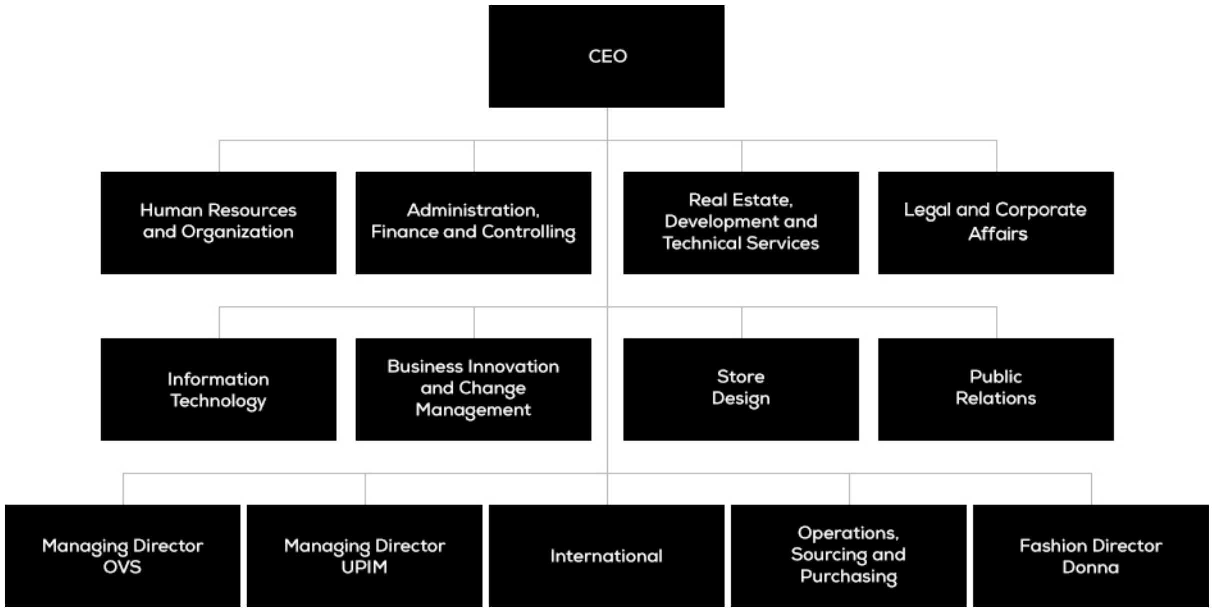
The preparation and approval of the Remuneration Policy of OVS S.p.A. involves the Board of Directors (the "Board" or also the "Board of Directors"), the Nomination and Remuneration Committee (the "Nomination and Remuneration Committee") and the Company's ordinary shareholders' meeting (the "Shareholders' Meeting").

The Board has the exclusive right to delegate the power to define the Remuneration Policy on the basis of a recommendation formulated by the Nomination and Remuneration Committee established within it.

The Board then implements the Remuneration Policy, determining, in accordance with the Policy, the remuneration of the Directors vested with special duties, on the recommendation of the Nomination and Remuneration Committee and after consulting with the Board of Statutory Auditors, within the limits of the overall compensation that may be determined by the Shareholders' Meeting pursuant to Article 2389, paragraph 3, of the Italian Civil Code and Article 22 of the Articles of Association.

The Board annually prepares and approves the remuneration report provided for by Article 123-*ter* of the TUF and Article 84-*quater* of the Issuers' Regulations: please refer to this report for further details.

**ORGANISATIONAL STRUCTURE**




## Sales departments

Within the respective general departments, the Sales departments of OVS and UPIM, which are responsible for customer service and image in stores, oversee budgeting processes, in-season sales management (promotions, markdowns, sales, etc.), organisation of activities (displays, customer service, replenishment, shop windows, etc.) and new store openings.
A network of Area Managers, responsible for different geographical areas, ensures countrywide oversight, managing visual merchandising activities to ensure that the image and display and communication criteria are consistent with the guidelines for the brand concept, and, lastly, coordinates the franchising sales network in Italy, optimising sales performance and profitability by providing support and direction to the partners.

## Product sourcing and development

Product development is entrusted to a team of product managers, designers and merchandisers that leverages a group structure highly specialised in sourcing with a strong presence in the key geographical areas to design, develop and implement the merchandise mix with external suppliers, under the artistic guidance of the Fashion Director (in OVS Donna) and the organisational guidance of the product managers.

Product development starts with the selection of fabrics or with models from reworked samples. The clothing production phase is monitored in terms of quality and supply times, and carried out by teams resident in the producing countries. The production cycles range from a few weeks for basic clothing products manufactured in neighbouring countries (Turkey, Romania, Italy or other countries in the Mediterranean basin) to five or six months, where the price is the most critical variable and where the need for advanced planning is greater. The products are sent to the central warehouse and directed from there to the network of DOS and franchises according to a push-pull model, to enable constant attention to improving saleability. The sales policy is entirely managed by OVS and includes the definition of prices, and consequently margins, the formulation of the commercial calendar (an essential and distinctive component in maintaining high interest in the brand), and the in-season management of slow-sellers with appropriate markdown activities.

### Marketing functions

The Marketing functions of OVS and UPIM are responsible for communication processes, defining advertising campaigns, media plans, web marketing management and website development. They also monitor the market with regard to the positioning of the brand image and the orientation of the target of interest (consumption, customers, competitors).

OVS's Marketing structure is also responsible for customer relationship management and customer care processes, as well as OVS's commercial partnerships. Finally, it manages the presence of the world of OVS on social media.

### E-BUSINESS

The E-Commerce function directly manages the e-commerce business processes and the dedicated platform, ensuring their evolution and optimisation and the achievement of high quality standards and the business results defined by the Company, using a multi-channel approach.

OVS’s e-commerce site manages more than 12 million contacts every year and is growing at an increasingly rapid rate, representing a sales channel with enormous potential.

It is also the structure that manages the corporate websites (OVS, UPIM, OVS PEOPLE, ARTS OF ITALY, etc.), ensuring consistency with the corporate image and aiming to increase OVS's digital visibility and push traffic towards these sites.

### International department

Through the coordination of the Area Managers, this department supervises sales activities and the achievement of pre-established commercial and economic objectives in the various countries, checking the consistency of potential partners and proposed locations and scouting within its area of competence in line with corporate strategy.

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

OVS considers the topic of "Integrity and Business Ethics" to be material, and has adopted an internal control and risk management system, consisting of tools, organisational structures, procedures and corporate rules that allow for sound, proper corporate management that is consistent with the strategic and operational objectives. It complies with the applicable laws and regulations on correct and transparent internal and market reporting, and enables the consequences of unexpected results to be prevented and limited. It is based, *inter alia*, on the Code of Ethics and the organisational model developed pursuant to Legislative Decree No. 231/01 (Model 231).

## CODE OF ETHICS

In its Code of Ethics, OVS S.p.A. identifies benchmark corporate values, highlighting all of the rights, duties and responsibilities of all those working in or with OVS S.p.A. (employees, interlocutors, partners, government, public employees, shareholders and any other person with whom contact is established).
The Code of Ethics was adopted by resolution of the Company's Board of Directors on 27 October 2014.
OVS and its subsidiaries conform their operating behaviour (and that of their interlocutors) to the values of the Code of Ethics in a spirit of honesty, professionalism and transparency, prohibiting any behaviours that go against not only the regulatory provisions, but also the values that the Company aims to promote.
The Code of Ethics expresses the set of behavioural guidelines that allow these values to be implemented in every aspect of the business, whether in Italy or abroad.
The Code of Ethics is an integral part of the "Organisation and Management Model" envisaged by the interpretation of Article 6 of Legislative Decree No. 231/2001 provided by the Confindustria Guidelines.
The Code of Ethics can be viewed on the corporate website at
(http://www.ovscorporate.it/it/governance/modello-231-e-codice-etico).

## ORGANISATION AND MANAGEMENT MODEL (Model 231)

The main objective of Model 231 is to configure a structured and organic system of rules, including organisational rules, and control procedures and activities, to raise awareness among all of those acting in the name and/or on behalf of OVS S.p.A. about the need to base their behaviour on principles of loyalty and fairness, and to prevent the risk that the offences referred to in the decree will be committed.

**Scope of the Model**

OVS S.p.A., even before the stock market listing, aware of the need to ensure fairness, transparency and compliance with the law in conducting business and its activities, believed that the adoption and implementation of the Model was in keeping with its corporate policy. It serves the dual aim of adapting the policy for the purposes of prevention recommended by lawmakers and protecting the interests of shareholders, the management body and, ultimately, the entire Company and its stakeholders from the negative effects deriving from an unexpected application of sanctions.

OVS S.p.A. also sees the Model as an important opportunity to verify, review and integrate corporate decision-making and implementational processes and their control systems, reinforcing the image of fairness and transparency to which the business has always been oriented.

With the adoption of the Model, OVS S.p.A. aims to establish a structured system of procedures and controls that will reduce and potentially eliminate the risk that predicate offences regarded as material for the Company will be committed in high-risk business processes.

The Supervisory Body (SB), appointed by the BoD, supervises the updating and proper functioning of Model 231 and reports to the Board of Directors on this on a regular basis, usually every six months. One of the members of the SB is also a member of the Board of Statutory Auditors. Compliance with the Code of Ethics and Model 231 is monitored through a specific procedure for reporting potential breaches and internal 231 compliance audits aimed at all corporate areas, including environmental and occupational health and safety aspects.

The current Model is being revised, due to the need to incorporate the regulatory changes that took place during 2017, in particular:

- The amendment of the offence of corruption between private individuals (Article 2635, paragraph 3, of the Italian Civil Code) and the introduction of the offence of incitement to corruption between private individuals (Article 2635-bis, paragraph 1, of the Italian Civil Code) by Legislative Decree No. 38/2017;
- The introduction by Law no. 161/2017 of crimes against illegal immigration pursuant to Article 12, paragraphs 3, 3-*bis*, 3-*ter* and 5 of Legislative Decree No. 286/1998 (included in Article 25-*duodecies* of Legislative Decree No. 231/2001);
- The inclusion of the offences of racism and xenophobia referred to in Article 3, paragraph 3-*bis*, of Law no. 654/1975 among the predicate offences of Legislative Decree No. 231/2001 (Article 25-*terdecies*);

- The introduction of rules on whistleblowing with Law No. 179/2017 (in force since 29 December 2017), which amended Article 6 of Legislative Decree No. 231/2001 by introducing three new paragraphs (3-*bis*, 3-*ter* and 3-*quater*).

The Model 231 can be viewed on the corporate website at
(http://www.ovscorporate.it/it/governance/modello-231-e-codice-etico)

## WHISTLEBLOWING

For some time, OVS has had a framework of values and behaviours in place to inspire those who work within or with our Company. It is in OVS's interest to promote and direct its actions according to principles of loyalty and fairness and to adopt the necessary countermeasures to prevent the commission of criminal offences. In this context, OVS has developed a Whistleblowing System, available to collect testimonies and reports that help it to continue on this path.
Breaches of the Code of Ethics, the law and regulations can be reported on the corporate website at (http://www.ovscorporate.it/it/governance/modello-231-e-codice-etico). Reports are handled with the utmost confidentiality and anonymity is guaranteed for whistleblowers.

### RISK SUPERVISION AND MANAGEMENT

Given the complexity of management activities and taking into account that risk-taking is a fundamental and indispensable part of the Company's activity, the Board of Directors of OVS has assessed the importance of identifying and mapping the main risks in advance and adopting suitable instruments to govern them and reduce their impact. The Company has therefore adopted a risk management system, drawing inspiration from the CoSO Report - Integrated Framework and CoSO Enterprise Risk Management models issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In line with these purposes, the risk management system adopted by the Company has the following aims:

- to disseminate the risk prevention and mitigation culture within the Company;
- to ensure transparency on the risk profile assumed and the management strategies implemented, through periodic and structured reporting to the Board of Directors and top management.

OVS's risk management system is also:

- extended to all types of potentially significant risk;
- focused on the most relevant risks, according to their ability to compromise the achievement of strategic objectives or to impair strategic corporate assets;
- based on a quantitative approach or based, where possible, on a precise measurement of the impacts of the risks on the expected economic and financial results according to their probability of occurrence.

On 22 April 2015, the Board of Directors, on the recommendation of the Director in charge of the internal control and risk management system, having received a favourable opinion from the Control and Risks

Committee and from the Board of Statutory Auditors, approved the Company's risk management system guidelines to identify, supervise and manage areas of risk, ensuring the achievement of strategic and operational objectives, the reliability of financial reporting, compliance with laws and regulations and the safeguarding of corporate assets.

The risks identified may be either internal or external to the Company, and therefore related to the sector and/or market context, where the probability of occurrence is outside the sphere of corporate influence. In the case of external risks, the aim of the risk management system is to monitor the risk and mitigate the impact in case of occurrence. In the case of internal risks, the aim of the risk management system is to manage the risk through specific prevention and control systems incorporated within the corporate processes, aimed at reducing the probability and/or limiting the impact in the event of occurrence.

The Group's exposure to strategic, business and operational risks and the related mitigation actions flow into the risk assessment, which is submitted to the competent management and control bodies, also for the possible implementation of corrective measures.

The Board of Directors is responsible for coordinating and supervising the risk management process, so that the risks assumed within the scope of the business are consistent with the business strategies approved, also defining the acceptable risk threshold.

The Control and Risks Committee is responsible for assisting the Board in (i) identifying and assessing the main risks affecting the Company and its subsidiaries so that they are adequately monitored; and (ii) defining and updating mitigation plans and risk governance in general. The Director responsible for the internal control system is responsible for (i) identifying the main corporate risks, taking into account the characteristics of the business and the operations performed by the Company and the Group; and (ii) taking care of the design, implementation and management of the internal control and risk management system, constantly verifying its adequacy and effectiveness.

## MAIN NON-FINANCIAL RISKS

Among the current and/or potential risks to which the OVS Group is or could be exposed, it is possible to identify certain risks, undergone and generated, related to the topics that OVS S.p.A. has identified as material for the Group and its stakeholders.

| MATERIAL TOPIC | RISKS | DESCRIPTION |
|---|---|---|
| Business Integrity and Ethics | - Anti-corruption<br><br>- Integrity of corporate conduct | - In the context of high-risk activities pursuant to Legislative Decree No. 231/2001, risk events linked to corruption that might occur in the form of sensitive activities, examples of offences, the structures and the main safeguards implemented are identified.<br><br>- A retail business model, distributed throughout the country and with broad operational delegation, is exposed to the risk of a lowering of the ethical standards of the personnel and/or its external staff, with operational, compliance and economic implications. |
| Sustainable supply chain | - Risks connected to the supply chain<br><br>- Dependence on raw materials | - Meeting product delivery times, deriving from the needs of the business<br><br>- Cotton is the most important fabric for OVS (over 70% of OVS's clothing production is in cotton). While the impact of cotton production is already significant today, it is likely to increase further in the coming decades, making cotton a scarce and more expensive resource. |

| | | |
|---|---|---|
| Development of Human Capital | - Training;<br>- Management of skills and the process of refreshing individual capabilities<br>- Performance appraisal<br>- Ability to adapt in a constantly changing context<br>- Sharing of corporate objectives<br>- Internal engagement and management of motivation risk. | - Definition of the investments necessary to ensure adequate training programmes to achieve performance;<br>- Continuous adjustment of technical skills and soft skills;<br>- Use of performance appraisal schemes aligned with the best market practices<br>- Development of the soft skills most suitable to strengthen the capacity for adaptation and resilience of employees;<br>- Extension of communication channels to share corporate objectives and the necessary commitment;<br>- Progressive expansion of dialogue initiatives with staff |
| Diversity and Equal Opportunity | Gender discrimination | Special focus on situations related to pregnancy (see the MAAM programme), and ensuring homogeneous career paths. |
| Occupational Health and Safety | Normal performance of working activities at the Italian head office and the foreign offices | Risks are constantly assessed and monitored to identify suitable measures that ensure adequate levels of protection of workers' health and safety. |

| | | |
|---|---|---|
| Community Development | Development of social fabric | The Company's business activities result in a positive risk of improving living and working conditions and managing environmental impacts in developing countries. However, there is a risk that in some countries this improvement will not be fast enough to support the Company's development. |
| Circular Economy | - Dependence on raw materials | - Cotton is the most important fabric for OVS (over 70% of OVS's clothing production is in cotton). While the impact of cotton production is already significant today, it is likely to increase further in the coming decades, making cotton a scarce and more expensive resource. |
| Direct Environmental Impacts | - Energy efficiency<br><br>- Weather conditions | In 2017, OVS made a strong commitment to using electricity from renewable sources, dramatically reducing $CO_2$ emissions (Scope 2)<br>- Climate change brings with it less predictability in weather conditions, which have a major influence on the planning of inflows of goods to stores. |

| | | |
|---|---|---|
| Sustainability Marketing | Stakeholder relations | - The high number of stakeholders with which the Company has relations determines an area of risk mainly related to issues of operational efficiency, compliance and economic performance. |
| Packaging | Waste | Packaging represents the part of the product that is not necessary to the customer and its production involves an increase in materials dispersed into the environment at the end of their life, except in the case of efficiencies and circular approaches to materials. |
| Product Sustainability and Safety | - Regulatory compliance<br><br>- Rules on chemical agents | - All aspects related to compliance monitoring affect the risk of non-compliance, which may lead to judicial and administrative sanctions as a result of breaches of mandatory rules or self-regulation.<br><br>- New regulations requiring stricter standards for the management of chemical agents in the production of garments, leading to higher costs. |

## AUDIT ACTIVITIES

Internal audit activities are carried out in support of the Board of Directors, the Control and Risks Committee and the Board of Statutory Auditors, targeting all corporate areas. 231 compliance audit activities are carried out in support of the Supervisory Body, and constitute the main monitoring and control tool, together with the whistleblowing system previously described.

In 2017, two audits were carried out on the marketing and sales area, one on the sourcing area and one on the corporate area, with specific regard to regulatory compliance issues.

## PREVENTION OF ACTIVE AND PASSIVE CORRUPTION

As explained in its Code of Ethics, OVS rejects and sanctions any corrupting behaviour (including, for example, the giving or promise of donations in money or other benefits - also in the form of gifts or benefits of any kind, hiring, etc.) in relations with interlocutors or partners. In particular, OVS censures the behaviour of those who give or promise money or other benefits to any person belonging to other private entities (e.g. directors, managers, employees) so that the latter breach the obligations of their office or their obligations of loyalty to the entity to which they belong, even if such conduct may convey a direct or indirect advantage to the Company. In this regard, the Company also condemns any corrupting behaviour aimed at obtaining from its interlocutors or partners any information relating to third parties or the disclosure of industrial and business secrets or in any case of confidential data or know-how.
This commitment applies to both employees and third parties, through an appropriate disciplinary system and with the provision of specific "ethical" contractual clauses.
OVS assesses and manages the risk of corruption: the mapping of risks for the purposes of Model 231 constitutes for OVS a fundamental element in terms of preventing the risk of corruption, and more generally of ethics and compliance.

Accordingly, within Model 231, a series of protocols have been developed relating to the management of high-risk activities and a series of protocols related to the management of cross-cutting instrumental activities.

OVS also has a **Whistleblowing System** through which it provides an online platform for reports, ensuring maximum confidentiality and discretion.
This system will have a specific area dedicated to training on Model 231.
In 2017, no incidents of corruption were recorded, either active or passive, relating to corporate activities.

**TRAINING IN THE CODE OF ETHICS AND MODEL 231 IN 2017**

| | Hours 2017 | Hours 2016 |
|---|---|---|
| **Actions undertaken in response to incidents of corruption** | | |
| LEGISLATIVE DECREE NO. 231/01 AND THE CODE OF ETHICS | 1,250 | 400 |

In 2017, a total of 1,250 training hours were delivered on the Code of Ethics and Model 231, compared with 400 hours in 2016.

# SUSTAINABILITY AND VALUE CREATION

## SUSTAINABILITY STRATEGY AND GOVERNANCE

OVS's sustainability strategy is based on the Company's commitment to considering, in every one of its actions, the environmental and social impacts with which they are inevitably associated, and is expressed through the sustainable innovation programme #WeCare, defined in 2015 and launched in February 2016.

For OVS, sustainability must be a characteristic feature of every business action, without limiting itself to creating a specific capsule collection. With the #WeCare programme, the Company is committed to improving the current business paradigms in the fashion world by using tools and skills that have become available thanks to movements such as the Benefit Corporation[6], that aim to redefine business success.

Since 2016, OVS S.p.A. has used the B Impact Assessment[7] in its own analysis and assessment models to achieve an overview of the impact generated by the organisation and the initiatives launched. This tool also allows us to identify priority areas for improvement and the future objectives of the #WeCare plan.

The #WeCare programme is also based on the scientific framework and the principles of sustainable innovation developed over years of research by The Natural Step, an NGO founded in Sweden in 1989 and operating in Italy with benefit corporation Nativa, which is helping the Company to develop the programme.

These principles provide a concrete and comprehensible definition of sustainability for all and are necessary, sufficient and universal to describe a sustainable future.

**In a sustainable society:**

→ nature is not subject to increases in the concentration of substances extracted from the earth's crust (e.g. heavy metals and fossil fuels)

→ nature is not subject to increases in the concentration of substances produced by human activity (e.g. waste and pesticides)

→ nature is not degraded faster than the time required to regenerate (e.g. deforestation and overbuilding)

→ the satisfaction of people's basic needs is guaranteed, promoting health, participation, skills development, impartiality and enhancement of the individual.

[6] Benefit Corps are companies that meet the highest standards of accountability and transparency and aspire to use the business to address and resolve environmental and social problems.

[7] The B Impact Assessment, developed by the not-for-profit B Lab, is a set of global and independent measurement standards for the assessment of social and environmental performance. It allows a company to measure its absolute impact and compare it with benchmarks. The impact assessment is carried out on four areas of analysis (employees, community, environment and governance) and on the company's business model.

In the periodic review of its sustainability strategies, OVS S.p.A. also considers the 17 Sustainable Development Goals (SDGs), adopted in September 2015 by the UN General Assembly within the 2030 Agenda for Sustainable Development. These objectives relate to different areas of social, economic and environmental development as well as to the processes that may accompany and favour them.

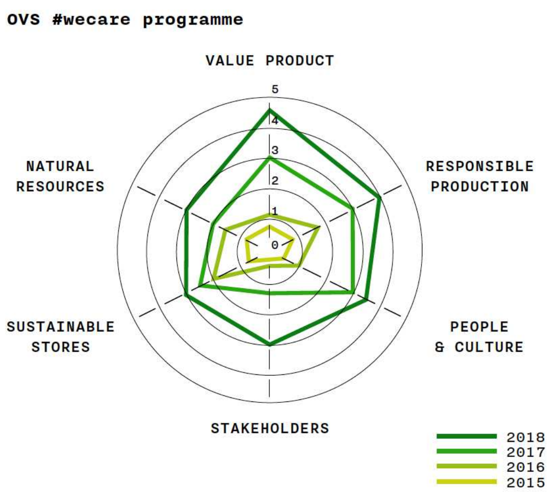

OVS S.p.A. considers the following objectives to be particularly important for its activities: 3 (Good Health and Well-being), 5 (Gender Equality), 6 (Clean Water and Sanitation), 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production), 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land).

## Control, Risks and Sustainability Committee

This is a Committee set up within the Board of Directors, made up of independent directors whose purpose is to support the Board in defining the Company's sustainability strategies. The Committee reports periodically to the Corporate Sustainability manager. The CEO and the Board of Statutory Auditors also take part in the meetings of the Committee.

## #WeCare PROGRAMME

Through the **#WeCare** programme, the Company has focused its attention on aspects of sustainability relating to design and production, the use of materials and production processes, the life cycle of garments and fibre recycling, direct environmental impacts, the supply chain, customer relations and, in general, relations with its stakeholders.




In particular, OVS has adopted a Business Maturity Model, developed on the basis of international best practices in the clothing/retail industry, with respect to which it periodically evaluates its positioning. The aim is to systematically verify its actions and assess the impact of its operations, creating value for the Company and strengthening relationships of trust with the various stakeholders.

In this way we intend to communicate to our customers how much care we put into our garments, reflecting our good practices throughout the supply chain.

To manage and promote the #WeCare sustainable innovation programme, OVS S.p.A. has identified and formed a Sustainability Team of 15 internal experts (Sustainability Ambassadors) that support the OVS S.p.A. departments as they implement the programme in the various business areas.

## SUSTAINABILITY MATURITY MODEL

| | 1 — 2 | 3 — 4 | 5 |
|---|---|---|---|
| **VALUE PRODUCTS** | The company has a limited knowledge of the origin and impact of the materials it buys and of the sustainability profile of its products. | The company understands the implications of the sustainability of the entire lifecycle. The sustainability characteristics of the product are taken into consideration in the same way as cost and quality as an intentional design criterion. | Sustainability is a driver of product innovation. All the aspects of design and development incorporate sustainability as the key driver. |
| **RESPONSIBLE PRODUCTION** | No particular concern for sustainability in the choice of suppliers. No checking of worker conditions and environmental impact on the entire production chain. | Sustainability is a criterion for the choice of suppliers. The suppliers are regularly well checked and the well-being of their workers is at least at a minimum level of acceptability. The company relates proactively with its suppliers and influences them to act in a sustainable manner. | Excellent environmental and social sustainability practices are applied on the entire production chain. The treatment of the workers extends to the well-being of the community and society. There is tangible evidence of the positive impact generated by the initiatives for improvement involving suppliers. |
| **PEOPLE AND CULTURE** | The policies connected with sustainability are communicated to all the employees in the company. Sustainability is not yet present in the training courses and development activities. | The sustainability programme is known and well communicated internally. The employees are constantly trained on sustainability. The company measures and acts to systematically improve the well-being of the employees through initiatives for involvement in sustainability. | Sustainability is at the centre of the corporate vision and culture. The employees know they are supported in the corporate decisions placing sustainability before short term results. |
| **STAKEHOLDER** | Despite the positive efforts in reporting, the seriousness and importance of sustainability per the company are not evident to the stakeholders | The stakeholders can see a serious commitment to sustainability in corporate activities. The customers who intend to shop in a sustainable manner can find all the information on the products for an aware choice. | The profile and impact of the actions of the company for sustainability are more eloquent than any report or statement of social responsibility. The company enjoys a good reputation in sustainability with respect to all the stakeholders. |
| **SUSTAINABLE STORES** | The design of the stores and the details of improvement are widely based on efficiency, costs of construction and the operating costs. The construction plans comprise the use of some sustainable materials and take energy efficiency into consideration. | The criteria of sustainability are defined for all the construction works. The choice of architects and contractors takes into full consideration their sustainability background. The specifications of material, the air quality, energy sources and the efficient positioning of the location are all relevant factors in the construction plans. | The organisation ensures that no opportunity for sustainability is ignored in the design, construction, development and refurbishing of the store network. |
| **NATURAL RESOURCES** | The company plans do not take into consideration the future availability of resource or the implications deriving from the finishing of natural resources. | The use of limited resources is well understood by the company and every effort is made to reduce the demand for critical materials and other resources through the reduction, elimination and replacement. There are clear objectives for reduction of the carbon footprint. | The company has clear evidence of improvement of the activities that have not involved an increase in the consumption of natural resources. There is an action plan to achieve neutrality in terms of carbon without compensation of the emissions. |

## MAP OF STAKEHOLDERS

The table below shows the map of key stakeholders and the material topics for each of them: in part, these represent OVS's perception of the individual categories of stakeholders and, in part, the expectations identified by the involvement actions already under way. This tool is constantly evolving.

In 2017, we mapped the categories of key stakeholders and identified the material topics for each of them: in part, these represent OVS's perception of the individual categories of stakeholders and, in part, the expectations identified by the involvement actions already under way. This tool is constantly evolving.
We have also launched a reflection on the dialogue channels already active in the Company to assess their real ability to grasp and monitor critical areas (as well as strategic opportunities) in the company-stakeholder relationship.

One of the fundamental guidelines of the strategic plan outlined is the involvement of stakeholders. We feel that we play a crucial role in informing people in a clear and transparent way and spreading awareness of clothing choices.

This is why we involve our stakeholders in our initiatives, making them protagonists in a world that works to give everyone the freedom to dress every day an innovative and sustainable Italian style.

| STAKEHOLDER | STAKEHOLDER'S INTEREST | OVS S.P.A.'S INTEREST TOWARDS THE STAKEHOLDER |
|---|---|---|
| **CUSTOMERS** | → Satisfy their need to purchase<br>→ Accessible and safe clothing for their families<br>→ Express their personality with brands that visibly align themselves with their values<br>→ Look fashionable | → Satisfy the customer<br>→ Increase the propensity to purchase and the value of the OVS S.p.A. brand |
| **OFFICE STAFF** | → Fulfil themselves professionally<br>→ Increase the sense and purpose of their role<br>→ Increase their skills<br>→ Increase well-being during the working day (concentration, nutrition, stress levels, etc.) | → Increase employee productivity<br>→ Increase the sense of belonging to the Company<br>→ Reduce the turnover rate<br>→ Make the employee an ambassador of OVS S.p.A.'s values |
| **COMPETITORS** | → Acquire market share through distinctive levers<br>→ Common interest in improving the reputation of fast fashion | → Maintain leadership in fast fashion in Italy<br>→ Use distinctive levers to increase brand reputation<br>→ Common interest in improving the reputation of fast fashion |

| | | |
|---|---|---|
| **SUPPLIERS** | → Consolidate the relationship with OVS S.p.A. over time and increase the value of the relationship<br>→ Improve their practices | → Systematically improve the supplier's environmental and social practices<br>→ Promote economic development |
| **LOCAL COMMUNITIES PRODUCING COUNTRIES** | → Support from the Company on a par with institutions in developing countries<br><br>→ Promotion of work and rights | → Tighten profitable relationships to generate shared value<br><br>→ Increase the level of acceptance of the Company |
| **LOCAL COMMUNITIES STORES (ITALY)** | → Support from the Company on a par with institutions for a common benefit | → Tighten profitable relationships to generate shared value<br>→ Increase the level of acceptance of the Company |
| **PRESSURE GROUPS** | → Ensure that OVS S.p.A. is part of the solution in solving global environmental problems by reducing the impact of the fashion industry<br>→ Increase transparency and consumer information to guide more informed choices<br>→ Develop sustainable brands rather than greenwashing | → Be recognised as a serious brand with a clear strategy in terms of environmental and social sustainability |
| **INSTITUTIONS** | → Enforce the rules<br>→ Incentivise the Company if it is virtuous in improving access to and availability of resources for citizens | → Leverage institutions to create a positive impact |
| **OPINION LEADERS** | → Create new trends | → Be perceived as a cool brand |
| **STAFF IN STORES** | → Promote well-being in the store (temperature, stress levels, etc.)<br><br>→ Facilitate interaction with the client with distinctive arguments | → Increase employee productivity<br>→ Facilitate interaction with the client with distinctive arguments<br>→ Reduce the turnover rate |
| **INVESTORS** | → Increase the value of the shares<br>→ Reduce the risk associated with the investment<br>→ For funds: Focus on environmental, social and governance due diligence | → Communicate sustainability as a strategy to minimise risk and create long-term value for investors |
| **FRANCHISEES** | → Improve performance<br>→ Increase the attractiveness of the brand | → Establish long-term partnerships in line with OVS S.p.A.'s values |

| | | |
|---|---|---|
| **INDUSTRY COALITIONS** | → Acquire new affiliates<br>→ Ensure that the affiliate plays an active role in improving working conditions and reduce the use and impact of harmful substances in the clothing industry's supply chain | → Join coalitions strategically in order to increase the visibility of OVS S.p.A. and maximise the positive impact, leveraging economies of scale generated by Industry Collaboration |

Following our main initiatives to involve our stakeholders:

Clients

- Customer Satisfaction survey
- Training program
- Annual survey to identificate material aspects

HQ personnel

- Professional training
- MAAM Project
- Training on Code of Ethics and Occupational Health&Safety
- Annual survey to identificate material aspects

Suppliers

- Periodical meeting with key suppliers.
- Audit programme
- Industry Collaboration initiative
- Accord programme

Local communities (supply chain)

- Periodical meetings
- Partnership

Local communities (stores)

- Periodic meetings

INVESTOR

- Investor Relation activities
- Annual calendar of corporate events

FRANCHISEEs

- Periodical meetings
- Periodical survey

Industry associations

- Membership in international initiatives for Fashion Sustainability improvement

Communities

- Meetings with influencers and institutions to promote social and cultural inititatives

## ECONOMIC VALUE GENERATED AND DISTRIBUTED

The majority of the economic value distributed by OVS S.p.A. remunerates and sustains the system of supply chain companies.

**ECONOMIC VALUE GENERATED AND DISTRIBUTED (EUR/1000)**

| | **2017** | **2016** |
|---|---|---|
| **ECONOMIC VALUE GENERATED** | **1,500,958** | **1,455,516** |
| **NET SALES** | 1,519,453 | 1,357,883 |
| **OTHER INCOME** | 72,813 | 65,910 |
| **FINANCIAL INCOME** | 22,387 | 20,668 |
| **ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS** | (24,139) | (1,480) |
| **DOUBTFUL ACCOUNTS** | (16,170) | 1,200 |
| **FOREIGN EXCHANGE GAINS AND LOSSES** | (70,599) | 11,579 |
| **INCOME/EXPENSES FROM THE SALE OF TANGIBLE AND INTANGIBLE ASSETS** | (2,056) | (204) |
| **ADJUSTMENTS TO THE VALUE OF TANGIBLE AND INTANGIBLE ASSETS** | (731) | (40) |
| **ECONOMIC VALUE DISTRIBUTED** | **1,449,459** | **1,351,100** |
| **OPERATING COSTS** | 1,130,834 | 990,390 |
| **REMUNERATION OF STAFF** | 288,628 | 273,911 |
| **REMUNERATION OF LENDERS** | 15,094 | 15,063 |
| **REMUNERATION OF INVESTORS** | - | 34,050 |
| **REMUNERATION OF GOVERNMENT** | 14,778 | 37,615 |
| **EXTERNAL DONATIONS** | 125 | 71 |
| **ECONOMIC VALUE WITHHELD** | **51,499** | **104,416** |
| **DEPRECIATION AND AMORTISATION** | 58,965 | 56,796 |
| **PROVISIONS** | 250 | 1,200 |
| **RESERVES** | **(7,716)** | **46,420** |

(*) Remuneration of government also includes deferred taxes

# MATERIALITY ANALYSIS

In order to improve sustainability policies, refine reporting processes and focus more precisely on the topics to be included in the reporting, OVS launched a constructive dialogue and fruitful debate in 2016 with some of its key stakeholders, i.e. parties with a position of interest vis-à-vis the Company and therefore the capacity for influence. The Company continued this process of dialogue and debate in 2017, aiming to approve its ability to intercept emerging trends on the national and international market to be included in reporting.

The following activities were carried out to define the list of material topics:

→ recognition of the current situation through an analysis of various internal public and non-public sources (internal analysis);

→ analysis of sector benchmarks, conducted on a selected sample of competitors operating at national and international level (external analysis);

→ online survey disseminated to a panel of around 4,000 parties, consisting of employees and customers.

Specifically, the survey was designed to:

- detect the main trends in the sector, supported by the benchmarking activity described above;
- identify the main issues arising from the Sustainable Development Goals (SDGs);
- evaluate the perception by external stakeholders of the material topics for the Group;
- verify the sensitivity of external stakeholders to the main aspects of sustainability concerning the supply chain, stores, environmental impacts, etc.;
- compare the interests and expectations of external stakeholders with the material topics included in the objectives identified by OVS's 2017 Sustainability Plan.

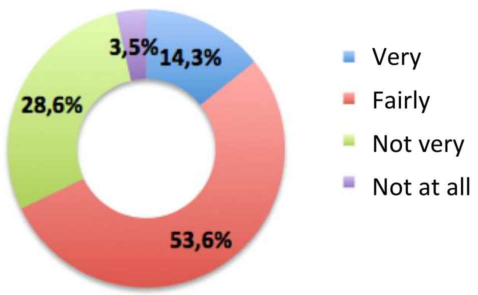
The analysis also allowed the reporting to be interpreted, in line with the areas of application of the Decree, according to the topics that are "[... material taking into account the Company's activities and characteristics]".
In particular, the 2017 analysis takes into account the risks and opportunities related to the business, an aspect that has been largely incorporated into the methodology summarised below.

**Summary of survey results**

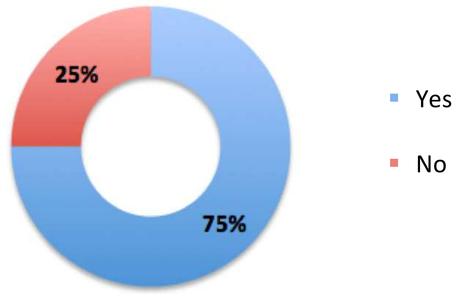
The survey respondents answered as indicated in the graphs to questions relating to the perception of sustainability involved in their product purchases:

- **CUSTOMERS**. More than 67% of the customers surveyed said that the sustainability features of products influenced their clothes shopping choices, while 75% said they were very interested to know the sustainability features of OVS's products and that this would influence their shopping choices.

Thinking back to the last time you bought an item of clothing for yourself or your children, how important do you think the environmental and social impact of the product was in your choice?



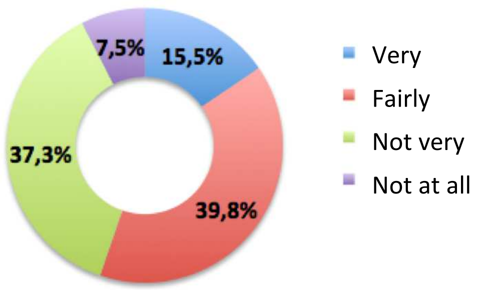

Would knowing about the sustainability features of every OVS product influence your shopping choice?



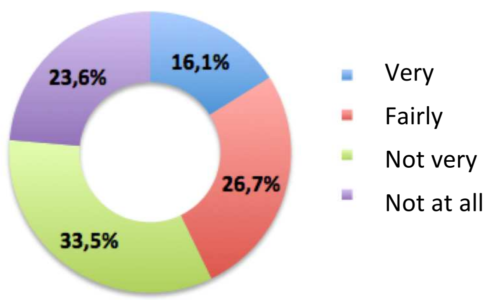

- **EMPLOYEES**. 55% of the respondents said that products characterised as sustainable were a very or fairly important part of their total purchases.

  With respect to the environmental and social impact of the products, 26.7% of those surveyed considered aspects of sustainability in the purchase of clothing items to be important, at 30-50%; while 16.1% considered these aspects to be more important, at 50%.

Thinking back to the last time you bought an item of clothing for yourself or your children, how important do you think the environmental and social impact of the product was in your choice?




What percentage of your total shop is made up of products characterised as sustainable?




With regard to the topics considered important, the survey produced the following results:

- 91.9% of employees and around 61% of customers considered “Community Development” to be an important topic for the creation of value for the area. This interest is expressed through the Company's support for initiatives linked to social or environmental objectives;

- 95% of employees and 67.8% of customers said they were interested in the development of employees and human capital, in terms of work-life balance, health and safety, career paths, increasing diversity and promoting gender equality;
- 91.9% of employees and 78.5% of customers considered the environmental impacts deriving from the Company's activities to be important, in terms of energy efficiency, efficient use of water, management of $CO_2$ emissions, waste management and logistics;
- Over 90% of employees and around 90% of customers considered the topic of product safety and traceability to be very important, in relation to information on controls of potentially harmful substances and the origin of products;
- 83.8% of employees and 67.8% of customers considered the topic of customer service to be important, in terms of listening to the customer and improvement based on feedback received, the pricing and accessibility of products, innovation in the shopping experience and safeguarding privacy;
- A similar percentage of employees (88.2%) and customers (64.3%) were interested in initiatives and projects involving consumers, in terms of environmental impacts related to the cleaning and maintenance of clothes, responsible use of clothes (reuse and recovery), consumption models (fast fashion and circular economy) and initiatives for educational, social and environmental purposes;
- Customers and employees also showed strong interest in other aspects related to the supply chain, such as sustainable product design (employees: 95.7%, customers: 89.3%) and supervision of interaction with suppliers regarding incentives to improve their sustainability (employees: 88.2%, customers: 85.7%)
- Lastly, 63.3% of employees and approximately 43% of customers considered aspects related to the management of the network of commercial partners and franchisees to be important, in terms of skills and abilities, selection criteria for business partners, working conditions in the areas of franchisees, business ethics and monitoring of environmental performance.

## MATERIAL TOPICS LINKED TO BUSINESS ACTIVITIES

Based on the results of the surveys previously described and considerations related to the needs of the Company, the following material topics have been identified:

- Business Integrity and Ethics;
- Sustainable Supply Chain;
- Development of Human Capital;
- Diversity and Equal Opportunity;
- Occupational Health and Safety;
- Community Development;
- Circular Economy;
- Direct Environmental Impacts;
- Sustainability Marketing;
- Packaging;
- Product Sustainability and Safety.

The table below shows the material topics identified by the OVS Group on the subjects envisaged by Legislative Decree No. 254/2016.

| **Scope of Decree No. 254/2016** | **Material topics** |
|---|---|
| RESPECT FOR HUMAN RIGHTS | SUSTAINABLE SUPPLY CHAIN |
| COMBATING ACTIVE AND PASSIVE CORRUPTION | BUSINESS INTEGRITY AND ETHICS |
| PERSONNEL | DEVELOPMENT OF HUMAN CAPITAL<br>DIVERSITY AND EQUAL OPPORTUNITY<br>OCCUPATIONAL HEALTH AND SAFETY |
| ENVIRONMENT | DIRECT ENVIRONMENTAL IMPACTS<br>PACKAGING<br>CIRCULAR ECONOMY |
| SOCIETY | COMMUNITY DEVELOPMENT<br>PRODUCT SUSTAINABILITY AND SAFETY<br>SUSTAINABILITY MARKETING |

## MATERIALITY MATRIX

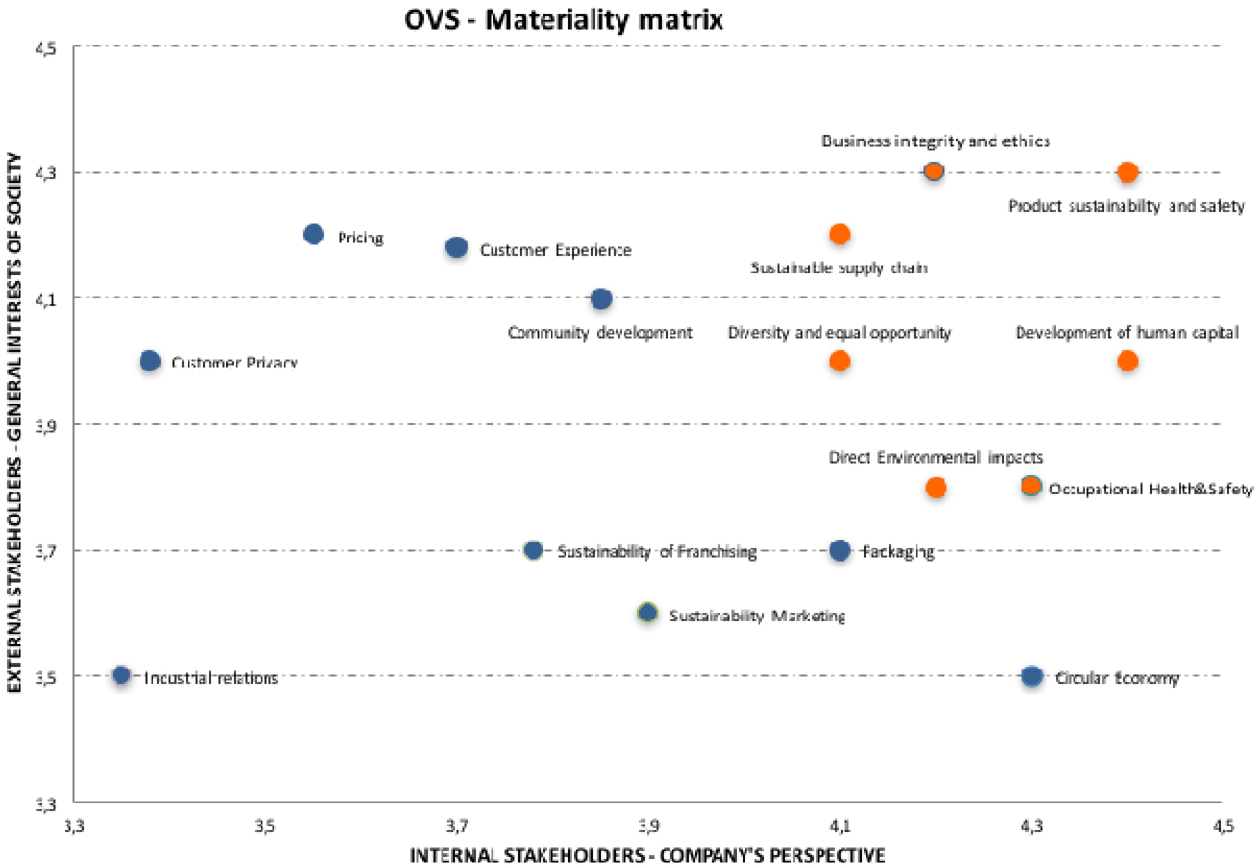
In order to better focus its sustainability strategy and business activities, the results of the analysis have been elaborated in the materiality matrix in which:

→ each point represents a topic that is being explored;

→ material topics are positioned according to the importance attributed to each of them with respect to:

- internal organisation and perspective (impact for the Company);
- external stakeholders involved and market perception (impact for stakeholders and society);

→ the material topics of "high importance" are shown in the box in the top right hand corner. Specifically, the latter have been defined on a discretionary basis, with threshold values set at 4.0 for the internal corporate perspective and 3.5 for the perspective of external stakeholders and the market.




The following table shows the scope of the impact that the OVS Group generates in relation to each topic regarded as material, distinguishing between the impact within the OVS Group (including the impact on the "Staff" category of stakeholders) and the external impact, i.e. referring to one or more categories of reference stakeholders.

## SCOPE OF IMPACT OF MATERIAL TOPICS

| Material topic | Specific GRI standard | | Importance for | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Category | Sub Categories and/or Aspects | OVS | Staff | Customers | Suppliers | Territory | Associations |
| Product Sustainability and Safety | Social | **Product Responsibility**: Product and Service Labeling, Customer Health and Safety, Compliance | x | | x | x | x | x |
| Sustainability Marketing | Economic | Market Presence, Economic Performance | x | x | x | | x | |
| Business Integrity and Ethics | Social | **Society**: Anti-corruption, Anti-competitive Behavior | x | x | x | x | x | x |
| Development of Human Capital | Social | **Labor Practices and Decent Work**: Employment, Labor/Management Relations Training and Education | x | x | | | x | |
| Sustainable supply chain | Social | **Labor Practices and Decent Work**: Supplier Assessment for Labor Practices, Supplier Assessment for Impacts on Society | x | x | x | x | x | x |
| Direct Environmental Impacts | Environmental | Materials | x | x | x | x | x | x |
| Diversity and Equal Opportunity | Social | **Labor Practices and Decent Work**: Diversity and Equal Opportunity, Equal Remuneration for Women and Men | x | x | | | x | x |
| Packaging | Social | **Product Responsibility**: Marketing Communications, Product and Service Labeling, Compliance | x | | x | | x | x |
| Occupational Health and Safety | Social | **Society**: Occupational Health and Safety | x | x | | x | | |
| Community Development | Social | **Society**: Local Communities | x | x | | | x | x |
| Circular Economy | Economic Environmental Social | Economic Performance Overall **Society**: Compliance | x | | x | x | x | x |

# PRODUCT SUSTAINABILITY

OVS S.p.A. regards the following topics as material: Product sustainability and safety, packaging and circular economy, and animal welfare.

The main policies established to oversee the issues are summarised below:

- A strict garment safety control programme through a publicly available RSL (Restricted Substances List) and specific certifications (e.g.: OEKO-TEX);
- Adoption of a methodology to systematically monitor the impact of OVS's offer on the planet, starting from the product development phase;
- A sourcing strategy dedicated to materials with the greatest impact (cotton and polyester) to ensure the progressive use of sustainable and/or circular materials;
- The promotion of circular economy initiatives in fashion and participation in innovative research and development projects in this area;

## DESIGN

The improvement measures identified by analysing the potential impacts of a piece of clothing on the environment and the people who make it and wear it are even more effective if this assessment starts at the initial design phase of the product.

By carrying out this type of analysis when the materials are sorted, the fabric processing and treatment techniques are selected and decisions are made as to where to locate and how to organise the production chain, the challenges posed by the commitment to achieve more sustainable fashion can be anticipated with a long-term strategic approach, benefiting from greater room for manoeuvre to deal with them effectively.

For this reason, a synthetic product sustainability rating tool is being developed and tested to systematically monitor the impact of OVS S.p.A.'s offer on the planet in terms of materials, suppliers and production processes, thus guiding the adoption of solutions that improve sustainability.

In addition, every OVS S.p.A. Product Manager has received specific training and guidelines aimed at improving their knowledge of the impacts associated with materials, processes and other important design aspects and how to direct product design in order to mitigate the impact on the environment.

## MATERIALS

The impact of materials is estimated to be about 60%[8] of the overall footprint of a piece of clothing throughout its entire life cycle.

We constantly monitor the materials used in our clothing products. However, we want sustainability to be a

[8] "Measuring Fashion" - Quantis & ClimateWorks Foundation 2018

characteristic element of all our products, starting with the materials for our entire product portfolio, and we therefore do not limit ourselves to creating a specific capsule collection.

**BREAKDOWN OF MATERIALS**

| Material | 2017 | % | 2016 | % | 2015 | % |
|---|---|---|---|---|---|---|
| COTTON | 28,732,348.65 | 68.7% | 25,777,719.56 | 71.68% | 24,597,884 | 72.57% |
| POLYESTER | 6,268,239.08 | 15.0% | 5,146,610.37 | 14.31% | 4,523,939.55 | 13.35% |
| POLYAMIDE | 1,895,380.26 | 4.5% | 1,409,409.3 | 3.92% | 1,421,434.42 | 4.19% |
| VISCOSE | 1,813,825.80 | 4.3% | 1,391,247.4 | 3.87% | 1,171,568.44 | 3.46% |
| ACRYLIC | 1,580,158.14 | 3.8% | 1,059,907.0 | 2.95% | 985,141.46 | 2.91% |
| ELASTANE | 465,446.66 | 1.1% | 423,418.5 | 1.18% | 434,574.08 | 1.28% |
| POLYURETHANE | 414,083.43 | 1.0% | 263,961.2 | 0.73% | 280,057.19 | 0.83% |
| LINEN | 164,444.15 | 0.4% | 113,002.6 | 0.31% | 110,671.71 | 0.33% |
| WOOL | 119,637.46 | 0.3% | 92,225.2 | 0.26% | 113,648.93 | 0.34% |
| 35 OTHER MATERIALS | 359,324.44 | 0.9% | 284,471.0 | 0.79% | 255,510.29 | 0.75% |

We are therefore working to identify solutions that can be applied throughout all of our collections and make a substantial contribution to our constant improvement, including through international collaborations.

Among the other initiatives which it has joined, OVS S.p.A. takes part in the ECAP (European Clothing Action Plan), which aims to introduce a fashion industry model with less impact, working in particular on materials. In addition to specific innovation projects for some processing phases, OVS has identified its intervention priorities by acting first of all on the most important materials: cotton and polyester.

## SUSTAINABLE COTTON

Cotton is the most important material for us, and our customers appreciate its versatility and naturalness. However, we are aware that “natural” does not always mean “low-impact”. Although conventional cultivation of cotton takes up only 2.4% of total cultivated land, it accounts for 24% of the insecticides and 11% of the pesticides used globally, harming both farmers and the extended neighbouring communities and requiring high consumption of both water and chemical fertilisers[9].

However, there is an alternative: a more sustainable cotton grown in an ethical manner by dramatically reducing the use of all harmful chemicals.

[9] Textile Exchange - Organic Cotton Round Table 2016

With this approach, less water is also used, with savings of up to 90%, soil quality and yield are improved, and better working conditions are promoted for the people involved in the supply chain.

OVS S.p.A. has therefore decided to strategically promote sustainable cotton farming without compromising on people and the environment. For this reason we are committed to progressively purchasing only sustainable cotton, and we were the first Italian retailer to join the Better Cotton Initiative in 2016. This initiative was created to actively support the transformation of the global cotton industry and radically improve its impact on environment and the people who grow cotton.

BCI Better Cotton Initiative

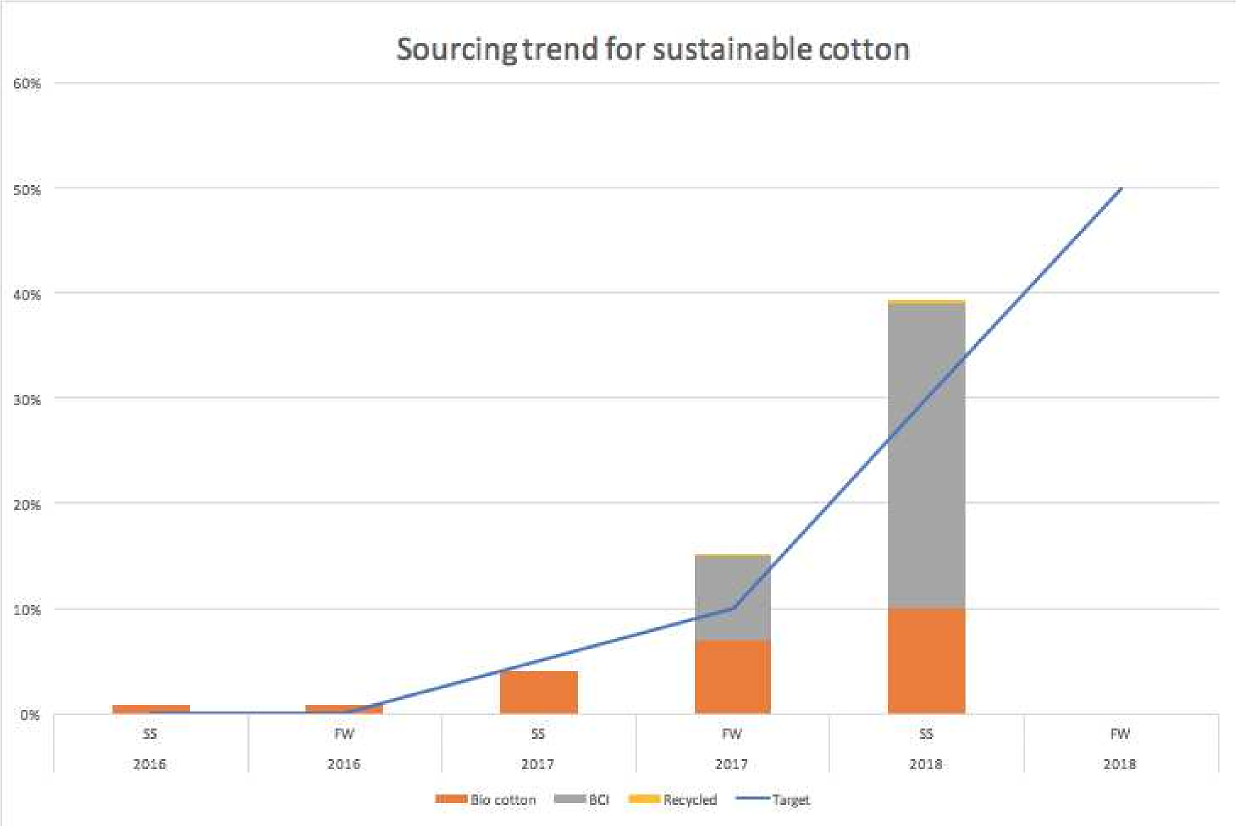
### FOCUS ON THE BETTER COTTON INITIATIVE

**The BCI (Better Cotton Initiative) is an international association the promotes the more sustainable cultivation of cotton, respecting the environment along the entire supply chain, from farmers to ginners and manufacturers. The BCI aims to achieve long-term change. The BCI Standard envisages six points:**

1. **The development and adoption of a protocol on farming methods (use of pesticides, soil, water, habitat, working conditions);**
2. **BCI training for growers with local partners to promote training courses on farming practices;**
3. **Farmers accreditation to obtain the BCI farmers' license; the training program requires participants to keep field books and the regular assessment by independent local certifiers;**
4. **Connection between different players along the supply chain;**
5. **Promotion of the Better Cotton approach and the communication of data, information and case studies;**
6. **Monitoring and assessment of mechanisms for measuring progress and assurance of the achievement of the positive impact desired.**

Furthermore, we support organic farming, which we favour, particularly for children's clothing. For the products in the 2017 collections, OVS S.p.A. purchased around 1,220 tonnes of cotton from certified organic crops. Compared with the 2016 figure (210 tonnes), the increase is significant, thanks to the new procurement strategy, which aims to achieve a target of 100% in 2020. Thanks to this important achievement, OVS S.p.A. has helped to save about 19 billion litres of water, which would otherwise be needed for the processing of traditional cotton garments.

The graph below shows the growth trend in the sustainable cotton supply (BCI, Bio Cotton and Recycled). As you can see, in 2017 the total percentage of sustainable cotton grew **from around 5% of the Spring-Summer 2017 collection to 15% of the Autumn-Winter collection** and we estimate that **growth will be 39% in Spring-Summer 2018**, which is higher than expected.




## QUALITY AND SAFETY

We regard product safety and quality as an essential pre-requisite for our product offer, also considering the market share we represent and our leadership position in the children's clothing segment.

This is why we carry out more than 40,000 tests per year on our products to guarantee the quality and safety of 100% of our range. Within the Company, a Quality Assurance function ensures that the quality of what is offered for sale corresponds to predefined standards in terms of internal production requirements, materials and workmanship, and compliance with current regulations.

The Quality Assurance function thus draws up the product quality standards required of all suppliers, both Italian and foreign, and performs ongoing reviews of "production requirements" to adapt them to increasingly stringent regulatory and market requirements, defining those specific to each product line with the product managers.

All our garments undergo chemical and physical testing to ensure that they comply with the limits on potentially hazardous substances defined by OVS S.p.A., which are safer than those established by law and are compiled in our Restricted Substances List.

### Defining clear quality and safety standards

Every product must comply with the most stringent quality standards, in terms of both materials and production processes.

We require our manufacturers, as an integral part of the contract, to apply the strictest restrictions on the use of chemicals, in line with the provisions in force in the countries of the European Union, and - adopting the precautionary principle - we have established parameters for residues of harmful chemicals on clothing that are more stringent than the legal limits, in particular for clothing intended for children up to 36 months.

As a further guarantee for the consumer, especially for children's wear and underwear, OVS S.p.A. has held OEKO-TEX 100 certification (Classes I and II) for several years. This certification ensures that the item of clothing has been created using environmentally friendly materials and manufacturing processes in order to offer an additional guarantee of the safety of the finished product, checking it according to criteria that are far more exacting than the parameters valid at national and international level. In-depth product audits and periodic company audits also make it possible to raise awareness in the industry of the responsible use of chemicals in the long term and on a global scale.

For the 2017 collections, OVS S.p.A. purchased 71,347,063[10] products from the OEKO-TEX certified supply chain, equal to 34% of the overall order, representing an increase compared with 2016 (68,367,671 items)[11].

**A control system that checks for full compliance with the standards.**
**100% of product references are checked**

Product quality is subject to continuous control processes: checks are carried out on items of clothing, accessories, cosmetics and home textiles from the creation stages, with the involvement of qualified and independent third parties that certify their full compliance with the legal and quality requirements defined by OVS S.p.A..

All batches of categories of clothing, footwear, costume jewellery, cosmetics and items intended for contact with food are subject to mandatory controls, with samples taken directly in production and analysed in ISO:17025-certified laboratories of leading international companies.

This control activity is carried out both at Italian suppliers and at reconditioning points in Italy where supplies from abroad arrive, and at foreign suppliers. In this second case, the inspections are carried out on site by structures dedicated to the quality of operations within the Group's subsidiaries present in the producing countries, always making use of analyses and verifications conducted by certification bodies and specialised laboratories.

In the event of non-compliance with the minimum production, quality and performance requirements, whenever possible an attempt is made to intervene with reconditioning, followed by further testing, to

[10] The figure relates to the period Jan-Dec 2017.

[11] The figure of 38,240,050 published in the 2016 Sustainability Report was estimated conservatively, while this year the correct calculation method was developed.

allow for products to be sold. In the event of non-conformities related to the safety or toxicity aspects of the product, the margins for corrective intervention may be more limited, resulting in the cancellation of orders and the disposal of non-compliant products.

**No cases of product recall due to quality or safety in 2017**

In recent years, thanks to careful control work, OVS S.p.A. has not been involved in significant proceedings or transactions related to claims for damages caused by defects in products sold.

**Ending the use of the sandblasting technique for finishing denim garments**

Sandblasting gives denim fabrics a vintage look, but is associated with serious health risks for workers employed in the production chain, who, without the effective use of protective devices, may contract silicosis. In our factories we do not accept the use of this type of processing and we ensure that it is replaced with safer techniques.

## RESPECT FOR ANIMALS

The Company's designers have been asked to replace materials of animal origin with more virtuous materials from an environmental and ethical point of view. If this is not possible, they guide their choices towards solutions that ensure the exclusion of any form of animal abuse.

**→ Feathers**

Exclusive use of Downpass certified feathers that guarantee full traceability. Animal welfare is guaranteed by the ban on the practice of plucking from live animals; the environmental impact is also reduced by ensuring that the feathers come from animals reared for food.

**→ Fur**

OVS banned the use of animal fur in its collections some time ago, signing a formal commitment with LAV and the Fur Free Alliance, thus demonstrating its particular focus on issues relating to safeguarding and respecting the environment and the animal world. http:// www.lav.it/en/news/ovs-fur-free.

## APPROACH TO THE CIRCULAR ECONOMY

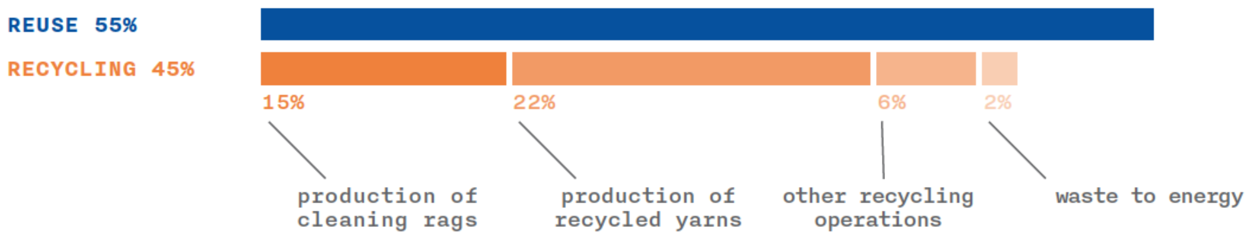
The earth is a system that is closed for matter and open for energy: we must therefore consider that everything we produce and consume remains inside it, as if we were in a spaceship.
Our challenge in this area is to be guided by a new production and consumption concept, moving from a linear model of input-output to a circular model in which each element has a new life and can be regenerated. Whatever is not consumed is assimilated into another process.

In Italy in 2014, 99,900 tonnes of textile waste were collected separately, representing about 1.6 kg/person per year, i.e. only 12% of total recyclable textile waste. This figure is very low, particularly considering that the consumption of textile products is 14 kg/person, much lower than the European average (data from Humana People to People Italy).

**Used clothing collection**

In 2013, OVS S.p.A. launched an initiative that involves its consumers in collecting and recycling used clothing, thus avoiding the impacts of their disposal. The clothes collected by OVS S.p.A. are selected, analysed and transformed, following strict standards and making use of the most advanced technologies in collaboration with I:CO, a worldwide operator in fabric recycling. The garments are carefully sorted: if still wearable, they will be treated so that they can be put back on the market as second-hand clothes; otherwise, depending on their condition, they may be transformed into different products or broken down into their textile fibre to recover new raw material or be used to produce energy.

OVS S.p.A. has collected about 741 tonnes of clothing since the initiative was launched.
In 2017 alone, 141,730 kg were collected, an increase of about 13% compared with the 125,290 kg collected in 2016[12].
The graph below shows the recycling and reuse percentages for the garments collected. These values are the same as in 2016.




The agreement with the technical partner also provides for a donation of 2 euro cents to Save the Children for every kg of clothes recovered, thus reinforcing the message of care for the planet with the support of important social campaigns.

## Global Fashion Agenda - Commitment to circular fashion

Global Fashion Agenda is a platform of the fashion world that promotes the in-depth knowledge of issues related to sustainability among the executives and creatives of the most important fashion brands, acting at both strategic and operational levels. The transition to a circular system is imperative for today's fashion industry. The linear economic model currently in use of take-produce-throw away is reaching its physical limits, as the world population, it is estimated, will exceed 8.5 billion by 2030 and consequently the global production of clothes will increase by 63%.

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[12] The data refer to the period 1/2/2017-31/1/2018.

During the 2017 Copenhagen Fashion Summit, Global Fashion Agenda invited brands and retailers to participate in an initiative to promote a circular fashion system.

OVS was the only Italian company to participate, alongside another 63 international companies, which together represent 143 brands and a combined value of 7.5% of the world fashion market.

OVS will commit, with the other participants, to taking the lead in accelerating the transition to a circular system that restores and regenerates materials, offering new opportunities for innovative design, increased customer engagement and building shared economic value.

**First area of action - design strategies to improve the recyclability of garments**

- By 2020, all our product managers will be trained and assessed on the application of circularity principles in the product.
- By 2020, all our product briefs will include circular design principles.
- By 2020, all our clothing will be measured with a circularity score.

**Second area of action - increase in the volume of used clothing collected**

- By 2020, all our stores in Europe will have an active used clothing collection system and we will collect 1,000 tonnes of clothing per year.

**Third area of action - increase in the volume of used clothing resold**

- By 2020, we will have launched a collaboration with a partner specialising in the recycling of fabrics and/or a philanthropic institution for the management of all the clothing collected by the brands of the OVS S.p.A. group.

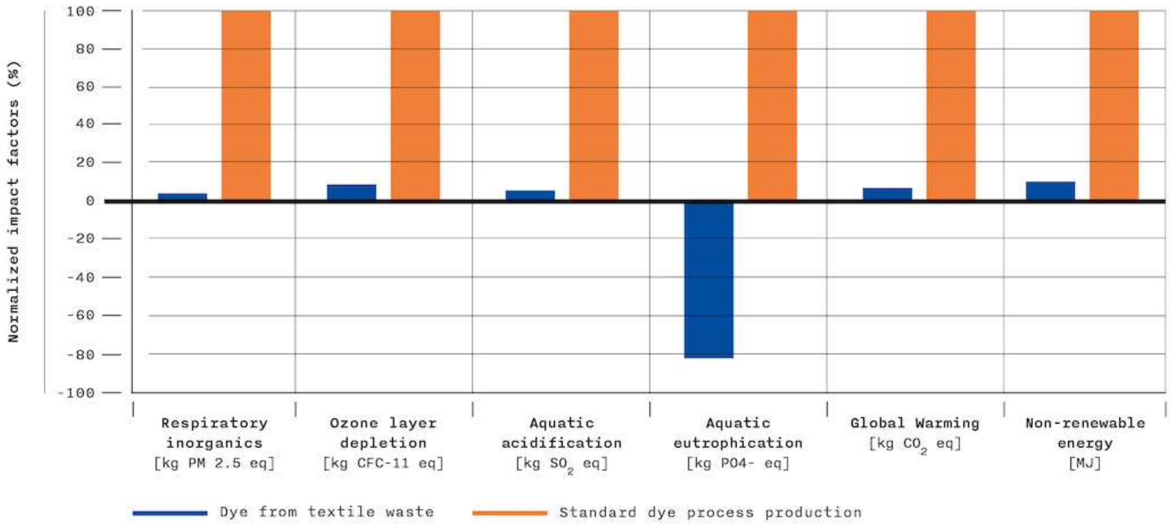
**Fourth area of action - increase in the volume of garments made from recycled fibres**

- By 2020, we will have produced 3 million garments with textile fibres collected from consumers.
- By 2020, we will have launched at least two promotion and research initiatives in the recycling of textile fibres for cotton and polyester, which represent more than 80% of the fibres we buy.

## Innovative projects - Recycrom

The goal we set ourselves is to progressively increase the use of fibres from waste or recycling processes to give real value to the process of recovering end-of-life clothing in which we are engaged. For this reason we have launched research projects, including an innovative technological transfer project for the recovery and treatment of fabric swatches and scraps generated during the making of clothes to transform them into dye.

One of the most impactful phases in the life cycle of clothing products is certainly the dyeing phase. OVS S.p.A. has developed Recycrom technology, in partnership with an innovative Italian start-up, which enables the treatment of fabric swatches and scraps generated during the making of clothes for their transformation into dye, reducing the relative impacts by more than 95%. Specifically, the following graph shows a comparison of the impact of traditional dye compared with Recycrom dye on six environmental impact areas.




**Il Filo dell'Amore**


Through the environmental sustainability community project "Il Filo di Amore" ("The Thread of Love"), which involves more than 300 directly operated and affiliated stores in the Upim and Blukids network countrywide, OVS S.p.A. plans to follow the growth of children who wear the brand and support families in difficulty at the same time, launching a programme for the collection and reuse of used clothes. We have promoted a collection of garments to donate to the shelters of Amici dei Bambini ("Friends of Children"), an NGO established by adoptive and foster families which has been helping abandoned children since 1986.

In view of the fact that children grow very quickly, especially when they are small, any purchase of Blukids items for children aged 0 to 36 months in 2017 could be returned to the store after use in the period in question, with the original receipt, as long as they were clean and intact. The clothes were donated to Amici dei Bambini family homes and customers received a 20% discount voucher for baby clothing and underwear shopping, valid until 5 July 2017.

## SUPPLY CHAIN MANAGEMENT

At OVS, we are aware of the relationship of interdependence that exists with a complex supply chain extending to many countries worldwide. The sustainability strategy cannot overlook the creation of a driver of co-development for all parties within the chain.

For this reason OVS has defined:

→ A Code of Conduct that introduces binding guidelines on environmental and social performance in order to continuously improve levels of transparency and sustainability;

→ An internal and foreign audit programme based on the Code of Conduct;

→ A supplier assessment system that incorporates sustainability KPIs into the main evaluation criteria;

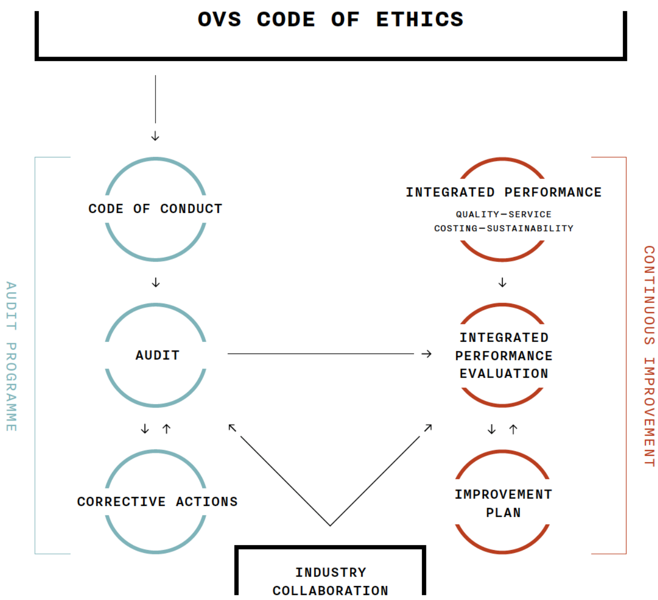
→ Collaboration plans with key suppliers for the adoption of good practices to improve environmental and social performance.

### SUPPLY CHAIN MANAGEMENT

Supply chain management is based on a structured operational framework to make sure that the practices adopted and working conditions comply with our core values and help to disseminate a positive impact on people and the environment.

OVS works only with suppliers that fully respect the values and guidelines on environmental and social performance contained in our Code of Ethics.

The guidelines do not simply represent a list of instructions, but a shared responsibility that generates a virtuous circle for everyone, at an economic, environmental and social level, contributing in particular to improving working conditions with positive repercussions on local communities.




The behavioural standards described concern the areas relating to people, the environment, compliance and transparency, and are based on the relevant international regulations, such as the UN Convention on the Rights of the Child, the Universal Declaration of Human Rights and the ILO Conventions, as well as other industry

best practices.
By agreeing to work with us, each supplier is required to guarantee the principles described in the Code in respect of its own behaviour. We work with our suppliers to ensure that this is not just a formal commitment, but translates into an awareness and involvement of the entire supply chain in order to establish direct and continuous relationships.

## Auditing of suppliers

The Company operates with more than 40 staff dedicated to verifying on-site the real situations at the production sites.
To ensure adherence to the principles established by the Code and measure the actual environmental and social performance of our supply chain, we implement a periodic audit plan.
The protocol we apply for these checks was revised in 2016, and we made it fully operational during 2017.
The control activity is carried out by the staff of OVS Sourcing, one of our subsidiaries with offices in Hong Kong, Bangladesh, Turkey and India which carries out sourcing, quality assurance and control services exclusively for OVS S.p.A.. We also make use of controls carried out on suppliers by third parties and we adhere to Industry Collaboration initiatives. In Bangladesh, which produces over 40% of our volumes, we have signed up to the Accord programme. Thanks to this initiative, we are able to check all of our suppliers' production directly on site from the point of view of the safety of working conditions (see details in the box below).

**NUMBER OF SUPPLIERS SCREENED WITH RESPECT TO SOCIAL AND ENVIRONMENTAL PARAMETERS**

| Indicator | 2017 | 2016 | 2015 |
|---|---|---|---|
| TOTAL NUMBER OF NEW SUPPLIERS | 83 | 93 | 76 |
| TOTAL NUMBER OF NEW SUPPLIERS SCREENED USING SOCIAL CRITERIA | 83 | 93 | 76 |
| % OF NEW SUPPLIERS SCREENED USING SOCIAL CRITERIA | 100% | 100% | 100% |
| % OF NEW SUPPLIERS SCREENED USING ENVIRONMENTAL CRITERIA | 100% | 0 | 0 |

In order to assess, in an integrated way, the overall performance of the suppliers and their ability to manage their business effectively, also considering protection of the environment, workers and local communities, we have defined a new service quality concept that includes sustainability among the other evaluation criteria (Quality, Service and Costing).
In particular, we use a rating system that synthetically expresses the sustainability profile of each supplier based on information gathered through a self-assessment process, verified subsequently through the audit programme, which takes into account their ability to mitigate the impact on the environment and ensure

adequate working conditions, assessment of the level of risk inherent in the sector or country in which the supplier operates, and the degree of transparency and external commitment of the supplier in terms of corporate social responsibility. This data is then integrated with other KPIs in the standard areas of corporate performance assessment to obtain an integrated assessment of all the aspects relevant to the business.

In 2016, we introduced a new rating system for suppliers responsible for 80% of clothing production, and in 2017 we assigned a rating to all the suppliers who work with us, adding social and environmental considerations to the assessment process.

We also undertake to deal with appropriate diligence with any reports, including those received by external parties, of possible supplier behaviour that diverges from the shared ethical and environmental standards, and to verify and sanction any violations in the most appropriate ways.

## SECTOR ASSOCIATIONS

In order to develop a supply chain that creates real development opportunities for the local communities in which it is established, we adhere to international initiatives to improve sustainability throughout the fashion industry:

**Sustainable Apparel Coalition (SAC)**

This association works to develop sustainable practices in the clothing sector to prevent environmental damage and have a positive impact on individuals and communities associated with their activities (collaboration during 2016, formal membership in 2017).

**Better Cotton Initiative**

http://bettercotton.org - Details in the "Products of value" section.

**Accord**

The Accord on Fire and Building Safety in Bangladesh, which was established following the Rana Plaza incident, is an international agreement promoted by the OECD between contracting companies, trade unions and the Bangladesh garment association to check and ensure the safety of working environments in the local textile supply chain that have signed up to the agreement (a member since May 2014). See the box on the next page for further details. In 2017, OVS S.p.A. signed the new agreement, which contains some new elements, including the extension of its scope to textile products for the home and other textile accessories, and the transition of the Accord functions to the national government bodies of Bangladesh.

**Better Factories Cambodia**

This is a non-governmental organisation working with local institutions and governments to protect workers in countries at risk of breaches of human and labour rights (a member since March 2015).

ACCORD ON FIRE AND BUILDING SAFETY

The Accord on Fire and Building Safety in Bangladesh is an independent initiative to which 215 garment companies have signed up worldwide, involving more than 3,000 factories and reaching more than two million workers. The Accord was created following the Rana Plaza incident in 2013, when an entire building in which clothing was manufactured collapsed, causing the death of more than 1,100 workers. The aim of the agreement is to stimulate collaboration in the entire industry to make all clothing production plants in Bangladesh safe. The agreement also includes training plans to promote good practices in terms of prevention and safety.

Due to our membership of the Accord on Fire and Building Safety, all the factories we work with in Bangladesh are periodically checked to ensure their safety. Because we have signed up to the agreement, all OVS factories in Bangladesh are subject to periodic independent inspections to verify their safety in terms of the stability of the buildings and fire and electrical risks. The audits are not announced and are conducted according to the Accord Building Standard protocol, which is broadly based on the Bangladesh National Building Code and is the result of continuous updates supervised by the ILO and discussions between Accord, the National Tripartite Plan of Action and the Alliance for Bangladesh Worker Safety. The results of the inspections are made public on the site, along with photos and the progress of ongoing corrective measures.

The initial inspections are conducted by international engineering bodies to identify any corrective actions and structure them within a five-year intervention plan. If structural weaknesses are identified that require immediate action, an emergency response plan is activated to evacuate and secure the building, with production being suspended until the dangerous situation is resolved.

For all suppliers that we work with directly in the country, we take responsibility for audits and any reorganisation plans that have become necessary over the past few years, with a progress rate that is above the average of the other companies involved (86% compared with a average of 83% in 2017).

Another important pillar of the programme is the training of personnel to raise awareness of risk situations and to widely disseminate the adoption of good safety and prevention practices (OSHC), with priority given to factories without union representation.

## SUPPLIERS

The production of a piece of clothing involves a complex range of activities, often carried out by different parties, each specialising in a specific activity and often located in emerging countries, with different cultural sensibilities and different capacities to manage business activity while fully protecting the environment, workers and local communities.
Each supply relationship pursues the combined objectives of effective support for our business and creating a positive impact on local communities, helping to improve working conditions at the production sites of our suppliers and supporting economic development in production locations.

**ORDERS BY COUNTRY**

| Made in | No. suppliers 2017 | Ordered goods 2017 | Delta of ordered goods 2016 (%) | No. suppliers 2016 | Ordered goods 2016 |
|---|---|---|---|---|---|
| BANGLADESH | 85 | 324,396,748.55 | 27% | 76 | 255,769,025.36 |
| CHINA | 254 | 213,739,887.98 | 27% | 223 | 167,935,203.8 |
| INDIA | 85 | 72,409,592.98 | 25% | 79 | 57,860,352.8 |
| ITALY | 137 | 33,980,753.34 | -3% | 171 | 34,862,494.8 |
| MYANMAR | 12 | 26,541,185.94 | 91% | 9 | 13,881,400.2 |
| CAMBODIA | 12 | 13,858,797.19 | 15% | 11 | 12,103,289.8 |
| PAKISTAN | 18 | 19,098,161.17 | 71% | 13 | 11,168,883.2 |
| TURKEY | 28 | 8,190,393.66 | -17% | 28 | 9,874,608.0 |
| VIETNAM | 9 | 8,799,233.75 | 47% | 7 | 5,992,399.4 |
| TUNISIA | 10 | 7,776,442.41 | 44% | 10 | 5,397,980.6 |
| OTHER COUNTRIES | 142 | 26,239,320.18 | -13% | 144 | 30,253,692.0 |
| **TOTAL** | **792** | **755,030,517.2** | **25%** | **771** | **605,099,329.8** |

The calculation of Ordered goods has been processed considering the purchase orders with a transaction date within the fiscal year 2017. Furthermore, the number of suppliers operating in different countries is equal to 624. In the previous table the number of suppliers (792) take into consideration of suppliers with several plants in different countries.

# PEOPLE AND CORPORATE CULTURE

The topics related to personnel management that are material to OVS are: the development of human capital, diversity and equal opportunity and occupational health and safety.

OVS believes that the growth of its people and the development of their skills is a platform of value for the Company, and it is therefore committed to listening to the needs and expectations of individuals, in order to promote maximum professional expression.

The main risks related to personnel management concern the topics of health and safety of the Group's personnel, remuneration, training, skills management and the process of refreshing individual skills, performance appraisal, adaptability in a constantly changing context, the sharing of corporate objectives and the focus on commercial results, internal engagement and the management of motivation risk.

OVS makes significant investments in the training of its own resources, considering it crucial to keep its employees professionally competitive with respect to the skills required by the business and the market.

In this regard, OVS applies specific human resources management guidelines, in line with the guiding principles of the Company and aimed at achieving the following objectives:

- to anticipate and support change in the professions and adapt the skills needed to prepare for the future;
- to manage and optimise investment in training and to measure and control costs;
- to prepare and support career development by increasing mobility and employability.

2017 was a year of major changes for OVS from the point of view of personnel, both quantitatively and qualitatively. A substantial investment was made in new resources (150 new hires), in the sales network (214 trainee store managers) and in terms of the quality of these resources (85% of head office hires held a bachelor's or master's degree, with this percentage decreasing to 72% for trainee store managers in the sales network).

### MAAM Programme

In September 2017, the MAAM programme, a digital programme that “*transforms the birth of a child into an opportunity to develop cross-cutting skills that are also useful at work*”, was launched at OVS. MAAM enhances the educational potential of the parenting experience, bringing value to the company both economically and in terms of management.

The programme, active throughout Italy and particularly in Veneto, received a positive rating for its content from 90% of participants. There were also positive response rates to the individual exercises (55% vs. 20% of the e-learning sector for voluntary courses).

For the participants, the most expert cross-cutting skills are: listening, empathy, managing time and priorities and decision-making.

From a management point of view, the year was characterised by high profile hires, including from industries other than those usually used by OVS and from abroad, in order to diversify and permeate the corporate fabric with different points of view and cultures. Specifically, the following were included:

- the Digital Transformation Director from the media world;
- the OVS Visual Merchandising Director from Spain;
- the Manager of the Young OVS Donna Category from Spain;
- the Director of Resource Development and Organisation from the world of luxury goods;
- the Head of CRM & Customer Care (a new position in line with the development objectives of OVS).

The Company's strong expansion in terms of new businesses and formats, international expansion (both structural, through the opening stores in franchising abroad, and otherwise, through the conversion of the former Charles Voegele stores in Switzerland, Slovenia and Austria) and the focus on digital are all factors that have resulted in selection, training and development activities - particularly at the head office - with a view to improving the quality mix of the resources involved.

Employer branding activity was also strong, leading OVS S.p.A. to play a role in numerous activities, internally and in cooperation with the major national universities (especially the study done with the IUAV on the new UPIM store concept) and to significantly strengthen its social media presence with the launch of a structured editorial plan for its corporate page on LinkedIn, registering an increase of over 50% in its followers with a very high engagement rate.

## COMPOSITION AND DISTRIBUTION OF PERSONNEL

OVS S.p.A.'s success depends on the work of around 6,500 people worldwide. Approximately half of them have worked for the Company for more than 10 years.

**BREAKDOWN OF WORKFORCE BY GEOGRAPHICAL AREA AT 31 JANUARY 2018 (*)**

| | 31/01/2018 | | | 31/01/2017 | | | 31/01/2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Employees** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| ITALY | 1,340 | 4,980 | 6,320 | 1,311 | 4,917 | **6,228** | 1,292 | 4,827 | **6,119** |
| BANGLADESH | 99 | 3 | 102 | 90 | 2 | **92** | 88 | 2 | **90** |
| CHINA | 12 | 10 | 22 | 12 | 10 | **22** | 13 | 10 | **23** |
| HONG KONG | 8 | 89 | 97 | 7 | 85 | **92** | 7 | 82 | **89** |
| INDIA | 42 | 10 | 52 | 41 | 12 | **53** | 42 | 11 | **53** |
| TURKEY | 1 | 8 | 9 | 1 | 8 | **9** | 1 | 8 | **9** |
| **TOTAL** | **1,502** | **5,100** | **6,602** | **1,462** | **5,034** | **6,496** | **1,443** | **4,940** | **6,383** |

(*) The data relate to the period from 1 February 2017 to 31 January 2018

**WORKFORCE IN ITALY (year-end data)**

| | 31/01/2018 | | | 31/01/2017 | | |
|---|---|---|---|---|---|---|
| **Employees by category and gender** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| MANAGERS - DIRIGENTI | 57 | 19 | 76 | 51 | 14 | **65** |
| PROFESSIONALS - QUADRI | 191 | 94 | 285 | 187 | 85 | **272** |
| EMPLOYEES - IMPIEGATI | 1,036 | 4,821 | 5,857 | 1,014 | 4,768 | **5,782** |
| WORKERS - OPERAI | 56 | 46 | 102 | 59 | 50 | **109** |
| **TOTAL** | **1,340** | **4,980** | **6,320** | **1,311** | **4,917** | **6,228** |

The total number of OVS S.p.A. staff in Italy as at 31 January 2018 hired on a permanent contract was 6,320 (corresponding to 5,462 Full Time Equivalent), of whom 79% were women (4,980 people - 4,140 FTE) and 21% were men (1,340 people - 1,322 FTE).

At managerial level the proportion of women is lower, at 25%.

The personnel employed in the sales network totalled 5,472 (corresponding to 4,623 Full Time Equivalent), comprising 4,430 women (81%) and 1,042 men (19%).

A total of 848 people (corresponding to 838 Full Time Equivalent) are employed at the head office, consisting of 550 women (65%) and 298 men (35%).

**NEW HIRED IN ITALY BY GENDER, HEADQUARTES AND STORES**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | MEN | WOMEN | TOTAL | MEN | WOMEN | TOTAL |
| OVS SpA HQ | 40 | 109 | **149** | 27 | 54 | **81** |
| OVS SpA Stores | 384 | 2.019 | **2.403** | 374 | 1.736 | **2.110** |
| | **424** | **2.128** | **2.552** | **401** | **1.790** | **2.191** |
| **% New hired** | 17% | 83% | | 18% | 82% | |
| **Incoming turnover rate** | 25% | 33% | 31% | 31% | 36% | 35% |

**NEW HIRED IN ITALY BY GENDER, AGE, HEADQUARTERS AND STORES**

**2017**

| | <30 | | 30-50 | | >50 | | TOTAL | | % |
|---|---|---|---|---|---|---|---|---|---|
| | MEN | WOMEN | MEN | WOMEN | MEN | WOMEN | MEN | WOMEN | TOTAL |
| OVS SPA HQ | 18 | 64 | 21 | 42 | 1 | 3 | 40 | 109 | **149** |
| OVS SPA STORES | 327 | 1.629 | 56 | 383 | 1 | 7 | 384 | 2.019 | **2.403** |
| **TOTAL** | **345** | **1.693** | **77** | **425** | **2** | **10** | **424** | **2.128** | **2.552** |
| **% New hired** | 14% | 66% | 3% | 17% | 0,1% | 0,4% | 17% | 83% | |

**Termination in Italy by gender, Headquarters and stores**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | MEN | WOMEN | TOTAL | MEN | WOMEN | TOTAL |
| OVS SPA HQ | 27 | 29 | **56** | 21 | 15 | **36** |
| OVS SPA Stores | 326 | 1.712 | **2.038** | 330 | 1.668 | **1.998** |
| **TOTAL** | 353 | 1.741 | **2.094** | 351 | 1.683 | **2.034** |
| **% termination** | 17% | 83% | | 17% | 83% | |
| **Outgoing turnover rate** | 21% | 27% | 26% | 22% | 27% | 26% |

**Termination in Italy, by gender, age, Headquarters and stores**

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | <30 | | 30-50 | | >50 | | TOTAL | | |
| | MEN | WOMEN | MEN | WOMEN | MEN | WOMEN | MEN | WOMEN | TOTAL |
| OVS SPA HQ | 9 | 12 | 12 | 17 | 6 | - | 27 | 29 | **56** |
| OVS SPA Stores | 232 | 1.183 | 78 | 470 | 16 | 59 | 326 | 1.712 | **2.038** |
| **TOTAL** | **241** | **1.195** | **90** | **487** | **22** | **59** | **353** | **1.741** | **2.094** |
| **% Terminations** | 12% | 57% | 4% | 23% | 1% | 3% | 17% | 83% | 100% |

**BREAKDOWN OF PERMANENT WORKFORCE IN ITALY BY QUALIFICATION**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Qualification** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| BACHELOR'S DEGREE AND EQUIVALENT | 276 | 528 | **804** | 250 | 470 | **720** |
| HIGH SCHOOL DIPLOMA | 779 | 2,940 | **3,719** | 772 | 2,903 | **3,675** |
| COMPULSORY SCHOOLING | 243 | 1,115 | **1,358** | 248 | 1,137 | **1,385** |
| UNDOCUMENTED | 42 | 397 | **439** | 41 | 407 | **448** |
| **TOTAL** | **1,340** | **4,980** | **6,320** | **1,311** | **4,917** | **6,228** |

13% of the staff of OVS S.p.A. on permanent contracts have a bachelor’s degree and nearly 60% have a high school diploma. More than 50% of the office staff have a bachelor’s degree, while around 7% of the store employees have a bachelor’s degree and 61% have a high school diploma.

**Breakdown of permanent and temporary workforce in Italy by contract type**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Contract type** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| FULL TIME | 1.603 | 4.037 | 5.640 | 1.537 | 3.846 | **5.383** |
| PART TIME | 75 | 2.431 | 2.506 | 71 | 2.303 | **2.374** |
| **TOTAL** | **1.678** | **6.468** | **8.146** | **1.608** | **6.149** | **7.757** |

**Breakdown of permanent workforce in Italy by contract type**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Contract type** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| FULL TIME | 1.299 | 3.143 | 4.442 | 1.268 | 3.097 | **4.365** |
| PART TIME | 41 | 1.837 | 1.878 | 43 | 1.820 | **1.863** |
| **TOTAL** | **1.340** | **4.980** | **6.320** | **1.311** | **4.917** | **6.228** |

The types of activities of OVS S.p.A.'s network of stores require a flexible operating model with extensive use of part-time working. About 30% of our permanent staff work part-time (1,878 people).

**Breakdown of temporary workforce in Italy by contract type**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Contract type** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| FULL TIME | 304 | 894 | **1.198** | 269 | 749 | **1.018** |
| PART TIME | 34 | 594 | **628** | 28 | 483 | **511** |
| **TOTAL** | **338** | **1.488** | **1.826** | **297** | **1.232** | **1.529** |

In 2017, the Company also made use of employees on fixed-term contracts, and at the end of the financial year (31 January 2018) there were 1,826 of these employees in the workforce.

**BREAKDOWN OF PERMANENT WORKFORCE IN ITALY BY AGE BRACKET**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Age bracket** | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| <30 | 155 | 490 | 645 | 167 | 525 | **692** |
| 30-50 | 790 | 3,503 | 4,293 | 772 | 3,504 | **4,276** |
| >50 | 395 | 987 | 1,382 | 372 | 888 | **1,260** |
| **TOTAL** | **1,340** | **4,980** | **6,320** | **1,311** | **4,917** | **6,228** |

Most of OVS S.p.A.'s personnel on permanent contracts are aged 30 to 50 years old. More specifically personnel aged 30 to 39 years old represents 36% of the population. Young people under 30 are also numerous (645 in total). The average age is 41.2. With regard to length of service, more than half the corporate population has worked for the Group for more than 10 years (54% of the population), and the average length of service is around 13 years.

**WORKFORCE BY GEOGRAPHICAL AREA IN ITALY**

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Employees by geographical area** | **Permanent employees** | **Temporary employees** | **Total** | **Permanent employees** | **Temporary employees** | **Total** |
| NORTH-EAST ITALY | 1,962 | 516 | 2,478 | 1,906 | 397 | **2,303** |
| NORTH-WEST ITALY | 1,809 | 601 | 2,410 | 1,803 | 509 | **2,312** |
| CENTRAL ITALY | 1,348 | 375 | 1,723 | 1,350 | 359 | **1,709** |
| SOUTHERN ITALY AND ISLANDS | 1,201 | 334 | 1,535 | 1,168 | 264 | **1,432** |
| **TOTAL** | **6,320** | **1,826** | **8,146** | **6,227** | **1,529** | **7,756** |

**Breakdown of permanent and temporary workforce by gender, geographical area**

| | Permanent | | | Temporary | | |
|---|---|---|---|---|---|---|
| | **MEN** | **WOMEN** | **TOTAL** | **MEN** | **WOMEN** | **TOTAL** |
| NORTH-EAST ITALY | 480 | 1.482 | 1.962 | 101 | 415 | 516 |
| NORTH-WEST ITALY | 336 | 1.473 | 1.809 | 100 | 501 | 601 |
| CENTRAL ITALY | 252 | 1.096 | 1.348 | 71 | 304 | 375 |
| SOUTHERN ITALY AND ISLANDS | 273 | 928 | 1.201 | 66 | 268 | 334 |
| **TOTAL** | **1.341** | **4.979** | **6.320** | **338** | **1.488** | **1.826** |

As the Group's sales network is present throughout Italy, so too the personnel are distributed countrywide: 60% are employed in the north (where the company's head office is located), 21% work in central Italy, and 19% work in the south and on the islands.

The table below shows the indicators on returning to work and return rates after parental leave, broken down by gender.

**Return to work after parental leave**

| | 2017 | 2016 |
|---|---|---|
| **EMPLOYEES ENTITLED TO PARENTAL LEAVE (NO.)** | **275** | **290** |
| of which women | 238 | 254 |
| of which men | 37 | 36 |
| **EMPLOYEES WHO HAVE USED PARENTAL LEAVE (NO.)** | **198** | **213** |
| of which women | 197 | 208 |
| of which men | 1 | 5 |
| **EMPLOYEES WHO ENDED THEIR PARENTAL LEAVE DURING THE YEAR (NO.)** | **149** | **153** |
| of which women | 148 | 148,00 |
| of which men | 1 | 5,00 |
| **EMPLOYEES WHO ENDED THEIR PARENTAL LEAVE AND WENT BACK TO WORK DURING THE YEAR (NO.)** | **145** | **150** |
| of which women | 144 | 145 |
| of which men | 1 | 5 |
| **TOTAL RETURN RATE (%)** | **97%** | **98%** |
| **TOTAL RETURN RATE FOR FEMALE STAFF (%)** | **97%** | **98%** |
| **TOTAL RETURN RATE FOR MALE STAFF (%)** | **100%** | **100%** |

Finally, it should be noted that the total number of persons belonging to the protected categories is equal to 290.

## TRAINING AND DEVELOPMENT

The #WeCare sustainability programme in 2017 reiterated the founding principle of participation by all, and therefore the programme for the involvement of people at head office was completed. The theme of sustainability has become an institutional theme in on-boarding meetings.

Generally, OVS S.p.A. pays a lot of attention to developing employees' skills through training and development activities, to foster talent as much as possible and support each person's personal and professional growth.

These are structured initiatives the form of classroom activities, on-the-job training, project work and social learning. The main skills development paths are:

→ **Induction programme**

Provides all the cross-cutting skills to the role held in OVS S.p.A. (organisational relations, effective use of IT tools, English language). In this context, all newly hired employees with office roles are involved in an on-boarding activity and a training and development path on the cross-cutting skills useful for effective inclusion and integration in the Company.

→ **Product and Purchasing School**

Designed to reinforce all the distinctive style, product and management skills that mark out every fashion retail professional. 2017 saw the extensive involvement of key roles in the Product departments in new systems for planning and building collections, necessary in the context of an ever-increasing push towards internationalisation.

→ **Academy**

The programmes are aimed at Managers and Senior Professionals.

They involve people who have embarked on a path of development towards roles with more responsibility and organisational importance. OVS S.p.A. regards continuous growth as a source of both personal and corporate development, and therefore periodically organises meetings with external observers to discuss new scenarios and engage in “outside-the-box” thinking.

→ **OVS Retail School**

Currently the main Italian corporate school dedicated to training sales professionals, such as visual merchandisers, department heads, etc., offering programmes to develop distinctive skills to operate effectively in the OVS sales network.

→ **UPIM Retail School**

Provides continuous skills refreshment for salespeople and visual merchandisers operating in the UPIM sales network.

→ **OVS Store Management School**

Provides advanced training for the achievement of the Store Manager Diploma, aiming to continuously develop the skills required to excel in this role

OVS S.p.A. adopts a training methodology based on the 70-20-10 principle, recognized as a criteria to obtain the best performance.

This implies a 70% of training activities delivered by training on the job which is not currently reported. The reported training hourse are related to the 20% and 10% of traditional class training and elearning.

With the OVS Store Management School, one of the main training programs, we achieved the competencies attestation, considering this process. From 2018 OVS S.p.A. will track also this important part pf our training program.

Since 2017, Store Manager trainees who complete the 70-20-10 pathway, i.e. on-the-job training, workshops and social learning, are recognised for the skills they have acquired by being awarded the OVS STORE MANAGER DIPLOMA. The diploma is also issued in OPEN BADGE digital format through the Bestr platform developed by Cineca (an Italian inter-university consortium made up of 70 Italian universities, eight Italian research institutions and the Italian Ministry of Education). The goal is to give value to what is learned (the training path that young graduates follow at OVS to become store managers) and give value to what is taught (the skills of the trade that OVS enables them to learn).

In 2017, 76 new store managers obtained diplomas.

Training is delivered through a very extensive online offering, so that all staff can be reached in a simple and effective way. Formal training requirements are thus covered and opportunities to reinforce the skills and abilities of each person are provided, drawing on a wide range of free resources.
Workshop activities are also planned with methods closer and closer to the concept of action learning or classroom consultancy. Individual and/or small group coaching methods are also included in the development paths.
All the training programmes provide a final assessment test of the level of learning to establish how effective and enjoyable the course has been and to enable the continuous improvement of the training offer.

The Group continued its action on skills development in 2017, with a particular focus on the internationalisation process. The main initiatives implemented to grow skills and involve employees related to:

- Reorganising and reinforcing all corporate training programmes, expanding substantially the use of e-learning opportunities.
- Strengthening of language training: English and German through e-learning, individual courses and group courses. The introduction of gamification provided an opportunity to extend and strengthen the international vocabulary of “fashion” terms.
- In a context of increasing internationalisation, 2017 saw the launch of the “Train the Trainer Programme”, aimed at OVS international trainers or visual merchandisers and store managers able to transfer their know-how on the trade and best practices to colleagues at partner companies involved in store openings or conversions abroad.
- Particular emphasis was placed on the core expertise of the visual merchandiser, always with an attitude of openness and comparison with international best practices. Workshops were organised involving all the OVS store managers and visual merchandisers of the sales network and subsequently the visual merchandisers of the product world.
- The added value that the “customer relationship” gives in terms of the expectations of Upim and Blukids customers meant that all the store managers got involved in workshops and tools to involve the sales teams.

- OVS S.p.A. has always valued internal growth, and in 2017 its training and development activities intensified: Individuals with potential in the head office and sales functions took part in the "Drive your Development" course, engaging in classroom activities involving action learning and peer-to-peer feedback and experiencing the challenge of personal and professional growth by completing projects.

**HOURS OF TRAINING BY TYPE**

| Type of training | Role | MEN | WOMEN | 2017 | 2016 |
|---|---|---|---|---|---|
| MANAGERIAL TRAINING | Managers . Professionals – Employees | 5,765 | 2,840 | 8,605 | 9,418 |
| PROFESSIONAL TRAINING | Managers . Professionals – Employees | 7,401 | 9,046 | 16,447 | 24,692 |
| LINGUISTIC TRAINING | Different categories (Workers excluded) | 3,328 | 4,992 | 8,320 | 5,100 |
| TRAINING ON CODE OF ETHICS (ORGANISATIONAL MODEL 231, ETC.) | All | 263 | 988 | 1,250 | 400 |
| HEALTH & SAFETY TRAINING | All | 4,046 | 15,219 | 19,265 | 11,240 |
| OPERATION | Professionals - Employees | 706 | 2,654 | 3,360 | 3,600 |
| SOFT SKILLS | Professionals - Employees | 1,179 | 4,437 | 5,616 | 1,820 |
| **TOTAL** | | **22,688** | **40,175** | **62,863** | **56,270** |

Approximately €430,000 were invested in training in 2017.

The training activities provided involved a total of 5,168 people in 2017, of which 63% were women.

The training activities mainly related to managerial and professional training (40%), followed by training on occupational health and safety (31%).

In 2017, OVS S.p.A. provided an average of 10 hours of training for permanent employees, up 10% on the previous year. Of the total number of people who took part in training activities, women received 12.4 hours per capita on average, compared with their male colleagues, who received 11.7 hours per capita.

**BREAKDOWN OF TRAINING HOURS BY GEOGRAPHICAL AREA AT 31 JANUARY 2018 (*)**

| Geographical area | 2017 HOURS | 2017 HOURS PER EMPLOYEE |
|---|---|---|
| ITALY | 62,863 | 10 |
| BANGLADESH | 165 | 2 |
| CHINA | 404 | 18 |
| HONG KONG | 564 | 6 |
| INDIA | 104 | 2 |
| **TOTAL** | **64,100** | **56,270** |

(*) The data relate to the period from 1 February 2017 to 31 January 2018

## HEALTH AND SAFETY

Pursuant to the obligations established by legislation on environmental protection and occupational health and safety, OVS S.p.A. makes the investments necessary to ensure safe and responsible production management and a safe environment for workers.

During the year, no recognition of occupational diseases was found.

**WORKPLACE ACCIDENTS**

| Accidents | 2017 | 2016 |
|---|---|---|
| NO. OF ACCIDENTS TO EMPLOYEES (> 1 days of absence, including accidents on the way to/from work) | 201 | 194 |
| DAYS LOST DUE TO ACCIDENTS (including on the way to/from work) | 4,825 | 5,484 |
| ACCIDENT FREQUENCY INDEX (no. of accidents x 1,000,000/no. of hours worked) | 17.10 | 17.21 |
| ACCIDENT SEVERITY INDEX (no. of accidents x 1,000/no. of hours worked) | 0.41 | 0.49 |
| NO. OF MEDICAL APPOINTMENTS ATTENDED | 808 | 925 |

Details of the number of accidents and days lost by gender are provided below.

**Work accidents by gender**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Accidents | Men | Women | Men | Women |
| NO. OF ACCIDENTS TO EMPLOYEES (>1 day of absence, including on the way to/from work) | 49 | 152 | 53 | 141 |
| DAYS LOST DUE TO ACCIDENTS (including on the way to/from work) | 992 | 3.823 | 1.339 | 4.145 |

There were 201 workplace accidents (including on the way to/from work) in 2017, with a reduction of 12% in days lost compared with 2016.

There were no fatal workplace accidents.

OVS S.p.A. provided 19,265 hours of training on occupational health and safety management, compared with 11,240 in 2016.

## DEVELOPMENT AND COMPENSATION

By means of stock option schemes, if certain performance targets are met, OVS S.p.A. offers managers and key individuals at the Group a remuneration system that provides for the allocation of bonus ordinary shares of OVS S.p.A.. In this way, the variable portion of the remuneration of key personnel is linked to the Company's actual performance and the creation of value for shareholders over the long term, creating a highly competitive incentive system capable of attracting and retaining highly qualified individuals and supporting the development of the Company.

To facilitate staff development, a structured performance management system has been implemented to periodically evaluate work performance by means of formal meetings with managers to analyse to what extent employees have achieved the expected targets and their career development path. In 2017, this system covered 100% of head office and warehouse personnel and 10% of OVS S.p.A. employees working in the sales network (store managers). OVS's performance management provides for periodic formal meetings with managers, individual or group evaluations and observations on the ground by line managers or HR personnel.
The following table shows the number and the percentage of employees whose performance are regularly reviewed, by gender and role.

**Review of performance (headquarters)**

| | 2017 | | |
|---|---|---|---|
| **HQ** | **Men** | **Women** | **Total** |
| MANAGERS | 50 | 14 | 64 |
| PROFESSIONALS | 87 | 66 | 153 |
| EMPLOYEES | 142 | 409 | 551 |
| WORKERS | 3 | 1 | 4 |
| | **282** | **490** | **772** |

**Review of performance (Stores)**

| | FY2017 | | |
|---|---|---|---|
| **Stores** | **Men** | **Women** | **Total** |
| PROFESSIONALS | 96 | 19 | 115 |
| EMPLOYEES | 206 | 229 | 435 |
| | **302** | **248** | **550** |

## REMUNERATION

Each year the process of defining compensation plans takes into account different variables such as the salary budget, individual performances and benchmarking against other companies through market research.

This process includes defining separate variable compensation plans according to employees' roles. Specifically, the sales network staff have a variable remuneration plan defined by the Company Supplementary Agreement, which provides for the awarding of bonuses if predefined targets are met by the reference stores. The remuneration of managerial head office and sales roles generally also includes a portion of variable remuneration based on individual annual performance with an access threshold linked to the Company's overall results.

**Minimum salary level by gender**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Men** | **Women** | **Men** | **Women** |
| Minimum salary by law | 20.955,34 | 20.955,34 | 20.311,62 | 20.311,62 |
| Minimum salary applied | 20.955,34 | 20.955,34 | 20.311,62 | 20.311,62 |
| Ration between minimum salary by law and minimum salary applied | 1 | 1 | 1 | 1 |

Some employees with high potential (detected through assessment processes) can be included in "ad hoc" career paths entailing a faster progression in the role and remuneration according to their performance, partly for the purpose of retention.

As well as remuneration, all OVS S.p.A. staff are offered a **supplementary pension fund with free membership** and a health care programme guaranteed for all employees independent of the contractual formula (fixed/permanent and part time/full time). All staff are also offered a wide range of agreements with gyms, fitness centres and shopping opportunities provided through a dedicated web portal.

## #WeCare INITIATIVES

In addition to the programme to raise staff awareness of issues related to sustainable innovation, we have launched activities to ensure that everyone makes a concrete contribution, including in their day-to-day actions. We have provided employees with a car pooling platform to reduce the greenhouse gas emissions associated with their daily commute.

During 2017, approximately **76,733** km were **saved** and the **emission of more than 5 tonnes of $CO_2$ were avoided**, corresponding approximately to the planting of a small forest of 100 trees every year.

Since 2016, OVS has abolished the use of disposable plastic bottles; microfiltered water dispensers have been installed and all employees have received a water bottle as a gift.
Thanks to this initiative, OVS S.p.A. employees have saved a total of around €30,000 in purchases of water bottles and the consumption of soft drinks has also decreased considerably.

## SUSTAINABLE STORES

On the basis of OVS's materiality matrix, the main aspects related to the "Sustainability Marketing" topic at the centre of the Company's operations and strategy and on which the attention of the external stakeholders is also focused are:

- the optimal planning and management of spaces to reduce our impacts, while improving interior comfort for the people who frequent them;
- the sustainability profile of stores to assess the impact of our design choices on people and the environment with the entire life cycle in mind.

### SUSTAINABILITY OF OVS STORES

An improvement priority for the Group is to raise the sustainability profile of the store network, starting with new openings.
With this objective, a specific OVS standard for stores has been developed that defines the design criteria to be adopted for all new openings, aiming to minimise the impact on the environment by considering the entire life cycle of the building: from the integrated design phases, through construction up to communication to visitors to the store.

The objectives proposed by the guidelines adopted are as follows:

→ reduce operating costs through an integrated approach that incorporates sustainability criteria during the design, construction and management of the store;

→ minimise energy expenditure and polluting emissions;

→ systematically improve the quality of the environment and the comfort perceived within the store, starting from air conditioning and air quality to lighting, the materials used and cleaning;

→ have a positive impact on productivity and staff retention;

The OVS store - the cornerstone of our business and a space for direct contact with the customer - is increasingly a place for coming into contact with and sharing our concrete commitment to sustainable fashion. The environment itself was created to conform to these values: a store accessible to all, suitable for families, with a welcoming atmosphere, built using eco-friendly materials and applying solutions for energy efficiency and climatic wellbeing.

## STANDARD PROFILE

The standard profile of OVS's stores is based on the main international green building standards (e.g. LEED and BREEAM).
The guidelines provide indications on how to improve the sustainability of the building by attending to the following areas:

→ **management**: relating to aspects of management of the building site and the minimisation of impacts on the surrounding areas, promoting the introduction of new ad hoc positions within the working group, such as commissioning

→ **health and wellbeing**: relating to all the necessary precautions to guarantee healthy and wholesome environments for occupants. Some indicators of internal quality relate to natural and artificial lighting, the visual connection of regularly occupied spaces with external areas, the thermal comfort of occupants, acoustic services, and more generally the quality of the indoor air

→ **energy**: scope that covers the measurement, control and optimisation of consumption through the use of consumption accounting and monitoring systems

→ **transport**: relating to the promotion of alternative mobility and connection of the store with public transport systems, assessing the location of the stores in urban areas and proximity to public services open to the community

→ **water**: an area of oversight that aims to reduce and optimise the use of water resources through strategies to minimise possible facilities losses, the use of efficient sanitary equipment and taps and the increased use of non-potable resources

→ **materials**: relating to the analysis of the materials used in production with the aim of directing choices towards materials with low environmental impact. Specifically, the presence of product certifications, the reuse of resources and the analysis of the life cycle are rewarded

→ **waste**: a field relating to the reduction of waste production, both in the construction phase and during operation, through the creation of dedicated areas for separate waste collection, composting, the use of materials or recovery components in the construction phase and the use of machinery to reduce the volumes of waste produced

→ **pollution**: relating to the reduction of pollution in all environmental aspects: energy, acoustics, lighting, etc.

## RELAMPING PROJECT

In 2014, OVS S.p.A. launched the Relamping project (Relamping 1), which provides for the use of LED lights for the lighting system in each new store opening of OVS S.p.A., and the replacement of lighting fixtures in stores that have been open for some time and equipped with systems that are not up-to-date.

In 2016, OVS S.p.A. achieved the following major energy savings (Relamping 2):

→ Savings of 11,177,285 kWh with a value of about €2.6 million, decreasing from 132W/sqm dedicated to lighting to 62W/sqm in the 131 stores concerned;

→ Approximately 9,600 tonnes of $CO_2$ saved overall since the start of the project, equal to the emissions generated by travelling approximately 1,200 times around the equator by car.

Since 2016, every newly opened or refurbished store has been fitted with an LED lighting system.

## BREEAM CERTIFICATION

The Milan store on Corso Buenos Aires represents a first visible milestone on the route to reducing the environmental impact of our buildings. The building was designed by applying the most advanced sustainability concepts, and achieved the high-level GOOD score in its BREEAM (Building Research Establishment Environmental Assessment Method) certification, making it the first store in Italy certified with the BREEAM International RFO (Refurbishment and Fit-Out) 2015 protocol.

Requirements were introduced for the traceability of the materials used, control of the life cycle of the entire store, reduction of electricity consumption (-30% compared with a conventional store) and water consumption (-40%) and finally, enhanced interior comfort.

→ Waste
The entire cycle of waste generated during construction activities has been designed to optimise the recovery of raw materials and the traceability of undifferentiated components

→ Suppliers
We have used only ISO14001 certified or equivalent companies

→ Ventilation
We have installed $CO_2$ sensors in densely populated spaces, incorporating them into the ventilation system to optimise air flows according to real need

→ Transport
Dedicated racks and showers for employees who use bicycles as a means of transport

→ Energy
All-LED lighting system, rooms equipped with presence sensors and automatically slowing escalators.
Renewable energy

# RESPECT FOR THE ENVIRONMENT

“Direct environmental impacts” is a material topic for OVS S.p.A., relating to energy efficiency, power consumption, $CO_2$ emissions, water resource management and hazardous and non-hazardous waste.

OVS's current consolidated environmental practices include the Company’s principles and commitments, aimed at managing and mitigating the environmental impacts of its activities.

Specifically, the commitments concern:

- the application of environmental management practices consolidated over the years;
- the exclusive use of certified renewable energy;
- support for the development of initiatives aimed at increasing the level of energy efficiency, by improving the efficiency of structures (stores, head office and warehouses) and internal and external processes;
- the containment of $CO_2$ emissions.

Management of OVS S.p.A.'s stores are a priority as they are the most energy-consuming element, followed by the head office and the depots.

Our lines of action therefore consist in drawing up contracts for the supply of renewable energy and structural interventions for energy efficiency.

## ENERGY EFFICIENCY

The energy consumption for OVS S.p.A., determined by electricity and fossil fuel consumption, amount to 731.112 GJ of which 607.651GJ from renewable sources (83%), in particular from certified electricity. The breakdown of energy consumption is better explained in the following paragraphs.

A specific programme to contain our energy needs was launched some years ago to reduce energy consumption, with a positive impact on the environment and on the Group in terms of reducing operating costs.

A key factor in the success of the energy saving programme has been empowering the store teams and seeking their active involvement through the sharing of good practices, the specific training of store managers in this area linked to incentive and recognition mechanisms, and the quarterly communication of energy consumption performance to each store, indicating areas for action.

The implementation of this programme was made possible due to the simultaneous launch of a centralised control system of consumption and energy costs that allows individual stores to be monitored daily. Thanks to the partnership with the Centomilacandele consortium, controlled by the Group, a web-based platform has been developed that is able to track the data for hourly energy consumption, comparing it with the values recorded in the previous year and thus detecting anomalous consumption peaks.

The ease and speed with which the data can be analysed allows for the prompt reporting of anomalies to the store and the consequent intervention of the store manager or maintenance technician.

**FOSSIL FUEL CONSUMPTION IN ITALY**

| Employees | METHANE CONSUMPTION (MC) 2017 | METHANE CONSUMPTION (MC) 2016 | METHANE CONSUMPTION (MC) 2015 | DIESEL (L) 2017 | DIESEL (L) 2016 | DIESEL (L) 2015 | LPG (L) 2017 | LPG (L) 2016 | LPG (L) 2015 |
|---|---|---|---|---|---|---|---|---|---|
| OFFICE | 97.902 | 73.527 | 79.600 | - | - | - | - | - | - |
| STORES | 1.043.875 | 930.465 | 801.501 | 1.047.018 | 841.265[13] | 964.781 | 6.100 | 5.270 | 7.490 |
| **TOTAL** | **1.141.777** | **1.003.992** | **881.101** | **1.047.018** | **841.265** | **964.781** | **6.100** | **5.270** | **7.490** |

In 2017 the total consumption of fossil fuel, expressed in GJ, amounted to 86,876, obtained by adding the consumption of methane (46,791 GJ), diesel (39,948 GJ) and LPG (137.44 GJ).

In the following table you can find the fossil fuel consumption for OVS S.p.A. warehouses (out of scope) [14].

| | METHANE CONSUMPTION (MC) 2017 | METHANE CONSUMPTION (MC) 2016 | METHANE CONSUMPTION (MC) 2015 | DIESEL (L) 2017 | DIESEL (L) 2016 | DIESEL (L) 2015 | LPG (CM) 2017 | LPG (CM) 2016 | LPG (CM) 2015 |
|---|---|---|---|---|---|---|---|---|---|
| WAREHOUSES | 100.298 | 93.116 | 95.162 | - | - | - | - | - | - |
| **TOTAL** | **100.298** | **93.116** | **95.162** | **0** | **0** | **0** | **0** | **0** | **0** |

With regard to the monitoring of electricity consumption, it should be noted that an increasing number of stores, now more than a hundred, to which new store openings are added from time to time, are equipped with systems able to measure and monitor the electricity consumption of the lighting and air conditioning systems. The constant monitoring of data relating to the individual stores means that consumption anomalies can be reported to our technical structure, which can then establish the cause.

It is estimated that this monitoring activity generates energy and economic savings of up to 3%.

[13] 2016 value (647.465 L) has been adjusted.

[14] Although warehouses are not in DNF scope, related fossil fuels consumption has been reported for a better understanding of business activities.

In the following tables, there are the electricity consumption espressed in GJ[15], related to Headquarters and Stores and, separately, warehouses of OVS S.p.A. [16].

**ELECTRICITY CONSUMPTION IN ITALY**

| | ELECTRICITY (GJ) | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| OFFICE | **11.385** | **11.761** | **11.460** |
| STORES | **632.851** | **624.648** | **645.532** |
| District heating | 11.488 | 9.765 | 10.436 |
| Own production | 81 | 3,7 | 10.436 |
| **TOTAL** | **644.236** | **636.409** | **656.992** |

In 2017 the global amount of energy consumption is 731.112 GJ, obtained summing consumption of fossil fuels (86.876 GJ) and electricity (644.236 GJ).

**Electricity consumption in Italy (Warehouses)**

| | Electricity (GJ) | | |
|---|---|---|---|
| | **2017** | **2016** | **2015** |
| WAREHOUSES | 21.543 | 18.437 | 16.108 |
| **TOTAL** | **21.543** | **18.437** | **16.108** |

Thanks to our energy efficiency initiatives, we reduced consumption per square meter by 6% in the stores.

**CONSUMPTION PER SQM IN THE ITALIAN STORES**

| CONSUMPTION PER SQ M (KWh/sqm) | | |
|---|---|---|
| **2017** | **2016** | **2015** |
| 250 | 265 | 282 |

In 2017 OVS S.p.A. produced 22.590 Kwh from PV, in comparison with 1,030 kWh produced in 2016, which covered the consumption of our Villanova Castelnaso branch. This branch is currently the only facility placed on the network in our name. Its contribution is included in the report (see the table on Scope 2 $CO_2$

[15] To calculate GJ consumption we used the conversion rate by BEIS 2017.

[16] See previous note.

emissions). Other stores such as Voghera, Grosseto and Appiano Gentile are equipped with photovoltaic systems for which contracts and reporting systems are currently being defined.

OVS S.p.A.'s head office is now approximately 100% powered by certified energy from renewable sources (mainly hydroelectric power), consuming around 3,162,596 kWh in total.

Similarly, the Flagship store at Corso Buenos Aires in Milan is entirely powered by renewable energy.

As stated in the previous report, OVS S.p.A.'s power requirement in 2017 (head office and stores) was entirely covered by certified green energy for 168.814.590 Kwh corresponding to 607.733 GJ.

## $CO_2$ EMISSIONS

In 2017, OVS S.p.A.'s direct $CO_2$ emissions were 5,126 tonnes, mainly deriving from combustion of diesel, natural gas and LPG to heat the store network.

**SCOPE 1 EMISSIONS IN ITALY (HQ AND STORES)**

| | | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|---|
| **Source** | **Unit of measurement** | **Consumption** | **Emissions (t $CO_2$e) (*)** | **Consumption** | **Emissions (t $CO_2$e)** | **Consumption** | **Emissions (t $CO_2$e)** |
| NATURAL GAS | cm | 1,141,777 | 2,394 | 1003992 | 2,105 | 881,101 | 1,847 |
| DIESEL | l | 1,047,018 | 2,722 | 841,265 | 2,187 | 964,781 | 2,509 |
| LPG | l | 6,100 | 10 | 5,270 | 9 | 7,490 | 12 |
| **TOTAL** | | | **5,126** | | **4,301** | | **4,368** |

In 2017, the increase in direct emissions (Scope 1) of $CO_2$ was mainly due to the extraordinary situation of two stores that temporarily ran on diesel. There was also an increase due to an expansion in the scope of the network of approximately 10%[17].

[17] The value of diesel reported last year (647,465 l) has been adjusted.

**SCOPE 2 EMISSIONS IN ITALY**

| | | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|---|
| Source | Unit of measurement | Consumption | Emissions (Kg $CO_2$) | Consumption | Emissions (Kg $CO_2$) | Consumption | Emissions (Kg $CO_2$) |
| **ELECTRICITY FROM NON-RENEWABLE SOURCES** | KWh | **10,139,961** | | **172,500,154** | | **179,599,094** | |
| PURCHASED | KWh | 6,948,896 | 2,271 | 169,787,677 | 55,484 | 176,700,293 | 57,743 |
| DISTRICT HEATING | | 3,191,065 | 1,043 | 2,712,477 | 886 | 2,898,801 | 947 |
| | | | | | | | |
| **ELECTRICITY FROM RENEWABLE SOURCES** | | **168,814,590** | | **4,280,030** | | **2,898,801** | |
| GREEN CERTIFIED ENERGY | KWh | 168,792,000 | | 4,279,000 | | 0 | |
| PRODUCED | KWh | 22,590 | | 1,030 | 0,34 | 2,898,801 | 947 |
| **TOTAL** | | **178,954,551** | **3,314** | **176,780,184** | **56,370** | **182,497,895** | **59,637** |

With regard to indirect emissions, the value of $CO_2$ emissions (Scope 2) was 3,314 tonnes, compared with 56,370 tonnes in 2016.

## WATER

In 2017, OVS S.p.A.'s **water consumption** was **645,114 cubic meters** and can be broken down as follows.

**WATER CONSUMPTION**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Consumption (cm)** | | | |
| OFFICE | 28,278 | 24,482 | 31,925 |
| ACTUAL STORES (*) | 478,332 | 677,887 | 598,712 |
| ESTIMATED STORES | 138,504 | 129,148 | 120,932 |
| **TOTAL** | **645,114** | **831,517** | **751,569** |

(*) Direct consumption relating to utilities directly in OVS's name.

In the following table, water consumption of OVS' warehouses[18]

**Water consumption Warehouse**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Consumption (cm)** | | | |
| Warehouses | 11,433 | 15,821 | 19,051 |
| **Total** | **11,433** | **15,821** | **79,051** |

The water data have been calculated based on the readings of the relative meters for about 529 thousand cubic meters. For the remainder, we estimated consumption using an average per square meter that excluded stores with special features (evaporation towers, condensation systems, etc.), for which the actual data were used instead.

The comparison between the two periods shows an overall increase in water efficiency. The water used is mainly taken from municipal water networks. With regard to water consumption, it is necessary to point out that the figure recorded for the stores comprises the sum of the consumption directly attributable to OVS S.p.A. and other consumption, not directly attributable, which is not currently measurable. This is the case when OVS S.p.A. subleases part of the premises leased to it without having a meter installed to specifically measure the consumption of the third party. OVS S.p.A. charges back for this consumption using

[18] Although warehouses are not in DNF scope, related water consumption has been reported for a better understanding of business activities.

methods not necessarily related to actual consumption.

## WASTE

OVS S.p.A. has been focusing more closely in recent years on containing the waste produced throughout the entire production cycle. Specifically, we have taken the following actions:

→ we began collecting used clothes in 2013, and by the end of 2017 had collected over 700 tonnes of garments, thus avoiding their disposal in landfill (see dedicated section);

→ we have installed new recycling stations at the Company, thus preventing around 180 tonnes of waste going to landfill each year;

→ we have optimised the life cycle of packaging with reusable polythene bags and more efficient management of clothes hangers to reduce waste production (see box);

→ our logistics use secondary packaging that is re-used several times in our distribution processes; their design is also optimised to reduce paper waste during production;

→ we implement "green purchasing" policies, starting by mainly purchasing recycled ecological paper (the rest is FSC certified).

## HAZARDOUS AND NON-HAZARDOUS WASTE

| | 2017 - WASTE (Kg) | | | 2016 - WASTE (Kg) | | |
|---|---|---|---|---|---|---|
| **Non-hazardous waste** | **Depots** | **Head office** | **Store network** | **Depots** | **Head office** | **Store network** |
| PAPER AND CARDBOARD | 4,009,500 | 27,060 | 389,504 | 3,235,650 | 43,380 | 290,178 |
| MIXED PACKAGING | 764,360 | 42,390 | 1,096,567 | 620,426 | 5,790 | 6,957,319 |
| WOOD | 101,770 | - | 38,235 | 70,490 | - | 982,903 |
| METAL | - | - | | - | - | - |
| PLASTIC | - | - | 61,497 | - | - | 219,751 |
| IRON AND STEEL | 39,170 | | 32,880 | 47,470 | - | 186,973 |
| NON-HAZARDOUS BATTERIES | - | - | | - | 50 | 3,810 |
| TONER | - | - | | - | 358 | 5,369 |
| BULKY WASTE | - | - | 45,310 | - | - | 898,234 |
| END-OF-LIFE EQUIPMENT | - | - | | - | - | 25,788 |
| GLASS | | | 2,550 | | | |
| **TOTAL NON-HAZARDOUS WASTE** | **4,914,870** | **69,450** | **1,666,543** | **3,974,036** | **49,578** | **9,570,325** |

| **Hazardous waste** | **Depots** | **Head office** | **Store network** | **Depots** | **Head office** | **Store network** |
|---|---|---|---|---|---|---|
| HAZARDOUS BATTERIES | - | - | 61 | - | 20 | 75,798 |
| FLUORESCENT TUBES | - | 280 | 3,161 | - | 25 | 12,028 |
| GLASS | - | 170 | 0 | 980 | - | - |
| FIRE EXTINGUISHERS | - | - | 0 | 928 | - | - |
| PACKAGING CONTAINING HAZARDOUS SUBSTANCES | - | - | 5 | - | - | 3,476 |
| **TOTAL HAZARDOUS WASTE** | **0** | **450** | **3,227** | **1,908** | **45** | **91,302** |
| **TOTAL NON-HAZARDOUS AND HAZARDOUS WASTE** | **4,914,870** | **69,900** | **1,669,770** | **3,975,944** | **49,623** | **9,661,627** |

The information shown in the previous table was determined on the basis of final data on the head office, depots and part of the store network.

## REDUCTION OF PACKAGING

OVS S.p.A. continuously monitors the use of logistics packaging, reusing it as much as possible. A few years ago we launched the REUTILIZZAMI project for the recovery and reuse of packaging used at the logistics centre and packages sent to the stores. In 2017, the **RIUTILIZZAMI Programme** enabled reuse of the following:

→ 2,852,695 cardboard boxes from suppliers, representing 64% of those received

→ approximately 80,000 cardboard boxes from the stores, representing 2% of total packages distributed

This made it possible to limit the number of new cardboard boxes purchased to 3,556,880, saving around 2,000 tonnes of paper. At the Pontenure depot, we also activated a process of reconditioning wooden transport pallets. An operative repairs damaged pallets, thus avoiding their disposal as waste.

We dispose of hangers correctly, and do not give them to our customers so that they can be reused in normal store operations. Hangers that are no longer usable because they are broken or obsolete are recycled thanks to a partnership with one of our suppliers, which uses them to produce new hangers. In 2017, we recycled approximately 150 tonnes of plastic hangers.

## COMPANY CAR FUEL CONSUMPTION

From 1 January 2017 to 31 December 2017, fuel consumption by company cars totalled 490,886.83 litres.

# COMMUNITY

OVS believes the topic of community development to be material, and is therefore actively committed to supporting people and organisations that promote the social growth of the areas in which the Company operates, aiming to create shared value that will also benefit future generations. Also, in view of the importance of the world of children for our business activities, we specifically support causes and projects for younger people, encouraging them to express their creativity and promoting a healthy and active lifestyle.
Going forward, our goal is to incorporate these positive projects more and more into our business strategy, strengthening our active social presence over the years through strong partnerships with some of the biggest Italian and international social promotion organisations.

**INVESTMENTS**

During 2017, OVS invested € 1,950,715 in social, cultural and environmental promotion activities in the area, in particular the implementation of the Kids Creative Lab, the Arts of Italy, BullisNO, and the Neo Mamme initiative.

OVS also sponsored a total of 15,746 euros, used for the Violini Stradivari, Future Woman, Walking for Life, and the Santa Claus Meeting.

Finally, in 2017, liberal donations were made for a total of € 206,855, in particular:

- € 115,000 to Save The Children in the form of a donation, for the Christmas Jumper Day initiative, obtained from free donations made by our customers in OVS sales points;
- € 15,650 to the Religious Work of the Diocese of Ravenna, for the Mausoleum of Galla Placida, through free donations from our customers;
- € 34,400 at the Opificio delle Pietre Dure in Florence, for the restoration of a canvas in Norcia (Madonna with Children and Saints;
- 9,000 euros to the Poldi Pezzoli Artistic Foundation, through free donations from our customers;
- 20.305 euros to the Municipality of Spoleto, for the Scalinata di Piazza Pianciani, through free donations from our customers;
- € 12,500 at the Opificio delle Pietre Dure in Florence, for scholarships, through free donations from our customers.

## INITIATIVES

### KIDS CREATIVE LAB

Kids Creative Lab is a free project for primary school children promoted by OVS and the Peggy Guggenheim Collection. The project, which focuses on training through art, has now reached its fifth edition with prestigious partners and a steady increase in participation. Through this ambitious educational project, OVS intends to strengthen its link with the smallest children.

In 2017, the fifth edition of the project was completed under the banner of "Art & Sustainability". This was a record-breaking edition, with more than 1,400,000 children, 50,000 classes and 6,000 schools united once again in an educational project dedicated to sustainability and the preservation of the marine ecosystem. The edition was attended by two exceptional and internationally renowned guests, the artists Lucy + Jorge Orta.

The exhibition, which was held in the exhibition spaces of the Peggy Guggenheim Collection in the period 30/3-17/4/2017, registered 32,084 visitors, with a daily average of 1,690 visitors, and was partnered by EF International and Dopper.

Have dealt over the years with issues including the relationship between art and fashion, ecology, nature, agriculture, food and biodiversity, this fifth edition of Kids Creative Lab is linked to a multidisciplinary project focused on the current and urgent topic of sustainability, and its implications both for ecology and respect for the environment, and for the education and development of future generations in relation to these issues.

Lucy + Jorge Orta are artists internationally known for their work on projects that raise public awareness of the sustainable development of the planet, and base their art on public participation.

Lucy + Jorge Orta, together with the Education Department of the Peggy Guggenheim Collection, designed and developed a creative workshop for the classroom, focusing on the theme of water and the increasingly vulnerable equilibrium of the marine ecosystem, with the help of the "SostenART" Artist Kit.

SostenART is a workshop dedicated to primary school children focused on respect for the marine ecosystem. It stimulates thinking about sustainable and artistic reuse of plastic and, at the same time, invites participants to send an SOS to safeguard the life of our oceans through a metaphorical message in the bottle. Participants are asked to write a text collectively using the "Cadavre exquis" technique, a game much loved by Surrealist André Breton and by Surrealist artists, which involves composing a message made up of contributions from several people who do not know what the others have written. The text written with this technique is then translated using a colour code and inserted into a plastic bottle. All the bottles containing the highly coloured coded messages composed by the children will be used to create a single large installation: an evocative seascape, curated by Lucy + Jorge Orta.

EF Education First gave two International Weeks for students, online training for teachers and teaching materials to the winning school; Dopper gave 500 reusable water bottles to encourage sustainable water consumption and to make children aware of the impact of disposable plastic waste.

## ARTS OF ITALY

Conceived and instigated by OVS S.p.A., Arts of Italy is an innovative project that aims to raise awareness of how to protect and promote of the artistic beauty of our country. It represents a journey through time to discover Italy's immense artistic and cultural heritage, aiming to increase the cultural and aesthetic imagination of the general public and stimulate a renewed awareness of pleasure.

This is an ambitious goal that allows OVS S.p.A. to pay homage to lesser known Italian art with a limited edition collection and to devote financial resources to breathing new life into monuments of inestimable historical value. A limited edition capsule collection with a strong visual impact has been created by OVS S.p.A.'s creative team, which drew inspiration from major Italian art treasures. OVS Arts of Italy is a bold, ambitious project that sets an important goal: to increase the cultural and aesthetic imagination of the general public, stimulating a renewed awareness of pleasure.

The aim of OVS Arts of Italy 2017 is to celebrate the enormous value of this fantastic heritage by talking about the excellence of the works and Italy's extraordinary ability and skills, both past and present.

This is why we have chosen to collaborate with two important Italian museums specialising in this field: the Museo degli Argenti and the Palatina Gallery of Palazzo Pitti and the Poldi Pezzoli Museum in Milan, whose collections of cameos, semi-precious stones and armour are a precious testimony to this impressive, little-known area of Italian excellence. The idea is that these decorative works of art are more than just objects to look at: they can represent an opportunity to learn and rediscover the old traditional arts and techniques and work to safeguard them.

The project was promoted through a campaign supported by prominent Italians (chef Davide Oldani, singer Emma, director Giovanni Veronesi, actor Valeria Solarino, writer Luca Bianchini and actor Ambra Angiolini.

## THE NORCIA MARCH

As part of the Arts of Italy project, OVS decided to support Norcia, one of the central Italian cities hit by the earthquake, by contributing to the restoration of the 17th century painting "Madonna with Child in Glory, Saint Scholastica and other Saints" in the Basilica of San Benedetto. On 14 May, a peaceful march and an exhibition market of local artisan products, food and wine took place in Norcia, with more than 1,700 people taking part.

**BullisNO**

In 2017, the second edition of "BullisNO - Chi bulla perde" ("Bullies always lose") took place. This is a social project against bullying and cyberbullying in partnership with Fare x Bene Onlus, an association that supports, promotes and protects inviolable human rights. The project aims to provide teachers and parents with the tools required to tackle a complex educational task and to combat the effects of bullying and cyberbullying. The project involved distance learning activities in which 90 teachers participated and professional experts such as psychologists, educators, teachers and professors, magistrates, lawyers and postal police took part in video training tutorials.

The new project was implemented in two ways: off-line, with education and awareness-raising courses against all forms of gender discrimination and peer-to-peer violence, bullying and cyberbullying in schools; and online, with a project/competition aimed at generating constructive discussion on the topic amongst boys and raising public awareness.

The focus was on the concept of **"CYBERBLAME"** (cyberbullying + blame: *a deliberately hostile and provocative message sent by a community user to another specific individual*), through a campaign to sensitise young people and the adults in their lives to use new technologies very carefully and seriously.

A web "netiquette" has been created, i.e. a way of behaving that incorporates the models and universal values of respect and positive exchange, comprising the "best 10 rules" taken from all of those received.

The ten rules of the netiquette were shared on the OVS and FARE X BENE websites and printed in a paper handbook published during the second National Day against Bullying in February 2018.

The first two rules of the netiquette were printed on t-shirts, on sale on OVS.it from 6/02, with the aim of raising additional funds for the school projects of FARE X BENE ONLUS.

A handbook was also created for parents, which can be downloaded online, (www. ovsekids.it/solidarieta/decalogo-bullisno-chibulla-perde) and is available as a card in the OVS S.p.A. stores (1,200,000 postcards), as a useful tool to deal with difficult situations.

Lastly, at the event of 25 September 2017, an interactive online competition was launched, in which three famous YouTubers invited boys aged nine to 18 to create their own rules against cyberbullying.

**BIMBI IN UFFICIO**

OVS S.p.A. has been participating for years in the Bimbi in Ufficio initiative, opening the doors of the Company to the children of employees and their families, as part of a series of activities to promote integration and the work-life balance.

At the 2017 edition on 15 December 2017, around 200 children took part, spending a special day with Mum and Dad. The children took a tour of the Company and found out how their parents spend time when they are away from home. They also got involved in various educational workshops and recreational activities.

# GRI STANDARDS CORRELATION TABLE

## GENERAL STANDARD DISCLOSURE

| Company Profile | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-1** | Name of the organization | PROFILE AND MAIN ACTIVITIES OF OVS |
| **GRI 102-2** | Activities, brands, products, and services | BRANDS |
| **GRI 102-3** | Location of headquarter | PROFILE AND MAIN ACTIVITIES OF OVS |
| **GRI 102-4** | Location of operations | PROFILE AND MAIN ACTIVITIES OF OVS |
| **GRI 102-5** | Ownership and legal form | THE STRUCTURE OF THE GROUP |
| **GRI 102-6** | Markets served | PROFILE AND MAIN ACTIVITIES OF OVS |
| **GRI 102-7** | Scale of the organization | THE HISTORY OF THE OVS GROUP |
| **GRI 102-8** | Information on employees and other workers | COMPOSITION AND DISTRIBUTION OF PERSONNEL |
| **GRI 102-9** | Supply chain | SUPPLY CHAIN MANAGEMENT |
| **GRI 102-10** | Significant changes to the organization and its supply chain | PROFILE AND MAIN ACTIVITIES OF OVS |
| **GRI 102-11** | Precautionary Principle or approach | RISK SUPERVISION AND MANAGEMENT<br>OVS adopts a prudential approach with regard to the reduction of environmental impacts of production processes and products, according to the principle n. 15 of the Rio De Janeiro UN Declaration. |
| **GRI 102-12** | External initiatives | INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM |
| **GRI 102-13** | Membership of associations | OVS doesn’t hold governing position in any industry association |

| Strategy | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-14** | Statement from senior decision-maker | LETTER TO THE STAKEHOLDERS |

| Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-16** | Key impacts, risks, and opportunities | MISSION AND VALUES |

| Governance | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-18** | Governance structure | ORGANISATIONAL STRUCTURE |
| **GRI 102-21** | Consulting stakeholders on economic, environmental, and social topics | MAP OF STAKEHOLDERS |
| **GRI 102-22** | Composition of the highest governance body and its committees | COMPOSITION OF THE BOARD OF DIRECTORS AND THE BOARD OF STATUTORY AUDITORS |
| **GRI 102-32** | Review of economic, environmental, and social topics | SUSTAINABILITY STRATEGY AND GOVERNANCE |

| Stakeholder Engagement | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-40** | List of stakeholder groups | MAP OF STAKEHOLDERS |
| **GRI 102-41** | Collective bargaining agreements | OVS adopts collective bargaining in accordance to applicable National Contracts |
| **GRI 102-42** | Identifying and selecting stakeholders | MAP OF STAKEHOLDERS |
| **GRI 102-43** | Approach to stakeholder engagement | MAP OF STAKEHOLDERS |
| **GRI 102-44** | Key aspects emerged | MATERIALITY ANALYSIS |

| Reporting Practice | | Paragraph, Page, Note |
|---|---|---|
| **GRI 102-45** | Entities included in the consolidated financial statements | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-46** | Defining report content and topic Boundaries | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-47** | List of material topics | MATERIAL TOPICS LINKED TO BUSINESS ACTIVITIES |
| **GRI 102-48** | Restatements of information | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-49** | Changes in reporting | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-50** | Reporting period | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-51** | Date of most recent report | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-52** | Reporting cycle | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-53** | Contact point for questions regarding the report | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-54** | Claims of reporting in accordance with the GRI Standards | METHODOLOGICAL NOTE AND READING GUIDE |
| **GRI 102-55** | GRI content index | GRI STANDARDS CORRELATION TABLE |
| **GRI 102-56** | External assurance | Assurance statement by statutory auditors |

## TOPIC-SPECIFIC STANDARDS/ECONOMIC STANDARDS

| Material topic – Sustainability Marketing, Development of the Community, Development of the human capital | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | PEOPLE AND CORPORATE CULTURE |
| **GRI 201-1** | Direct economic value generated and distributed | ECONOMIC VALUE GENERATED AND DISTRIBUTED |
| **GRI 201-3** | Defined benefit plan obligations and other retirement plans | DEVELOPMENT AND COMPENSATION |
| **GRI 201-4** | Financial assistance received from government | OVS did not obtain funding from public bodies during 2017 |

| Material topic – Development of the human capital | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | PEOPLE AND CORPORATE CULTURE |
| **GRI 202-1** | Ratios of standard entry level wage by gender compared to local minimum wage | REMUNERATION |

| Material topic – Development of the Community | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | COMMUNITY |
| **GRI 203-1** | Infrastructure investments and services supported | INVESTMENTS |

| Material topic – Procurement Practices | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | SUPPLY CHAIN MANAGEMENT |
| **GRI 204-1** | Proportion of spending on local suppliers | SUPPLIERS |

| Material topic – Anti-corruption | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM |
| **GRI 205-2** | Communication and training about anti-corruption policies and procedures | INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM |
| **GRI 205-3** | Confirmed incidents of corruption and actions taken | No cases of corruption were recorded in 2017 |

| Material topic – Anti-Competitive behavior | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosure | INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM |
| **GRI 206-1** | Legal actions for anti-competitive behavior, anti-trust, and monopoly practices | During 2017, no legal actions were reported relating to unfair competition and antitrust |

**TOPIC-SPECIFIC STANDARDS/ENVIRONMENTAL STANDARDS**

| Material aspect - Materials | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 301-1** | Materials used | MATERIALS |
| **GRI 301-3** | Reclaimed products and their packaging materials | REDUCTION OF PACKAGING |

| Material aspect - Energy | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 302-1** | Energy consumption within the organization | ENERGY EFFICIENCY |
| **GRI 302-4** | Reduction of energy consumption | ENERGY EFFICIENCY |

| Material aspect - Water | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 303-1** | Water withdrawal by source | WATER |

| Material aspect - Emissions | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 305-1** | Direct (Scope 1) GHG emissions | CO2 EMISSIONS |
| **GRI 305-2** | Energy indirect (Scope 2) GHG emissions | CO2 EMISSIONS |
| **GRI 305-5** | Reduction of GHG emissions | CO2 EMISSIONS |
| **GRI 305-6** | Emissions of ozone-depleting substances (ODS) | Emissions of Ozone Depleting Substances are not available. OVS undertakes to report on the missing information by fiscal year 2019. |

| Material aspect - Effluents and Waste | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 306-2** | Waste by type and disposal method | The amount of waste by type of disposal is not available. OVS undertakes to report on the missing information by fiscal year 2019. |

| Non-material aspect - Compliance | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 307-1** | Non-compliance with environmental laws and regulations | In 2017 OVS was not fined or sanctioned for failing to comply with environmental laws and regulations |

| Material aspect - Supplier Environmental Assessment | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | RESPECT FOR THE ENVIRONMENT |
| **GRI 308-1** | New suppliers that were screened using environmental criteria | SUPPLY CHAIN MANAGEMENT |
| **GRI 308-2** | Negative environmental impacts in the supply chain and actions taken | SUPPLY CHAIN MANAGEMENT |

**TOPIC-SPECIFIC STANDARDS/SOCIAL STANDARDS**

| Material aspect - Employment | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | PEOPLE AND CORPORATE CULTURE |
| **GRI 401-1** | New employee hires and employee turnover | COMPOSITION AND DISTRIBUTION OF PERSONNEL<br>OVS undertakes to report on the missing information by fiscal year 2018. |
| **GRI 401-3** | Parental leave | COMPOSITION AND DISTRIBUTION OF PERSONNEL |

| Material aspect - Occupational Health and Safety | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | PEOPLE AND CORPORATE CULTURE |
| **GRI 403-2** | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities | Information on this indicator is not currently available. OVS undertakes to report on the missing information by 2018. |

| Material aspect – Development of the human capital | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | PEOPLE AND CORPORATE CULTURE |
| **GRI 404-1** | Average hours of training per year per employee | TRAINING AND DEVELOPMENT |
| **GRI 404-2** | Programs for upgrading employee skills and transition assistance programs | TRAINING AND DEVELOPMENT |
| **GRI 404-3** | Percentage of employees receiving regular performance and career development reviews | DEVELOPMENT AND COMPENSATION |

| Material aspect - Diversity and Equal Opportunity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | PEOPLE AND CORPORATE CULTURE |
| **GRI 405-1** | Diversity of governance bodies and employees | COMPOSITION AND DISTRIBUTION OF PERSONNEL Information on protected categories, broken down by gender, is not available. OVS undertakes to report on the missing information by 2018. |

| Material aspect – Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | ORGANISATION AND MANAGEMENT MODEL (Model 231) |
| **GRI 406-1** | Incidents of discrimination and corrective actions taken | OVS did not register any incidents of discrimination in 2017 |

| Material aspect – Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | ORGANISATION AND MANAGEMENT MODEL (Model 231) |
| **GRI 408-1** | Operations and suppliers at significant risk for incidents of child labor | OVS undertakes to report on the missing information by 2018 |

| Material aspect – Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | SUPPLY CHAIN MANAGEMENT |
| **GRI 409-1** | Operations and suppliers at significant risk for incidents of forced or compulsory labor | SUPPLY CHAIN MANAGEMENT<br>Information regarding the identification of operations and suppliers with significant risk for incidents of forced or compulsory labor and related measures undertaken, is not currently available.<br>OVS undertakes to report on the missing information by 2019 |

| Material aspect – Development of the Community | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | COMMUNITY |
| **GRI 411-1** | Incidents of violations involving rights of local community | OVS did not register any incidents of human rights violations in 2017 |

| Material aspect – Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | ORGANISATION AND MANAGEMENT MODEL (Model 231) |
| **GRI 412-1** | Operations that have been subject to human rights reviews or impact assessments | The total number and percentage of operations that have been subjected to controls and / or impact assessments relating to human rights by geographical area, is not currently available. OVS undertakes to report on the missing information by fiscal year 2019. |

| Material aspect – Local Communities | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | COMMUNITY |
| **GRI 413-2** | Operations with significant actual and potential negative impacts on local communities | Information about activities with current or potential negative impacts on local communities is currently not available. OVS undertakes to report on the missing information by fiscal year 2019 |

| Material aspect - Supplier Social Assessment | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | SUPPLY CHAIN MANAGEMENT |
| **GRI 414-1** | New suppliers that were screened using social criteria | SUPPLIERS |

| Non-material aspect – Public Policy | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | COMMUNITY |
| **GRI 415-1** | Political contributions | OVS did not receive political contributions in 2017 |

| Material aspect - Customer Health and Safety | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | PRODUCT SUSTAINABILITY |
| **GRI 416-1** | Assessment of the health and safety impacts of product and service categories | PRODUCT SUSTAINABILITY |
| **GRI 416-2** | Incidents of non-compliance concerning the health and safety impacts of products and services | OVS did not register any incidents of non-compliance concerning the health and safety impacts of products and services in 2017 |

| Material aspect - Marketing and labeling | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | SUSTAINABLE STORES |
| **GRI 417-2** | Incidents of non-compliance concerning product and service information and labeling | OVS did not register any incidents of non-compliance concerning product and service information and labeling in 2017 |
| **GRI 417-3** | Incidents of non-compliance concerning marketing communications | OVS did not register any incidents of non-compliance concerning marketing communications in 2017 |

| Material Aspect – Etihics and Integrity | | Paragraph, Page, Note |
|---|---|---|
| **GRI 103-1; 103-2; 103-3** | Management approach disclosures | ORGANISATION AND MANAGEMENT MODEL (Model 231) |
| **GRI 419-1** | Non-compliance with laws and regulations in the social and economic area | OVS did not register any incidents of non-compliance with laws and regulations in the social and economic area in 2017 |

**INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE N° 254 OF 30 DECEMBER 2016 AND ARTICLE 5 OF CONSOB REGULATION N° 20267**

**OVS SPA**

**YEAR ENDED 31 JANUARY 2018**

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

*pursuant to article 3, paragraph 10, of Legislative Decree n° 254 of 30 December 2016 and article 5 of CONSOB Regulation n° 20267*

To the Board of Directors of OVS SpA

Pursuant to article 3, paragraph 10, of Legislative Decree n° 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation n° 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of OVS SpA and its subsidiaries (hereafter the "OVS Group") for the year ended 31 January 2018 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 18 April 2018 (hereafter the "NFS").

## *Responsibility of the directors and of the board of statutory auditors for the NFS*

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

Directors are responsible, in the terms prescribed by law, for such internal control they deem to be necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

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 OVS Group and to the extent necessary to ensure an understanding of the OVS Group's activities, performance, results and related impacts.

Directors are responsible for defining the business and organisational model of the OVS Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the OVS 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.

## *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, 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 of company personnel responsible for the preparation of the information presented in the NFS, analyses 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 company, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standard adopted.
2. Analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree.
3. Comparison of the financial information reported in the NFS with the information reported in the OVS Group's consolidated financial statements.
4. Understanding of the following matters:
   - Business and organisational model of the OVS 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 Management of OVS SpA, and we performed limited analyses 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 OVS Group:

- at a group level,
    a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
    b) with reference to quantitative information, we performed analytical procedures as well as limited tests in order to assess, on a sample basis, the accuracy of consolidation of the information;
- at a site/plant level: OVS SpA, at its headquarter office in Venice-Mestre, which was selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits and walk through procedures 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 the OVS Group as of 31 January 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

### *Other aspects*

The comparative information presented in the NFS in relation to the financial year ended 31 January 2017 has not been subjected to any procedures.

Treviso, 10 May 2018

PricewaterhouseCoopers SpA

*Signed by*

Massimo Dal Lago
(Partner)

Paolo Bersani
(Authorised signatory)

*This report has been translated from the Italian original solely for the convenience of international readers.*

# Consolidated financial statements

## Consolidated statement of financial position

(amounts in thousands of euros)

| ASSETS | Note | 31.01.2018 | of which related parties | 31.01.2017 | of which related parties |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | *1* | 60,498 | | 89,713 | |
| Trade receivables | *2* | 112,960 | 35,321 | 75,259 | 6,608 |
| Inventories | *3* | 387,943 | | 340,577 | |
| Financial assets | *4* | 0 | | 18,897 | |
| Current tax assets | *5* | 24,338 | | 1,120 | |
| Other receivables | *6* | 34,259 | | 31,059 | |
| **Total current assets** | | **619,998** | | **556,625** | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *7* | 276,513 | | 267,359 | |
| Intangible assets | *8* | 636,639 | | 639,924 | |
| Goodwill | *9* | 452,541 | | 453,165 | |
| Equity investments | *10* | 136 | | 8,420 | |
| Financial assets | *4* | 0 | | 5,491 | 5,491 |
| Other receivables | *6* | 5,080 | | 5,220 | |
| **Total non-current assets** | | **1,370,909** | | **1,379,579** | |
| **TOTAL ASSETS** | | **1,990,907** | | **1,936,204** | |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 31.01.2018 | of which related parties | 31.01.2017 | of which related parties |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Financial liabilities | *11* | 57,190 | | 6,559 | |
| Trade payables | *12* | 403,406 | 1,100 | 367,662 | 1,245 |
| Current tax liabilities | *13* | 1,296 | | 15,796 | 11,460 |
| Other payables | *14* | 108,499 | 1,808 | 95,420 | 2,018 |
| **Total current liabilities** | | **570,391** | | **485,437** | |
| **Non-current liabilities** | | | | | |
| Financial liabilities | *11* | 381,115 | | 373,363 | |
| Employee benefits | *15* | 38,647 | | 39,906 | |
| Provisions for risks and charges | *16* | 5,024 | | 7,785 | |
| Deferred tax liabilities | *17* | 134,287 | | 140,939 | |
| Other payables | *14* | 19,763 | | 17,030 | |
| **Total non-current liabilities** | | **578,836** | | **579,023** | |
| **TOTAL LIABILITIES** | | **1,149,227** | | **1,064,460** | |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share Capital | *18* | 227,000 | | 227,000 | |
| Other reserves | *18* | 609,613 | | 566,729 | |
| Net result for the year | | 5,135 | | 78,015 | |
| **GROUP SHAREHOLDERS' EQUITY** | | **841,748** | | **871,744** | |
| MINORITY INTERESTS | *18* | (68) | | 0 | |
| **TOTAL SHAREHOLDERS' EQUITY** | | **841,680** | | **871,744** | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,990,907** | | **1,936,204** | |

## Consolidated income statement

(amounts in thousands of euros)

| | Note | 31.01.2018 | of which non-recurring | of which related parties | 31.01.2017 | of which non-recurring | of which related parties |
|---|---|---|---|---|---|---|---|
| Revenues | *19* | 1,525,686 | | 113,701 | 1,362,624 | | 4,180 |
| Other operating income and revenues | *20* | 73,445 | | 4,566 | 66,794 | | 3,872 |
| **Total revenues** | | **1,599,131** | **0** | | **1,429,418** | **0** | |
| Purchases of raw materials, consumables and goods | *21* | 701,423 | | 3,620 | 587,935 | | 2 |
| Staff costs | *22* | 292,990 | 560 | 3,362 | 277,815 | 161 | 5,619 |
| Depreciation, amortisation and write-downs of assets | *23* | 62,735 | | | 59,050 | | |
| Other operating expenses | | | | | | | |
| Service costs | *24* | 191,777 | 37 | 12,911 | 176,427 | 889 | 17,017 |
| Costs for the use of third-party assets | *25* | 198,736 | 98 | (320) | 192,666 | 48 | (404) |
| Write-downs and provisions | *26* | 15,220 | | 14,500 | 1,200 | | |
| Other operating charges | *27* | 24,224 | | (163) | 24,086 | 2,697 | 14 |
| **Result before net financial expenses and taxes** | | **112,026** | **(695)** | | **110,239** | **(3,795)** | |
| Financial income | *28* | 1,153 | | 1,121 | 200 | | 100 |
| Financial expenses | | (15,737) | | | (15,817) | | |
| Exchange rate gains and losses | | (66,778) | | | 11,167 | | |
| Gains (losses) from equity investments | | (21,137) | (21,065) | (21,065) | 0 | | |
| **Net result for the year before tax** | | **9,527** | **(21,760)** | | **105,789** | **(3,795)** | |
| Taxes | *29* | (4,463) | 167 | | (27,774) | 1,044 | |
| **Net result for the year** | | **5,064** | **(21,593)** | | **78,015** | **(2,751)** | |
| | | | | | | | |
| **Net result for the year attributable to the Group** | | **5,135** | | | **78,015** | | |
| **Net result for the year attributable to minority interests** | | **(71)** | | | **0** | | |
| | | | | | | | |
| **Earnings per share (in Euro)** | | | | | | | |
| - basic | | 0.02 | | | 0.34 | | |
| - diluted | | 0.02 | | | 0.34 | | |

## Consolidated statement of comprehensive income

(amounts in thousands of euros)

| | *Note* | 31.01.2018 | 31.01.2017 |
|---|---|---|---|
| **Net result for the year (A)** | | **5,064** | **78,015** |
| **Other gains (losses) that will not be subsequently reclassified in the income statement:** | | | |
| - Actuarial gains (losses) for employee benefits | *15-18* | (302) | (323) |
| - Tax on items recognised in the reserve for actuarial gains (losses) | *17-18* | 73 | 26 |
| **Total other comprehensive gains (losses) that will not be subsequently reclassified in the income statement** | | **(229)** | **(297)** |
| **Other gains (losses) that will be subsequently reclassified in the income statement:** | | | |
| - Change in translation reserve | *18* | (3,888) | 531 |
| **Total other comprehensive gains (losses) that will be subsequently reclassified in the income statement** | | **(3,888)** | **531** |
| **Total other items of comprehensive income (B)** | | **(4,117)** | **234** |
| **Total comprehensive income for the period (A) + (B)** | | **947** | **78,249** |
| Total comprehensive income attributable to the Group | | 1,018 | 78,249 |
| Total comprehensive income attributable to minority interests | | (71) | - |

## Consolidated statement of cash flows

(amounts in thousands of euros)

| | Note | 31.01.2018 | 31.01.2017 |
|---|---|---|---|
| **Operating activities** | | | |
| Net result for the year | | 5,064 | 78,015 |
| Provision for taxes | *29* | 4,463 | 27,774 |
| Adjustments for: | | | |
| Net depreciation, amortisation and write-downs of fixed assets | *23* | 62,735 | 59,050 |
| Net capital losses (gains) on fixed assets | | 328 | 35 |
| Write-down of equity investments | *28* | 8,284 | 0 |
| Losses (gains) from equity investments | *28* | 72 | 0 |
| Net financial expenses (income) | *28* | 27,365 | 15,611 |
| Expenses (income) from foreign exchange differences and currency derivatives | *28* | (10,492) | (12,085) |
| Loss (gain) on derivatives due to change in fair value | *28* | 77,270 | 924 |
| Allocations to provisions | *15-16* | 250 | 0 |
| Utilisation of provisions | *15-16* | (5,151) | (2,534) |
| **Cash flows from operating activities before changes in working capital** | | **170,188** | **166,790** |
| Cash flow generated by change in working capital | *2-3-5-6-12-13-14-17* | (37,731) | (53,244) |
| Taxes paid | | (46,930) | (36,577) |
| Net interest received (paid) | | (14,203) | (16,190) |
| Realised foreign exchange differences and cash flows from currency derivatives | | 5,287 | 11,465 |
| Other changes | | (923) | 3,020 |
| **Cash flow generated (absorbed) by operating activities** | | **75,688** | **75,264** |
| **Investment activities** | | | |
| (Investments) in fixed assets | *7-8-9* | (69,386) | (61,700) |
| Disposals of fixed assets | *7-8-9* | 78 | 116 |
| (Increase) decrease in equity investments | *10* | 0 | (8,284) |
| Cash out due to business combination during the year | | 0 | (3,931) |
| **Cash flow generated (absorbed) by investment activities** | | **(69,308)** | **(73,799)** |
| **Financing activities** | | | |
| Net change in financial assets and liabilities | *4-11* | (1,545) | (3,338) |
| Increase in share capital and reserves | | 0 | 0 |
| Dividends distribution | | (34,050) | (34,050) |
| **Cash flow generated (absorbed) by financing activities** | | **(35,595)** | **(37,388)** |
| **Increase (decrease) in cash and cash equivalents** | | **(29,215)** | **(35,923)** |
| **Cash and cash equivalents at beginning of the year** | | **89,713** | **125,636** |
| **Cash and cash equivalents at end of the year** | | **60,498** | **89,713** |

The effects of relations with related parties are described in the section "Relations with related parties" in the notes to these consolidated financial statements.

# Consolidated statement of changes in shareholders' equity

(amounts in thousands of euros)

| | Share capital | Share premium reserve | Legal reserve | Cash flow hedging reserve | Reserve for actuarial gains (losses) | Translation reserve | IFRS 2 reserve | Other reserves | Retained earnings | Net result for the year | Total shareholders' equity attributable to the OVS Group | Minority interests | Total share-holders' equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 01 February 2016** | **227,000** | **511,995** | **0** | **0** | **(1,063)** | **440** | **1,393** | **2,456** | **(3,792)** | **86,627** | **825,056** | **0** | **825,056** |
| Allocation of earnings for financial year 2015 | - | - | 4,092 | - | - | - | - | - | 82,535 | (86,627) | 0 | - | 0 |
| Dividend distribution (Euro 0.15 per share) | - | - | - | - | - | - | - | - | (34,050) | - | (34,050) | - | (34,050) |
| Management incentive plan | - | - | - | - | - | - | 2,489 | - | - | - | 2,489 | - | 2,489 |
| **Relations with Shareholders** | - | - | **4,092** | - | - | - | **2,489** | - | **48,485** | **(86,627)** | **(31,561)** | - | **(31,561)** |
| Net result for the year | - | - | - | - | - | - | - | - | - | 78,015 | 78,015 | - | 78,015 |
| Other items of comprehensive income | - | - | - | - | (297) | 531 | - | - | - | - | 234 | - | 234 |
| **Total comprehensive income for the period** | - | - | - | - | **(297)** | **531** | - | - | - | **78,015** | **78,249** | - | **78,249** |
| **Balance at 31 January 2017** | **227,000** | **511,995** | **4,092** | **0** | **(1,360)** | **971** | **3,882** | **2,456** | **44,693** | **78,015** | **871,744** | **0** | **871,744** |
| **Balance at 01 February 2017** | **227,000** | **511,995** | **4,092** | **0** | **(1,360)** | **971** | **3,882** | **2,456** | **44,693** | **78,015** | **871,744** | **0** | **871,744** |
| Allocation of earnings for financial year 2016 | - | - | 3,825 | - | - | - | - | - | 74,190 | (78,015) | 0 | - | 0 |
| Dividend distribution (Euro 0.15 per share) | - | - | - | - | - | - | - | - | (34,050) | - | (34,050) | - | (34,050) |
| Changes in the scope of consolidation | - | - | - | - | - | - | - | 72 | - | - | 72 | 3 | 75 |
| Management incentive plan | - | - | - | - | - | - | 2,964 | - | - | - | 2,964 | - | 2,964 |
| **Relations with Shareholders** | - | - | **3,825** | - | - | - | **2,964** | **72** | **40,140** | **(78,015)** | **(31,014)** | **3** | **(31,011)** |
| Net result for the year | - | - | - | - | - | - | - | - | - | 5,135 | 5,135 | (71) | 5,064 |
| Other items of comprehensive income | - | - | - | - | (229) | (3,888) | - | - | - | - | (4,117) | - | (4,117) |
| **Total comprehensive income for the period** | - | - | - | - | **(229)** | **(3,888)** | - | - | - | **5,135** | **1,018** | **(71)** | **947** |
| **Balance at 31 January 2018** | **227,000** | **511,995** | **7,917** | **0** | **(1,589)** | **(2,917)** | **6,846** | **2,528** | **84,833** | **5,135** | **841,748** | **(68)** | **841,680** |

# NOTES TO THE FINANCIAL STATEMENTS

## GENERAL INFORMATION

OVS S.p.A. (hereinafter also the "Company" or the "Parent Company") is a company incorporated on 14 May 2014, domiciled in Italy and organised under the laws of the Italian Republic, with its registered office at 17, via Terragio, Mestre, Venice, Italy.

Borsa Italiana, with Provision 8006 of 10 February 2015, approved the admission to trading of the Company's shares on the Mercato Telematico Azionario (MTA), organised and managed by OVS S.p.A.
The start of trading on the MTA was set by Borsa Italiana for Monday, 2 March 2015. The subscription operation entailed a capital increase of €87,000,000, taking the share capital from €140,000,000 to €227,000,000, divided into 227,000,000 ordinary shares with no par value.

## STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the OVS Group at 31 January 2018 were prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. "IFRS" is intended to mean all the revised International Accounting Standards (IAS), and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), including those previously issued by the Standing Interpretations Committee (SIC). At the reporting date for the consolidated financial statements, these had been approved by the European Union under the procedure set forth in (EC) Regulation 1606/2002 of the European Parliament and the European Council of 19 July 2002.

The consolidated financial statements of the OVS Group, which comprise the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in shareholders' equity and the notes to the financial statements, are presented in euros as the current currency of the economies in which the Group chiefly operates, unless otherwise indicated.

These consolidated financial statements were prepared on a going concern basis, as the directors have verified the absence of any financial, operational or other indicators that could signal problems with the Group's ability to meet its obligations in the foreseeable future, and particularly in the next 12 months.

With regard to procedures for the presentation of the consolidated financial statements, in the context of the options provided for by IAS 1, OVS S.p.A. has opted for the following types of accounting schedules:

- Statement of financial position: assets and liabilities are classified with current and non-current items shown separately;
- Income statement: prepared separately from the statement of comprehensive income with operating costs classified by nature;
- Statement of comprehensive income: includes, as well as net profit, changes in shareholders' equity related to items of an economic nature which, by express provision of the international accounting standards, are recognised as components of shareholders' equity;
- Statement of cash flows: the statement shows the cash flows from operating, investment and financing activities. The indirect method was used to prepare this statement;
- Statement of changes in shareholders' equity: shows net profit and each item of income and expense not posted to the income statement but recognised directly in equity pursuant to specific IAS/IFRS.

The schedules used, as specified above, provide the best representation of the OVS Group's financial position and results.
The notes to the financial statements analyse, expand upon and comment on the values shown in the OVS Group's consolidated financial statements. They are accompanied by additional information deemed necessary to give a true and fair view of the Group's financial position and results.
Changes in the items recognised under assets and liabilities and in the income statement are elaborated upon when they are significant.

The consolidated financial statements were prepared using the conventional historical cost method, altered as required from accounting policies for the valuation of some derivatives.
Please see the Report on Operations for detailed information on the nature of the Group's activity.

The financial statements have been audited by PricewaterhouseCoopers S.p.A.

## SCOPE OF CONSOLIDATION

The consolidated financial statements include, as well as the Parent Company's financial statements, the financial statements of all the subsidiaries from the date at which control is assumed until the date at which this control ceases.

The following is a list of companies included within the scope of consolidation on a line-by-line basis:

| Company | Registered office | Share capital | | % Investment |
|---|---|---|---|---|
| **Italian companies** | | | | |
| OVS S.p.A. | Venice - Mestre | 227.000.000 | EUR | Parent Company |
| 82 S.r.l. | Venice - Mestre | 10.000 | EUR | 70% |
| | | | | |
| **Foreign companies** | | | | |
| OVS Department Stores D.O.O. | Belgrade - Serbia | 792.948.388 | RSD | 100% |
| OVS Maloprodaja D.O.O. | Zagreb - Croatia | 20.000 | HRK | 100% |
| OVS Hong Kong Sourcing Limited | Hong Kong | 585.000 | HKD | 100% |
| OVS India Sourcing Private Ltd | Delhi - India | 15.000.000 | INR | 100% |
| OBS Sales Private Ltd | Delhi - India | 15.000.000 | INR | 100% |
| COSI International Ltd | Hong Kong | 10.000 | HKD | 100% |
| COSI International (Shanghai) Ltd | Shanghai - China | 1.000.000 | RMB | 100% |
| OVS Fashion España S.L. | Madrid - Spain | 3.100 | EUR | 100% |

List of equity investments measured using the equity method:

| | | | | |
|---|---|---|---|---|
| Centomilacandele S.c.p.A. | Milan | 300.000 | EUR | 31.63% |
| Sempione Retail AG | Zurich - Switzerland | 25.385.526 | CHF | 35.00% |

It should be noted that the non-operational companies OVS Bulgaria Eood and OVS Kids Greater China Ltd were wound up during the year.

On 28 September 2017, the company 82 S.r.l., which is 70% owned by OVS S.p.A. and 30% owned by Massimo Piombo, was incorporated with the aim of developing, during 2018, some stores under the Piombo brand for upper casual men’s clothing, with either a directly operated or franchising formula.

## ACCOUNTING POLICIES AND CONSOLIDATION CRITERIA

The consolidated financial statements include the financial statements of Parent Company OVS S.p.A. and the companies over which it has the right to exercise control pursuant to IFRS 10. This standard stipulates that an investor controls an entity in which it has invested when it enjoys rights that confer the possibility of directing the entity's significant activities, has an exposure or a right to receive variable returns from its involvement in the entity and has the real possibility of using its power to influence the amount of its returns from the investment.

Equity investments held in companies over which significant influence is exercised (“associates”), which is presumed to exist when the percentage of the equity investment is between 20% and 50%, are measured using the equity method.

Application of the equity method involves aligning the carrying amount of the equity investment with shareholders' equity, adjusted where necessary to reflect the application of the IFRS approved by the European Commission (and includes any goodwill identified at the time of acquisition).

The share of gains/losses realised by the associate after the acquisition is recognised in the income statement, while the share of movements in reserves after the acquisition is booked in equity reserves. When the Group's share of losses in an associate is equal to or more than its minority interest in this associate, taking any unsecured credit into account, the value of the investment is reduced to zero (also writing-down other possible long-term equity investments) and the Group recognises no further losses other than those pertaining to it, unless and to the extent that the Group is obliged to meet them. Unrealised gains and losses on transactions with associates are eliminated according to the value of the Group's equity investment in these associates.

"Joint arrangements" (agreements under which two or more parties hold common control, within the meaning of IFRS 11) are included, where they exist, according to the equity method, if they qualify as joint ventures, or by recognising their specific shares of assets, liabilities, costs and revenues, if they qualify as joint operations.

The financial statements of the subsidiaries are consolidated line-by-line in the consolidated financial statements from the date at which control is assumed until the date at which this control ceases.

Where necessary, the financial statements used to prepare the consolidated financial statements have been appropriately reclassified and adjusted to comply with the Group's accounting policies.

The following consolidation criteria are used:

- for equity investments consolidated line by line, the carrying amount of the individual consolidated equity investments is eliminated against the relative shareholders' equity, with the assumption of the assets, liabilities, costs and revenues of the subsidiaries, regardless of the size of the investment held; Any share of shareholders' equity and net profit attributable to non-controlling interests are identified separately in shareholders' equity and in the income statement;

- all inter-company balances and transactions are eliminated, as are profits and losses (the latter only if they do not represent effective impairment of the asset transferred) arising from commercial transactions, including the sale of business units in the Parent Company's subsidiaries, or financial inter-company transactions not yet realised with third parties;
- all increases/decreases in the shareholders' equity of the consolidated companies arising from results generated after the date of acquisition of the equity investment are booked to a dedicated equity reserve named "Retained earnings (accumulated losses)" at the time of the elision;
- the dividends distributed to Group companies are derecognised in the income statement at the time of consolidation.
- changes in the percentage of ownership of subsidiaries that do not entail a loss of control, or that represent increases after control has been acquired, are recognised under changes in shareholders' equity.

**Business combinations**

The Group recognises business combinations using the acquisition method pursuant to IFRS 3 - Business Combinations.

Under this method, the consideration transferred to a business combination is measured at fair value, calculated as the sum of the fair values of the assets transferred and the liabilities assumed at the acquisition date. The ancillary costs of the transaction are usually recognised in the income statement when they are incurred.

Goodwill is determined as the excess of the sum of the considerations transferred to the business combination, shareholders' equity attributable to third parties and the fair value of any equity investment previously held in the acquiree, over the fair value of the net assets acquired and liabilities assumed at the acquisition date.

If a business combination takes place in stages with successive purchases of shares, each phase is valued separately, using the cost and information on the fair value of the assets, liabilities and contingent liabilities at the date of each operation to determine the amount of any difference. When a subsequent purchase means that control of a company is obtained, the stake previously held is re-presented based on the fair value of the identifiable assets, liabilities and contingent liabilities determined at the date that control is taken, and the difference is recognised in the income statement.

## Financial statements in foreign currencies

The translation into euros of the financial statements of foreign subsidiaries denominated in currencies other than the euro is carried out by applying the exchange rates in force at the end of the year to assets and liabilities and applying average exchange rates in the period to income statement items, while shareholders' equity is recognised at historical exchange rates, usually identified as the exchange rates at the end of the first year in which the investee company was included in the scope of consolidation.

Exchange rate gains or losses arising from the translation of financial statements presented in foreign currencies using the above methods are cumulatively recognised under other comprehensive income in a specific equity reserve until the equity investments are disposed of.

The exchange rates used for translation are shown in the following table:

| | | Final exchange rate at | | Average exchange rate | |
|---|---|---|---|---|---|
| **Currency** | **Code** | **31.01.2018** | **31.01.2017** | **FY 2017** | **FY 2016** |
| US dollar | USD | 1.25 | 1.08 | 1.14 | 1.10 |
| Hong Kong dollar | HKD | 9.74 | 8.34 | 8.92 | 8.57 |
| Chinese renminbi | RMB | 7.83 | 7.40 | 7.67 | 7.37 |
| Croatian kuna | HRK | 7.43 | 7.48 | 7.46 | 7.52 |
| Serbian dinar | RSD | 119.08 | 123.99 | 120.93 | 123.19 |
| Bulgarian lev | BGN | 1.96 | 1.96 | 1.96 | 1.96 |
| Indian rupee | INR | 79.18 | 72.80 | 74.00 | 74.28 |

## ACCOUNTING POLICIES AND VALUATION CRITERIA

The main accounting policies and valuation criteria used by the Group are described below.

### Goodwill

Goodwill is recognised at cost, less any accumulated impairment.

Goodwill acquired as part of a business combination is determined as the excess of the sum of the considerations transferred to the business combination, shareholders' equity attributable to third parties and the fair value of any equity investment previously held in the acquiree, over the fair value of the net assets acquired and liabilities assumed at the acquisition date.

If the value of the net assets acquired and liabilities assumed exceeds the sum of the considerations transferred, the shareholders' equity attributable to third parties and the fair value of any equity investment previously held in the acquiree, the excess amount is immediately recognised in the income statement as income.

Goodwill is not amortised, but is tested annually, and whenever events or circumstances indicate the possibility of impairment, for recoverability pursuant to IAS 36 - Impairment of Assets.

If the recoverable amount is lower than the carrying amount, the asset is written down to the recoverable amount. If goodwill is allocated to a cash-generating unit that is partially transferred/disposed of, the goodwill associated with this unit is used to determine any gain/loss arising from the operation.

### Brands

Brands deriving from business combinations are recognised at fair value at the date of the combination, according to the acquisition method. They are not amortised as they have an indefinite useful life, but are tested annually, and whenever events or circumstances indicate the possibility of impairment, for recoverability pursuant to IAS 36 - Impairment of Assets. After initial recognition, the brands are valued at cost less any cumulative impairment.

### Intangible assets

Intangible assets consist of non-monetary items, identifiable and without physical substance, which can be controlled by the Group, can generate future economic benefits and whose cost can be reliably determined. These items are recognised at cost, less amortisation, calculated using the straight-line method for a period corresponding to the useful life, and any impairment. Useful life is reviewed annually. Specifically:

Licences – Licences deriving from business combinations are recognised at fair value at the date of the combination, according to the acquisition method. After initial recognition, licences are valued at cost less

amortisation and any cumulative impairment. Amortisation is calculated based on the difference between the cost and the residual value at the end of their useful life, on a straight line basis over their useful life (defined as 40 years).
Please see note 8 - "Intangible assets" for a description of the criteria used to define useful life and residual value at the end of useful life.

Software – The costs of software licences, including ancillary costs, are capitalised and recognised in the financial statements net of amortisation and any cumulative impairment. The amortisation rate used is 20%.

Other intangible assets – These assets are measured at acquisition cost, less amortisation calculated on a straight-line basis throughout their useful life and cumulative impairment.
The value of the franchising network recognised post-business combination is amortised on the basis of a useful life of 20 years.

**Property, plant and equipment**

Property, plant and equipment is measured at acquisition cost, including ancillary costs booked directly, less depreciation and cumulative impairment. Land is not depreciated even if acquired at the same time as buildings.

Depreciation is booked from the month in which the assets enter into operation.
Depreciation rates are charged on a monthly basis at constant rates that allow assets to be depreciated until their useful life is ended or, in the case of disposals, until the last month of use.

The depreciation rates used are as follows:

| | |
|---|---|
| Buildings | 3-6% |
| Light construction | 10% |
| Plant and equipment for lifting, loading, unloading and weighing | 7,5% |
| Miscellaneous machinery, appliances and equipment | 11,1% |
| Special facilities for communications and remote signalling | 25% |
| Furnishings | 11,1% |
| Alarm systems | 11,1% |
| Specific bar, restaurant and canteen facilities | 8% |
| Bar, restaurant and canteen furnishings | 25% |
| Office furniture and ordinary machinery | 12% |
| Electromechanical and electronic office equipment | 20% |
| Cash registers | 20% |
| Motor vehicles and transportation equipment | 20-25% |

Ordinary maintenance costs are charged in full to the income statement in the period in which they are incurred.

Leasehold improvements are classified as tangible assets. The depreciation period is the lesser of the remaining useful life of the tangible asset and the remaining term of the lease.

Assets assumed through finance leases, through which all the risks and rewards of ownership are substantially transferred to the Group, are recognised under tangible assets at their current value, or, if lower, the present value of the minimum lease payments, with a contra-entry of financial debt to the lessor.

This debt is progressively reduced according to the plan for repayment of principal amounts included in the contractually established payments, while the value of the asset recognised under tangible assets is systematically depreciated according to the economic and technical life of the asset.

### Impairment of tangible and intangible assets

IAS 36 stipulates that impairment of tangible and intangible assets must be measured if there are indicators suggesting that such a problem might exist.

Impairment testing takes place at least once a year in the case of goodwill, other intangible assets with an indefinite useful life and assets not available for use.

The recoverability of the amounts recognised is assessed by comparing the carrying amount with the higher of fair value (current realisable value) less the costs of disposal and the value in use of the asset. Value in use is defined by discounting the expected cash flows generated by the asset.

To determine value in use, expected future cash flows are discounted using a rate that reflects current market valuations of the time value of money, compared with the investment period and the specific risks associated with the activity.

For the purposes of assessing impairment, assets are analysed starting from the lowest level for which there are separately identifiable independent cash flows (cash generating units). Within the Group, the individual OVS and UPIM stores have been identified as cash generating units.

If the recoverable amount of an asset is lower than the carrying amount, the carrying amount is reduced to

the recoverable amount. This reduction constitutes impairment and is charged to the income statement.
If there is an indicator of reversal of the impairment loss, the recoverable amount of the asset is recalculated and the carrying amount is increased to this new amount. The increase in the carrying amount may not, however, exceed the net carrying amount that the asset would have had if the impairment had not arisen.
Goodwill impairment cannot be reversed.

### Other equity investments

Other equity investments (i.e. other than in subsidiaries, associates and joint ventures), where these exist, are included among non-current assets, or among current assets if they will remain among the assets of the OVS Group, for a period of, respectively, more than one year and no longer than one year.
Other equity investments constituting financial assets available for sale are measured at fair value, if this can be determined, and any gains or losses deriving from changes in the fair value are entered directly under other comprehensive gains/(losses), until they are transferred or undergo impairment, at which time the other comprehensive gains/(losses) previously recognised in equity are recognised in the income statement for the period.
Other equity investments for which the fair value is not available are recognised at cost, written down for any impairment.

### Financial assets

Financial assets are recognised under current and non-current assets based on maturity and expectations of when they will be converted into monetary assets. Financial assets include equity investments in other companies (other than associates and joint ventures), derivatives, receivables, and cash and cash equivalents.

### a) Classification

For the purposes of measurement, the Group subdivides financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale. Classification depends on the purpose for which the financial asset was acquired. Financial assets are classified at the time of initial recognition.

*i. Financial assets measured at fair value through profit or loss*

This category includes both financial assets held for trading and derivatives that do not meet the criteria for hedge accounting, when fair value is positive.

*ii. Loans and receivables*

Loans and receivables comprise non-derivative financial assets with fixed or determinable maturities. They are recognised under current assets, except for the portion falling due beyond the 12-month period after the reporting date, which are classified as non-current assets.

*iii. Financial assets held to maturity*

Financial assets held to maturity comprise non-derivative assets with fixed or determinable payments that the Group intends to hold to maturity. Classification to current or non-current assets depends on whether they are expected to be realised within or beyond the 12-month period after the reporting date.

*iv. Financial assets available for sale*

Financial assets available for sale represent a residual category comprising financial instruments that are not derivative or not attributable to any of the above categories of financial instruments. These assets are included among non-current assets, unless there is an intention to dispose of them within the 12-month period after the reporting date.

### b) Recognition and measurement

Financial assets, regardless of how they are classified, are initially recognised at fair value, with possible additions for ancillary acquisition costs.

After initial recognition, financial assets at fair value through profit or loss and financial assets available for sale are recognised at fair value. In the first case, changes in fair value are posted to the income statement in the period in which they take place; in the second, they are posted to the statement of comprehensive income.

Loans and receivables and financial assets held to maturity are recognised using the amortised cost criterion and the effective interest rate method after initial recognition. Any impairment is recorded in the income statement to offset the value of the asset. The value of assets previously written down for impairment is reversed if the circumstances that led to the write-down no longer exist.

Financial assets are eliminated from the financial statements when the rights to receive the cash flows associated with the financial assets expire or have been transferred to third parties and the Group has substantially transferred all the risks and benefits of ownership.

For the treatment of derivatives, please see the relevant section below.

### Inventories

Inventories are recognised at the lower of acquisition cost and net realisable value.

The purchase cost is determined by configuring the weighted average cost for the reporting period. The cost also includes ancillary costs directly attributable to the purchase of merchandise.

Goods relating to the collections are written down according to the presumed possibility of future realisation, by recognising a specific adjustment provision.

## Cash and cash equivalents

Cash and cash equivalents includes available cash and credit balances of bank current accounts with no limits or restrictions.

Cash in foreign currency is valued according to period-end exchange rates.

## Provision for risks and charges

Provisions for risks and charges are allocated for current obligations, legal or constructive, arising from a past event in respect of third parties for which the utilisation of resources, the amount of which can be reliably estimated, is probable.

The amount recognised as a provision is the best estimate of the expenditure required to settle the current obligation fully. Risks for which the emergence of a liability is only possible are disclosed in the notes to the financial statements, and no provision is made.

## Employee benefits

***a) Pension plans***

Post-employment benefits are defined under either "defined contribution" plans or "defined benefit" plans. Defined benefit plans, such as the provision for employee severance benefits accrued before the entry into force of the 2007 Budget, are plans with guaranteed benefits for employees that are paid out at the end of the employment relationship. The liability relating to defined benefit plans is determined on the basis of actuarial assumptions and booked on an accruals basis in line with the service required to obtain the benefits; the liability is measured annually by independent actuaries.

Employee severance benefits and pension provisions, which are determined using an actuarial method, provide for the recognition in the income statement under employment cost of the rights accrued during the year, while the figurative cost is included among net financial income (expenses). Actuarial gains and losses that reflect the effects of changes in the actuarial assumptions used are instead fully recognised in a specific equity reserve in the year in which they arise, with immediate recognition in the statement of comprehensive income.

From 1 January 2007, the 2007 Budget and the associated implementing decrees introduced significant amendments to the rules on employee severance benefits, including options for employees, to be exercised by 30 June 2007, with regard to the allocation of their accruing severance benefits. Specifically, new flows of severance benefits may be directed by the employee to preselected or company pension schemes (in the latter case, the company will pay severance benefit contributions into a treasury account set up with the INPS (the Italian social security and welfare institution)).

As a result of these amendments, the provision for employee severance benefits accrued since the date of the employee option (defined benefit plan) has been recalculated by independent actuaries to exclude the component relating to future pay increases.

The portion of the employee severance benefits that has accrued since the option date (30 June 2007) is regarded as a defined benefit plan, and the accounting treatment is similar to that used for all other contribution payments.

Employee benefits also include pension provisions and similar obligations. This provision mainly includes liabilities and rights accrued by the employees of the former Standa, in relation to supplementary pension schemes; the liability associated with such defined benefit plans is determined on the basis of actuarial assumptions and the amount recognised in the financial statements represents the present value of the OVS Group's obligation.

***b) Compensation plans in the form of stock options***

The Group provides additional benefits to certain employees and consultants through stock option plans offering equity-settled stock options. In accordance with IFRS 2 - Share-based Payments, the current value of the stock options determined at the grant date using the "Black & Scholes" method is recognised in the income statement under staff costs on a straight-line basis over the period between the grant date of the stock options and the vesting date, with a direct contra-entry in shareholders' equity.

The effects of granting conditions not related to the market are not taken into account in the evaluation of the fair value of the options granted, but are relevant to the evaluation of the number of options expected to be exercised.

At the reporting date the Group reviews its estimates of the number of options that are expected to be exercised. The effect of the review of the original estimates is recognised in the income statement over the vesting period with a contra-entry in shareholders' equity.

When the stock options are exercised, the amounts received from the employee, net of costs directly attributable to the transaction, are credited to the share capital in an amount equal to the nominal value of the issued shares, with the remaining portion credited to the share premium reserve.

## Financial liabilities and trade and other payables

Financial and/or trade payables and other liabilities are initially recognised at fair value, less any transaction costs incurred in relation to obtaining financing. They are subsequently carried at amortised cost; any difference between the amount received (less transaction costs) and the total repayment amount is recognised in the income statement over the period of the loan, using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for 12 months after the reporting date; in this case, only the portion falling due within 12 months of the reporting date is classified as a current liability.

**Derivatives**

Derivatives are assets and liabilities recognised at fair value.

The Group uses derivatives to hedge management foreign exchange risk or interest rate risk.

Pursuant to IAS 39, derivatives may only be booked using hedge accounting methods when:

- at the beginning of the hedge there is formal designation and documentation of the hedging relationship;
- it is assumed that the hedge is highly effective;
- effectiveness can be reliably measured;
- the hedge is highly effective throughout the financial reporting periods for which it is designated.

When derivatives meet the criteria for hedge accounting, the following accounting treatments apply:

- if the derivatives hedge the risk of changes in the fair value of the assets or liabilities being hedged (fair value hedge, e.g. hedging of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value through profit or loss; correspondingly, the assets or liabilities being hedged are adjusted to reflect changes in fair value associated with the hedged risk;
- if the derivatives hedge the risk of changes in the cash flows of the assets or liabilities being hedged (cash flow hedge, e.g. hedging of changes in the cash flows of assets/liabilities due to variations in interest rates), changes in the fair value of the derivatives are initially recognised in equity and subsequently in profit or loss in line with the economic effects of the hedged transaction. Even highly probable future transactions and binding commitments can be covered by this hedge.

If hedge accounting cannot be applied, gains or losses arising from the measurement of the derivative at fair value are immediately recognised in the income statement.

**Segment information**

The information relating to business segments was provided pursuant to IFRS 8 - Operating segments, which stipulates that information be presented in a way that is consistent with the procedures used by management to make operational decisions. The operating segments and the information presented are therefore identified according to the internal reports used by management to allocate resources to the various segments and to analyse their performance.

IFRS 8 defines an operating segment as a component of an entity that: i) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); ii) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and iii) for which discrete financial information is available.

The operating segments identified by management, which incorporate all of the services and products provided to customers, are represented by the OVS division, dedicated to the marketing of clothing products for the value fashion market segment, and the UPIM division, which provides women's, men's and children's clothing products for the value segment of the Italian market, as well as products relating to the homeware and fragrance segments.

## Revenues and costs

Revenues from the sales of DOS are recognised when the customer makes the payment. Revenues from the sale of goods are recognised in the income statement when the risks and benefits related to the product sold are transferred to the customer, usually coinciding with the delivery or shipment of the goods to the customer; revenues for services are recognised in the period in which the services are rendered, with reference to completion of the service provided and as a proportion of the total services still to be rendered.

Revenues are recognised at the fair value of the consideration received. Revenues are recognised net of value added tax, expected returns and any trade discounts, rebates and bonuses granted.

Costs are recognised when they relate to goods and services sold or used during the year, while in the case of multi-year use the costs are systematically spread.

## Income and costs deriving from leases

Income and costs deriving from operating leases are recognised on a straight-line basis over the term of the leases to which they relate.

## Income tax

Current income tax for the year is calculated by applying the current tax rates on reasonably estimated taxable income, determined in accordance with the tax regulations in force. The expected payable, net of payments on account and withholding taxes, is recognised in the statement of financial position under "Current tax liabilities", (or under "Current tax assets" if the payments on account made and the withholdings exceed the expected payable).

Deferred tax assets and deferred tax liabilities are determined on the basis of taxable temporary differences between the carrying amount of assets and liabilities and their value for tax purposes, except for goodwill, which is not tax deductible, and are classified under non-current assets and liabilities.

Income tax is recognised in the income statement, except in relation to items directly credited to or debited from equity, in which case the tax effect is recognised directly in equity.

Deferred tax assets, including those relating to any previous tax losses, are recognised to the extent that it is probable that future taxable income will be available in respect of which they can be recovered.

The value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future to use all or part of this receivable.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates in force and tax rates that have been enacted or substantively enacted at the reporting date.

### Exchange rate gains and losses

Foreign exchange transactions are recognised at the current exchange rate at the date of completion of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into euros at the current exchange rate at the reporting date and recognised in the income statement under the "Exchange rate gains and losses" item.

### Earnings per share

***Earnings per share - basic***

Basic earnings per share is calculated by dividing the profit pertaining to the OVS Group by the weighted average of the ordinary shares outstanding during the year, excluding treasury shares.

***Earnings per share - diluted***

Diluted earnings per share is calculated by dividing the profit pertaining to the OVS Group by the weighted average of the ordinary shares outstanding during the year, excluding treasury shares. To calculate diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming the exercise by all owners of rights with a potentially dilutive effect, while the profit pertaining to the OVS Group is adjusted to take account of any effects, net of tax, arising from the exercise of these rights.

### Dividends

Dividends are recognised at the date of approval by the shareholders’ meeting.

## Use of estimates

The preparation of the consolidated financial statements in accordance with the IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. The final results may differ from these estimates. Estimates are used to recognise provisions for doubtful accounts, inventory obsolescence, depreciation and amortisation, impairment of assets, employee benefits, restructuring provisions, deferred tax assets, other provisions for risk and valuations of derivatives. Estimates and assumptions are reviewed periodically and the effects of any changes are immediately reflected in the income statement.

***Impairment of tangible and intangible assets***

Goodwill and the brands are tested annually, and whenever events or circumstances indicate the possibility of impairment, for recoverability pursuant to IAS 36 - Impairment of Assets. If the recoverable amount is less than the carrying amount, the asset is written down to its recoverable amount (defined as the greater of its value in use and its fair value). Verification of the amount requires subjective judgements to be made, based on information available within the OVS Group and from the market, as well as past experience. In addition, if potential impairment is identified, it is determined using evaluation techniques regarded as appropriate. The same verifications of value and the same evaluation techniques are applied to intangible and tangible assets with a definite useful life when there are indicators suggesting that recovery of the relative net carrying amount through use might be difficult. The correct identification of indicators of potential impairment and estimates to determine this depend on factors that may vary over time, with an effect on the valuations and estimates made by the OVS Group.

***Depreciation and amortisation***

Depreciation and amortisation reflect the best estimate of the expected useful life of assets with a finite life.

This estimate is based on the possibility of using these assets and their capacity to contribute to the OVS Group's results in future years.

***Inventory obsolescence***

The OVS Group develops and sells items of clothing that change according to customer taste and trends in the world of fashion. The provision for inventory write-downs therefore reflects estimated expected impairment of the collections in stock, taking account of the OVS Group's capacity to sell items of clothing through a range of distribution channels.

***Provision for doubtful accounts***

The provision for doubtful accounts reflects the best estimate of losses relating to the portfolio of trade receivables. This estimate is based on the losses expected by the OVS Group, determined on the basis of past experience with similar receivables, current and previous receivables falling due, the careful monitoring of credit quality and projections of economic and market conditions.

***Deferred tax assets***

Deferred tax assets are booked based on expectations of taxable income in future years for the purpose of recovering them. The evaluation of expected taxable income for the accounting of deferred tax assets depends on factors that may vary over time and have significant effects on the recoverability of the deferred tax assets.

***Pension funds and other employee benefits***

The cost of the defined benefit pension plans is determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return on investments, future salary increases, mortality rates and future pension increases. Because of the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are provided in note 15.

The costs recognised in the income statement in relation to incentive plans for managers (please see the explanations in note 22 - "Staff costs") are mainly influenced by the estimated timing of the occurrence of the event that triggers vesting, as well as the actual possibility of the occurrence of the event and the presumed reference value of the plan. Therefore, this estimate depends on factors that may vary over time and variables that the directors might find it hard to predict and determine. Changes in these items may significantly influence the assessments made by the directors and therefore result in changes in the estimates.

***Provisions for risks and charges***

Provisions representing the risk of a negative outcome are recognised for legal and tax risks. The amount of provisions recorded in the financial statements in relation to these risks represents the best estimate to deal with potential risks. This estimate entails the use of assumptions that depend on factors that might change over time and that might therefore have significant effects compared with the current estimates used to prepare the financial statements.

***Valuation of derivatives***

The fair value of unlisted financial assets, such as derivatives, is determined using commonly used valuation techniques that require basic assumptions and estimates. These assumptions may not occur within the time frames and in the manner envisaged. Estimates of derivatives may therefore differ from the final figures.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS WITH EFFECT FROM 2017

The accounting standards adopted to prepare these consolidated financial statements of the OVS Group are the same as those used in the previous year, as there are no new and/or revised standards of the International Accounting Standards Board (IASB) or interpretations of the International Financial Reporting Interpretations Committee (IFRIC) whose application is mandatory as of 1 January 2017.
Furthermore, there are no updates of standards already in force, which have a significant impact on the information provided by the OVS Group.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION AND EFFECTIVE FOR ANNUAL REPORTING PERIODS STARTING ON OR AFTER 31 JANUARY 2018

**IFRS 15 – Revenue from Contracts with Customers**

IFRS 15, issued in May 2014, introduces a new five-step model that will apply to revenue from contracts with customers. It replaces all current requirements in IFRSs relating to recognition of revenue (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31). IFRS 15 requires the recognition of revenue in an amount reflecting the consideration to which the entity believes it is entitled in exchange for the transfer of goods or services to the customer. The standard will be effective for annual reporting periods starting on or after 1 January 2018, with full or modified retrospective application. Early application is permitted.
The Group will apply the new standard from the mandatory effective date, which, in the case of OVS, is 1 February 2018. In 2017, the Group assessed the impact of IFRS 15 by simulating application of the standard to contracts within the main revenue stream identified at Group level; given the nature of the business, the impacts were deemed not to be material for the Group. It should also be noted that the Group chose the modified retrospective method of application for the transition: the comparative data (2017) will therefore not be modified.
When applying IFRS 15, the Group considered the following points:

***(a) Sale of goods in the retail and wholesale sector***

The Group does not expect the application of IFRS 15 to contracts with customers in which the sale of goods is the only obligation to have a material impact on the Group, particularly in the case of retail flows. The Group expects that revenue recognition will take place as soon as control of the asset has been transferred to the customer, generally at the time of delivery of the asset, which is similar to what happens under the standards currently applied.
IFRS 15 also stipulates that the variable component of the consideration should be estimated on the date when the contract is signed, and should be taken into account when control of the assets is transferred and the right to obtain the consideration therefore arises. The Group therefore considered the presence and nature of the variable consideration in the current portfolio of contracts with major customers, and has retrieved the available information and processes in order to consider any impacts arising from the

application of the new standard.

As part of the process of identifying the various performance obligations, the right of return in respect of the affiliates was eventually identified as an element that could result in deferred recognition of revenue compared with the current accounting treatment. Specifically, when a contract with a customer provides for the right to return goods, the Group currently accounts for the right of return using an approach based on forecast returns, which is similar to the expected value approach envisaged by IFRS 15. According to IFRS 15, the consideration received from the customer is variable, because the contract allows the customer to return the products. The Group has not identified any variations in the estimate of the variable consideration compared with the estimate reached when applying the current accounting standards.

***(b) Presentation and disclosure requirements***

The provisions of IFRS 15 concerning presentation and disclosure requirements, which are fundamentally new, are more detailed than those of the current standards. Since the analysis of contracts and revenue streams shows a predominance of revenue recognition at a point in time, and in view of the results of the assessment, the Group does not expect to encounter significant implementation difficulties when addressing the need to include additional disclosure.

**IFRS 9 – Financial Instruments**

On 22 November 2016, the European Union issued Regulation 2016/2067, which approved IFRS 9 - Financial Instruments, replacing IAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all aspects relating to the accounting of financial instruments, including classification and measurement, impairment and hedge accounting. The standard will be effective for annual reporting periods starting on or after 1 January 2018; early application is permitted. With the exception of hedge accounting (which is applied prospectively, with some exceptions), retrospective application of the principle is required, but the provision of comparative information is not mandatory. The Group will adopt the new standard from the effective date. The Group does not expect the application of the classification and measurement requirements of IFRS 9 to have material effects on its financial statements, including in respect of expected losses on receivables, although it reserves the right to carry out a more detailed analysis. Lastly, as regards hedge accounting, it should be noted that the Group does not have hedging relationships designated as effective hedges under IAS 39.

**IFRS 16 – Leasing**

IFRS 16 was published in January 2016 and will replace IAS 17, IFRIC 4, SIC-15 and SIC-27. IFRS 16 defines principles for the recognition, measurement, presentation and disclosure of leases (agreements that confer the right to use third-party assets), and requires lessees to account for all lease agreements in the financial statements based on a single model, similar to that used to account for finance leases under IAS 17. The standard provides for two exemptions for lessee recognition of lease agreements for "low value" assets (such as personal computers) and short-term lease agreements (e.g. agreements ending within 12 months or less). At the beginning of the lease agreement, the lessee will recognise a liability for fixed lease payments and an intangible asset that represents the right to use the underlying asset for the term of the lease. Lessees will have to recognise interest expense for lease liabilities and amortisation of the right to the intangible assets separately. Lessees will also have to remeasure lease liabilities when certain events occur (for example, a change in the terms of the lease agreement, or a change in future lease payments resulting from the change in an index or rate used to determine those payments). The lessee will generally recognise the amount of lease liability remeasurement as an adjustment to the right to use the asset.

IFRS 16 will be effective for financial years starting on or after 1 January 2019, with full retrospective or amended application. Early application is permitted, but not before the entity has adopted IFRS 15. The transitional measures provided by the standard offer some relief. The Group plans to apply the new standard from the mandatory effective date.

In view of the number of passive lease agreements entered into by the OVS Group relating to its DOS, it is reasonable to anticipate a very significant impact on its assets and liabilities, cash flows and profit. In this regard, in 2017, the Group began a process of gathering data and assessment to evaluate the impacts on the financial statements and the financial reporting system of the new accounting standard on all of its outstanding operating leases.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED BY THE OVS GROUP

The international accounting standards, interpretations, amendments to existing accounting standards and interpretations, or specific provisions contained in the standards and interpretations approved by the IASB and not yet adopted by the OVS Group, are set out below:

| Description | Approved at the date of this document | Effective date under the standard |
|---|---|---|
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | No | Years starting on or after 01 January 2018 |
| Amendment to IAS 40: Transfers of Investment property | No | Years starting on or after 01 January 2018 |
| Amendment to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance contracts | Yes | Years starting on or after 01 January 2018 |
| Amendment to IFRS 15: 'Revenue from contracts with customers' | Yes | Years starting on or after 01 January 2018 |
| Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures': Sale or contribution of assets between an investor and its associate/joint venture | No | Suspended |
| Amendment to IAS 19 'Plan amendment, Curtailment or Settlemet' | No | Years starting on or after 01 January 2019 |
| Amendment to IFRS 9 'Prepayment features with negative compensation' | No | Years starting on or after 01 January 2019 |
| Amendment to IAS 28 'Long-term interests in associates and joint ventures' | No | Years starting on or after 01 January 2019 |
| IFRS 16 'Leases' | Yes | Years starting on or after 01 January 2019, with early adoption permitted if together with the adoption of IFRS 15 |
| IFRS 9 'Financial instruments' | Yes | Years starting on or after 01 January 2018 |
| IFRS 15 'Revenues from contracts with customers' | Yes | Years starting on or after 01 January 2018 |
| Amendment to IFRS 2 'Share based payments' on clarifying how to account for certain types of share-based payment transactions | No | Years starting on or after 01 January 2018 |
| IFRIC 23 Uncertainty over Income Tax Treatments | No | Years starting on or after 01 January 2019 |
| IFRS 17 Insurance Contracts | No | Years starting on or after 01 January 2021 |
| Annual improvements cycles 2015-2017 | No | Years starting on or after 01 January 2019 |

No accounting standards and/or interpretations whose application is mandatory for periods beginning on or after 1 February 2018 have been applied early.

## INFORMATION ON FINANCIAL RISKS

The main corporate risks identified, monitored and - as specified below - actively managed by the OVS Group are as follows:

- market risk (defined as foreign exchange risk and interest rate risk);
- credit risk (relating both to normal commercial relationships with customers and to financing activity); and
- liquidity risk (relating to the availability of financial resources and access to the credit market, and to financial instruments in general).

The OVS Group aims to maintain balanced management of its financial exposure over time, to ensure that its liability structure is in balance with the composition of its balance-sheet assets and to provide the necessary operational flexibility through the use of cash generated by current operating assets and bank loans.

Management of the relative risks is centrally guided and monitored. Specifically, the central finance function is responsible for evaluating and approving projected financial requirements, monitoring progress and establishing appropriate corrective action if necessary.

The financial instruments most used by the OVS Group are as follows:

- medium/long-term loans to cover investments in non-current assets;
- short-term loans and use of credit lines on current accounts to fund working capital.

The OVS Group has also signed derivatives in order to reduce US dollar exchange rate risks.

The following section provides qualitative and quantitative information on the impact of these risks on the OVS Group's business.

### Credit risk

Credit risk represents the OVS Group's exposure to the risk of potential losses arising from default by counterparties.

There are no material concentrations of credit risk for the reporting year, except for receivables accrued in respect of the Sempione Fashion Group, presumed to be at risk of default.

To reduce credit risk, the OVS Group also generally obtains guarantees in the form of sureties in respect of loans granted for the supply of goods. At 31 January 2018, the total amount of guarantees was €50.9 million, including €16.3 million in past-due receivables (€43.5 million at 31 January 2017, including €15.7 million in past-due receivables).

Trade receivables are recognised net of write-downs calculated on the basis of the risk of counterparty default, determined by using available information on the solvency of the customer and taking historical data into account. Positions that are particularly significant, and that are objectively partially or totally irrecoverable, are written down individually. Trade receivables totalled €113.0 million at 31 January 2018 (€75.3 million at 31 January 2017).

Written-down receivables came in at €23.8 million at 31 January 2018 (€8.1 million at 31 January 2017).

Overdue receivables not written down, as the situation with regard to collection is not critical, amounted to €43.7 million (€19.4 million at 31 January 2017).

The following tables provide a breakdown of trade receivables at 31 January 2018 and at 31 January 2017, grouped according to maturity and net of the provision for doubtful accounts:

| (amounts in millions of euros) | At 31 January 2018 | Not yet matured | Matured within 90 days | Matured between 90 and 180 days | Matured beyond 180 days |
|---|---|---|---|---|---|
| Trade receivables | 136.8 | 64.1 | 40.3 | 21.8 | 10.6 |
| Provision for doubtful accounts | (23.8) | - | - | (14.5) | (9.3) |
| Net value | 113.0 | 64.1 | 40.3 | 7.3 | 1.3 |

| (amounts in millions of euros) | At 31 January 2017 | Not yet matured | Matured within 90 days | Matured between 90 and 180 days | Matured beyond 180 days |
|---|---|---|---|---|---|
| Trade receivables | 83.4 | 51.8 | 21.0 | 0.8 | 9.8 |
| Provision for doubtful accounts | (8.1) | - | - | - | (8.1) |
| Net value | 75.3 | 51.8 | 21.0 | 0.8 | 1.7 |

## Liquidity risk

Liquidity risk can arise through an inability to access, under economically viable conditions, the financial resources necessary for the OVS Group to operate. The two main factors influencing the OVS Group's liquidity levels are:

- the financial resources generated or absorbed by operating and investment activities;
- the expiry and renewal of financial debt.

The OVS Group's liquidity requirements are monitored by the treasury function, in order to guarantee effective access to financial resources and adequate liquidity investment/yield levels.

Management believes that the funds and credit lines currently available, in addition to those generated by operating and financing activities, will enable the OVS Group to meet its requirements in respect of investment activities, management of working capital and the repayment of debt when it is contractually due.

The following table breaks down financial liabilities (including trade and other payables): in particular, all the flows shown are nominal future undiscounted cash flows, calculated with reference to residual contractual maturities (for both the principal portion and the interest portion). Loans have been included based on the contractual maturity of the repayment.

| (amounts in millions of euros) | At 31 January 2018 | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Trade payables | 403.4 | 403.0 | 0.4 | - | 403.4 |
| Payables to banks (*) | 378.9 | 3.9 | 375.0 | - | 378.9 |
| Other financial payables | 2.1 | 1.1 | 1.0 | - | 2.1 |
| Financial expenses payable to banks (**) | 23.8 | 10.8 | 13.0 | - | 23.8 |
| **Total** | **808.2** | **418.8** | **389.4** | **-** | **808.2** |

(*) The amount includes interest accrued but not yet paid at 31 January 2018.

(**) The amount was calculated by applying the forward curve recorded at 31 January 2018 to the loan repayment plan. For the Revolving Line, an average utilisation level of 50% was assumed. The aggregate also includes the nominal value of interest on lease agreements until maturity and the value arising from future cash flows generated for derivative contracts that have a negative fair value at the reporting date.

The same breakdown for 31 January 2017 is as follows:

| (amounts in millions of euros) | At 31 January 2017 | < 1 year | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| Trade payables | 367.6 | 367.3 | 0.3 | - | 367.6 |
| Payables to banks (*) | 379.0 | 4.0 | 375.0 | - | 379.0 |
| Other financial payables | 3.2 | 1.1 | 2.1 | - | 3.2 |
| Financial expenses payable to banks (**) | 34.8 | 10.9 | 24.0 | - | 34.8 |
| **Total** | **784.6** | **383.2** | **401.3** | **-** | **784.6** |

(*) The amount includes interest accrued but not yet paid at 31 January 2017.

(**) The amount was calculated by applying the forward curve recorded at 31 January 2017 to the loan repayment plan. For the Revolving Line, an average utilisation level of 50% was assumed. The aggregate also includes the nominal value of interest on lease agreements until maturity and the value arising from future cash flows generated for derivative contracts that have a negative fair value at the reporting date.

## Derivatives

The following tables show the breakdown of the derivatives entered into by the OVS Group:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (amounts in millions of euros) | Assets | Liabilities | Assets | Liabilities |
| Forward contracts - trading | - | 59.9 | 18.9 | 1.5 |
| **Total** | **-** | **59.9** | **18.9** | **1.5** |
| Current portion: | | | | |
| Forward contracts - trading | - | 52.2 | 18.9 | 1.4 |
| **Total current portion** | **-** | **52.2** | **18.9** | **1.4** |
| Non-current portion: | | | | |
| Forward contracts - trading | - | 7.7 | - | 0.1 |
| **Total non-current portion** | **-** | **7.7** | **-** | **0.1** |

## Market risk

### *Interest rate risk*

The OVS Group uses external financial resources in the form of debt and employs liquidity available in bank deposits. Fluctuations in market interest rates affect the cost and yield of various forms of financing and investment, thus affecting the OVS Group's level of financial expenses and income. The loan agreement signed on 23 January 2015, which came into effect on 2 March 2015, does not include an obligation to hedge interest rate risk.

To manage these risks, OVS used an interest rate derivative ("caps") with the aim of mitigating, under economically acceptable conditions, the potential impact of changes in interest rates on the income statement.

The financial instrument (cap) in place at 31 January 2017 expired on 2 September 2017.

Given the projections for the 6-month Euribor rate until the expiry of the loan agreement (March 2020), it was decided not to take further action to hedge the risk of interest rate fluctuations.

### *Sensitivity analysis*

The OVS Group's exposure to interest rate risk was measured using a sensitivity analysis that shows the effects on the income statement and on shareholders' equity of a hypothetical change in market rates to 40 bps higher or lower than the hypothetical forward rate curve at 31 January 2018. This analysis is based on the assumption of a general and instantaneous change in benchmark interest rates.

Excluding the effect of derivatives on interest rates and the amortised cost of loans, the results of this hypothetical, instant and favourable (unfavourable) change in the short-term interest rates applied to the OVS Group's variable-rate financial liabilities are shown in the following table:

**Effect of change on financial expenses - income statement**

| (amounts in millions of euros) | **- 40 bps** | **+ 40 bps** |
|---|---|---|
| At 31 January 2018 | 0.0 | 1.0 |

The same figure at 31 January 2017 is shown below:

**Effect of change on financial expenses - income statement**

| (amounts in millions of euros) | **- 40 bps** | **+ 40 bps** |
|---|---|---|
| At 31 January 2017 | 0.0 | 3.8 |

*Foreign exchange risk*

Exposure to the risk of exchange rate fluctuations derives from the OVS Group's commercial activities, which are also conducted in currencies other than the euro. Revenues and costs denominated in foreign currencies can be affected by exchange rate fluctuations, with an impact on sales margins (economic risk), and payables and receivables in foreign currencies may be affected by the conversion rates used, with an impact on the income statement (transactional risk).
The main exchange rate to which the OVS Group is significantly exposed is the EUR/USD, in relation to purchases in dollars made in the Far East and on other markets in which the dollar is the trading currency.
The Group is also exposed to the EUR/HKD exchange rate in relation to the translation risk of investee company OVS Hong Kong Sourcing Limited. The conversion effects of the other foreign companies for which the euro is not the functional currency are marginal.
Exchange rate fluctuations may result in the realisation or reporting of positive or negative foreign exchange differences. The OVS Group also carries out operational hedging of orders that are highly probable although not acquired, pursuing the operational aim of minimising the risks to which the Group is exposed.
The OVS Group purchases most of the products intended for sale from foreign suppliers whose reference currency is the US dollar (USD). In order to ensure reliability in the planning of sales prices and the relative industrial margin (understood as the difference between the sales prices in euros and the purchase costs of the products in USD), the OVS Group ordinarily enters into derivative contracts with the aim of stabilising the exchange rate for the purchase of the goods. The nature of such instruments is rather simple, involving forward purchases of USD (forward derivatives), implemented in proportion to budgeted incoming volumes and timed in relation to the expected cash outflows, usually with a time horizon of 12 to 14 months after the date on which the relative hedges are contracted. The instruments in question are initially contracted, specifically, according to estimates based on the purchases made for the previous collection and in view of the outlook for operations. This operational hedging of purchasing flows takes place on a collection-by-collection and month-by-month basis. The instruments are then continuously monitored and updated by the OVS Group, according to potential changes in the purchasing and payment flows, and therefore to varying requirements for the stabilisation of exchange rates as commercial planning unfolds in operational terms.
The derivative instruments described are recorded at fair value at 31 January 2018, according to the recognition and measurement methods stipulated by IAS 39. Pursuant to this accounting standard, the company is still permitted to use the hedge accounting method for derivative financial instruments under certain conditions. Given the operational complexity of managing the correspondence between the theoretical underlyings (the flows subject to the operational hedging described above) and the derivative financial instruments (also considering the high number of the same instruments), with effect from hedges contracted on or after 1 January 2016, the OVS Group has opted not to use hedge accounting.

Consequently, the fair value of the existing financial instruments and subsequent changes in this fair value are directly entered to the income statement at every reporting date. The fair value of the derivative financial instruments is quantified with commonly used financial measurement techniques, and is mainly determined from the difference between the notional value in USD converted into euros at the forward exchange rate when the contract is entered into and the notional value in USD converted into euros at the exchange rate at the end of the reporting period. This difference may be positive or negative, depending on the euro/USD exchange rate.

At 31 January 2018, the contracts in place at year-end had a negative fair value of €59.9 million, as the average forward exchange rate of the portfolio at 31 January 2018 was 1.1545, while the average euro/USD exchange rate at year-end was 1.2676. In addition to this, the positive fair value recorded at 31 January 2017 of €17.4 million – mainly due to the unwinding in the 2017 financial year of almost all of the contracts in place at the end the previous year – was entered to the income statement, resulting in a total negative effect in the income statement of €77.3 million as a change in the fair value of these derivatives instruments.

The following table summarises key information relating to forward exchange rate derivatives:

| (amounts in millions of euros) | Transaction date | Maturity date | Notional in USD | Strike price | Notional in EUR | Fair value |
|---|---|---|---|---|---|---|
| At 31 January 2018 | from 17 Nov 2016 to 12 Jan 2018 | from 05 Feb 2018 to 20 Jan 2020 | 771.15 | da 1.0915 a 1.2773 | 667.95 | (59.9) |

In the year under review, the nature and structure of exposure to foreign exchange risk and the operational hedging policies followed by the OVS Group did not change substantially.

*Sensitivity analysis*

To perform the exchange rate sensitivity analysis, items in the statement of financial position (financial assets and liabilities) denominated in currencies other than the functional currencies of each company within the OVS Group were identified.

The effects of a 5% appreciation and depreciation in the US dollar against the euro are summarised below:

**Effect of change on result and shareholders’ equity**

| (amounts in millions of euros) | - 5% | + 5% |
|---|---|---|
| At 31 January 2018 | 23.9 | (21.7) |

The same analysis at 31 January 2017 is as follows:

**Effect of change on result and shareholders’ equity**

| (amounts in millions of euros) | - 5% | + 5% |
|---|---|---|
| At 31 January 2017 | 17.7 | (16.0) |

With regard to appreciation/depreciation in the Hong Kong dollar against the euro of 5% , it should be noted that, at 31 January 2018, the translation reserve included in equity reserves would have undergone a positive/negative fluctuation of €1.6 million and €1.4 million respectively.

## Fair value estimates

The fair value of financial instruments traded in an active market is based on market prices at the reporting date. The fair value of instruments that are not traded in an active market is measured using valuation techniques based on a series of methods and assumptions linked to market conditions at the reporting date.

The fair value classification for financial instruments based on hierarchical levels is shown below:

• Level 1: fair value is measured with reference to quoted prices (unadjusted) in active markets for identical financial instruments;

• Level 2: fair value is measured using valuation techniques with reference to variables observable on active markets;

• Level 3: fair value is measured using valuation techniques with reference to variables unobservable on active markets;

The financial instruments shown at fair value of the OVS Group are classified as Level 2, and the general criterion used to calculate it is the present value of expected future cash flows from the instrument being valued.

Liabilities relating to bank borrowings are measured using the "amortised cost" criterion.

Trade receivables and payables were measured at their carrying value as this is deemed to be close to the current value.

In addition to the information on financial risk, the following is a reconciliation between classes of financial assets and liabilities as identified in the Group's statement of financial position, and the types of financial assets and liabilities identified pursuant to IFRS 7 at 31 January 2018:

| | Financial assets / liabilities at fair value through profit or loss | Loans and borrowings | Held to maturity | Available for sale | Liabilities measured at amortised cost | Liabilities measured according to IAS 17 | Total |
|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | |
| Cash and banks | - | 60,498 | - | - | - | - | 60,498 |
| Trade receivables | - | 112,960 | - | - | - | - | 112,960 |
| Financial assets | - | - | - | - | - | - | - |
| | | | | | | | |
| **Non-current assets** | | | | | | | |
| Financial assets | - | - | - | - | - | - | - |
| | | | | | | | |
| **Current liabilities** | | | | | | | |
| Financial liabilities | - | - | - | - | 56,147 | 1,043 | 57,190 |
| Trade payables | - | - | - | - | 403,406 | - | 403,406 |
| | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Financial liabilities | - | - | - | - | 380,075 | 1,040 | 381,115 |

The same reconciliation for 31 January 2017 is provided below.

| | Financial assets / liabilities at fair value through profit or loss | Loans and borrowings | Held to maturity | Available for sale | Liabilities measured at amortised cost | Liabilities measured according to IAS 17 | Total |
|---|---|---|---|---|---|---|---|
| **Current assets** | | | | | | | |
| Cash and banks | - | 89,713 | - | - | - | - | 89,713 |
| Trade receivables | - | 75,259 | - | - | - | - | 75,259 |
| Financial assets | 18,897 | - | - | - | - | - | 18,897 |
| | | | | | | | |
| **Non-current assets** | | | | | | | |
| Financial assets | - | 5,491 | - | - | - | - | 5,491 |
| | | | | | | | |
| **Current liabilities** | | | | | | | |
| Financial liabilities | - | - | - | - | 5,417 | 1,142 | 6,559 |
| Trade payables | - | - | - | - | 367,662 | - | 367,662 |
| | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Financial liabilities | - | - | - | - | 371,311 | 2,052 | 373,363 |

## INFORMATION ON OPERATING SEGMENTS

Pursuant to IFRS 8, management has identified the following operating segments:

- OVS, active in the value fashion market, offering stylish and high-quality clothing at competitive prices, with a focus on the latest trends and fashions; and
- UPIM, active in the value segment of the Italian market, offering women's, men's and children's clothing products, homeware and fragrance, with particularly competitive price positioning and a key focus on the family.

The results of the operating segments are measured by analysing EBITDA and adjusted EBITDA, defined respectively as earnings before depreciation and amortisation, asset write-downs, financial income and expenses and tax, and EBITDA after non-recurring income and expenses.

Specifically, management believes that EBITDA and adjusted EBITDA provide a good performance indicator as they are not affected by tax legislation or depreciation/amortisation policy.

In the following chart, sales of goods made by OVS and UPIM brands to Sempione Fashion Group's companies have been separately highlighted, even if this Group does not represent a separate operating segment, pursuant to IFRS 8.

| | 31 January 2018 | | | | 31 January 2017 | | |
|---|---|---|---|---|---|---|---|
| (thousands of euros) | OVS | UPIM | Sempione Fashion | Total | OVS | UPIM | Total |
| **Revenues by segment** | **1,186,318** | **228,771** | **110,597** | **1,525,686** | **1,150,897** | **211,727** | **1,362,624** |
| **EBITDA (A)** | **166,956** | **25,891** | | **192,847** | **159,123** | **21,266** | **180,389** |
| **% of revenues** | 14.1% | 11.3% | | 12.6% | 13.8% | 10.0% | 13.2% |
| Non-recurring expenses | 508 | 187 | | 695 | 3,072 | 723 | 3,795 |
| Stock Option plan | 2,486 | 479 | | 2,965 | 2,102 | 387 | 2,489 |
| **EBITDA *Adjusted*** | **169,950** | **26,557** | | **196,507** | **164,297** | **22,376** | **186,673** |
| **% of revenues** | 14.3% | 11.6% | | 12.9% | 14.3% | 10.6% | 13.7% |
| Depreciation, amortisation and write-downs of assets (B) | | | | (62,735) | | | (59,050) |
| Write-down and provisions (B) | | | | (13,500) | | | 0 |
| **Profit before net financial expenses and taxes (A-B)** | | | | **116,612** | | | **121,339** |
| Financial income | | | | 1,153 | | | 200 |
| Financial expenses | | | | (15,737) | | | (15,817) |
| Foreign exchange gains and losses | | | | (71,364) | | | 67 |
| Gains (losses) from equity investments | | | | (21,137) | | | 0 |
| **Net result before tax** | | | | **9,527** | | | **105,789** |
| Taxes | | | | (4,463) | | | (27,774) |
| **Net result** | | | | **5,064** | | | **78,015** |

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Details of the content of and changes in the most significant items are provided below (unless otherwise specified, amounts are in thousands of euros).

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **1** | **Cash and banks** | **60,498** | 89,713 | (29,215) |

The balance represents cash and cash equivalents at the reporting date and breaks down as follows (in thousands of euros):

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 1) | Bank and post office deposits | 54,318 | 83,562 | (29,244) |
| 2) | Cheques | 8 | 9 | (1) |
| 3) | Cash and cash equivalents on hand | 6,172 | 6,142 | 30 |
| **Total** | | **60,498** | **89,713** | **(29,215)** |

Cash and cash equivalents consist of cash, bank and post office deposits and checks and cash on hand at the head office and stores in the direct sales network.

In addition, at 31 January 2018, ordinary current accounts were set up as pledges (last updated on 01 January 2018) to secure the Loan Agreement (described in note 11 below), in the amount of €48,851 thousand, and foreign currency current accounts were set up in the amount of USD33,448 thousand, corresponding to €27,820 thousand, the balance of which is still fully available to the OVS Group.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **2** | **Trade receivables** | **112,960** | 75,259 | 37,701 |

The breakdown of trade receivables was as follows (amounts in thousands of euros):

| | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|
| **Trade receivables** | | | |
| Receivables for retail sales | 834 | 858 | (24) |
| Receivables for wholesale sales | 65,748 | 61,477 | 4,271 |
| Receivables for services rendered | 14,003 | 8,513 | 5,490 |
| Disputed receivables | 6,363 | 6,115 | 248 |
| Trade receivables from related parties | 49,821 | 6,608 | 43,213 |
| **Subtotal** | **136,769** | **83,571** | **53,198** |
| (Provision for doubtful accounts) | (23,809) | (8,312) | (15,497) |
| **Total** | **112,960** | **75,259** | **37,701** |

Receivables for wholesale sales derive from sales to affiliates.

Receivables from services mainly include charges for department management and subletting to external managers.

Disputed receivables mainly consist of receivables for problem loans. These receivables are written down by recognising a specific provision for doubtful accounts.

The write-downs relate to receivables from affiliates or business partners, for whom collection is presumed to be difficult, or for disputes, or, in the majority of cases, for legal proceedings in progress against customers.

Trade receivables from related parties mainly include receivables from companies of Sempione Fashion Group for €45.8 million relating to sales of goods for €37.7 million and to services provided for €8.1 million. These receivables were written down by €14.5 million, due to the financial difficulties faced by the Sempione Fashion Group. The amount of the write-down was defined taking into account that, after the end of the financial year, the existing receivables as of 31 January 2018, have been reduced thanks to €7.5 million of returned goods and to the compensation for €13.7 million through the repurchase of OVS and UPIM brand products, lying in the stores of the Swiss network (€8.5 million of €13.7 million) and Austrian (€5.2 million of €13.7 million) of Sempione Fashion. Considering all the elements described above, the receivables from Sempione Fashion, which amounted to €45.8 million in the financial statements as at 31 January 2018, still amount to €9.1 million at the date of this note. The prevailing part relates to the German customer (Charles Voëgele Deutschland GMBH) who has a solid financial profile.

The amount also includes receivables from Coin S.r.l. of €3.7 million, comprising brokerage fees for purchasing goods (€0.7 million) and receivables for services provided (€3.0 million).

Trade receivables (mainly for the provision of products to the franchising affiliates) amounting to €80.5 million were also transferred to secure the Loan Agreement at 31 January 2018.

The provision for doubtful accounts amounted to €23,809 thousand. At 31 January 2018, €667 thousand had been utilised and the provision amounted to €16,170 thousand.

Changes in the provision for doubtful accounts are shown below:

| (amounts in thousands of euros) | |
|---|---|
| **Balance at 31 January 2017** | **8,312** |
| Allocations in the period | 16,170 |
| Utilisations in the period | (667) |
| Effect of exchange rate adjustment | (6) |
| **Balance at 31 January 2018** | **23,809** |

The change in the provision for doubtful accounts in the previous year is as follows:

| (amounts in thousands of euros) | |
|---|---|
| **Balance at 31 January 2016** | **7,730** |
| Allocations in the period | 1,200 |
| Utilisations in the period | (612) |
| Effect of exchange rate adjustment | (6) |
| **Balance at 31 January 2017** | **8,312** |

The allocation to the provision for doubtful accounts expresses the presumed realisable amount of receivables that are still collectable at the closing date of the year. The draw-downs for the period relate to receivable positions for which elements of certainty and accuracy, or the presence of competitive procedures, determine the removal of the position itself. Given the types of products and services sold by the OVS Group, there is no significant concentration of revenues and trade receivables with individual customers, except for receivables accrued in respect of the Sempione Fashion Group, presumed to be at risk of default, because of the significant accrual at 31 January 2018.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **3** | **Inventories** | **387,943** | 340,577 | 47,366 |

The breakdown of inventories is shown in the following table:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Goods | 417,910 | 366,706 |
| **Gross stock** | **417,910** | **366,706** |
| Provision for depreciation | (17,134) | (17,249) |
| Provision for inventory differences | (12,833) | (8,880) |
| **Total provision for stock write-downs** | **(29,967)** | **(26,129)** |
| **Total** | **387,943** | **340,577** |

This item includes stocks of merchandise at warehouses and stores at the reporting date.
The amount is largely in line with the amounts that would be obtained by valuing the inventories at current cost at the reporting date.
The provision for depreciation reflects management's best estimate based on the breakdown by type and season of inventories, considerations arising from past experience and the outlook for sales volumes. The provision for inventory differences includes the estimate of inventory differences at the end of each of the periods under review, in view of the fact that the OVS Group carries out a physical inventory in February (for OVS d.o.s. from 2017) or June of each year. These provisions are based on the management best estimate and are therefore believed by management to be consistent with their respective purposes.

Changes in the provision for depreciation and the provision for inventory differences for the year ended 31 January 2018 are shown below:

| (amounts in thousands of euros) | Provision for depreciation | Provision for inventory differences | Total |
|---|---|---|---|
| **Balance at 31 January 2017** | **17,249** | **8,880** | **26,129** |
| Allocation | 15,880 | 15,136 | 31,016 |
| Utilisation | (15,995) | (11,183) | (27,178) |
| **Balance at 31 January 2018** | **17,134** | **12,833** | **29,967** |

The change in the same provisions for the previous period is as follows:

| (amounts in thousands of euros) | Provision for depreciation | Provision for inventory differences | Total |
|---|---|---|---|
| **Balance at 31 January 2016** | **15,301** | **9,901** | **25,202** |
| Allocation | 15,984 | 13,682 | 29,666 |
| Utilisation | (14,036) | (14,703) | (28,739) |
| **Balance at 31 January 2017** | **17,249** | **8,880** | **26,129** |

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **4** | **Current financial assets** | **0** | 18,897 | (18,897) |
| **4** | **Non-current financial assets** | **0** | 5,491 | (5,491) |

The breakdown of the "Financial assets" item into current and non-current at 31 January 2018 and at 31 January 2017 is shown below:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Derivatives (current portion) | 0 | 18,897 |
| **Total current financial assets** | **0** | **18,897** |
| Derivatives (non-current portion) | 0 | 0 |
| Financial loan to related company | 12,781 | 5,491 |
| (Provision for doubtful financial accounts) | (12,781) | 0 |
| **Total non-current financial assets** | **0** | **5,491** |
| **Total** | **0** | **24,388** |

Derivatives include the fair value of forward derivatives hedging purchases of goods in currencies other than the euro.

The amount of non-current financial assets relates to the loan granted in several tranches to Sempione Retail AG. This loan (the "Shareholders' Loan Agreement"), which stood at CHF 14,493 thousand at 31 January 2018, is a shareholders' loan subordinated to the liabilities of Sempione Retail to banks.

Repayment will be made in a lump sum (bullet loan) on a date to be agreed, but at least six months after the due date of the debt disbursed by banks. The shareholders' loan is interest-bearing and provides for the payment of interest every six months. The annual interest rate is calculated as the sum of:
- the basic rate, i.e. the interbank rate with a floor equal to 0 and a cap equal to the maximum interest rate applicable for inter-company loans according to the Swiss Federal Tax Administration;
- a spread, calculated in turn as the sum of:

- the spread applied to loans made to Sempione Retail by third parties other than shareholders (pursuant to the credit facility agreement entered into between Sempione Retail and a banking syndicate);
- plus 2%.

Following the negative results reported by the Sempione Retail Group, whose consolidated financial statements as at 31 December 2017 show negative shareholders' equity, it was writtren off the above financial receivables, which amounted to €12,781 thousand euros.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 5 | **Current tax assets** | **24,338** | 1,120 | 23,218 |

The balance mainly consists of excess IRES pre-payments (€23,307 thousand), paid on a historic basis, receivables for withholding tax on fees (€903 thousand) and other tax receivables and receivables for tax withheld at source.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 6 | **Other current receivables** | **34,259** | 31,059 | 3,200 |
| 6 | **Other non-current receivables** | **5,080** | 5,220 | (140) |

**Other receivables** break down as follows:

| | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|
| Other receivables | 1,223 | 657 | 566 |
| Receivables from insurance companies for claims reimbursements | 172 | 169 | 3 |
| Receivables from employees | 2,225 | 1,517 | 708 |
| Accrued income and prepaid expenses - rents and service charges | 23,557 | 22,275 | 1,282 |
| Accrued income and prepaid expenses - insurance | 223 | 143 | 80 |
| Accrued income and prepaid expenses - interest on security deposits | 27 | 30 | (3) |
| Accrued income and prepaid expenses - other | 6,832 | 6,268 | 564 |
| **Total current receivables** | **34,259** | **31,059** | **3,200** |
| Tax receivables | 714 | 1,072 | (358) |
| Security deposits | 3,910 | 3,383 | 527 |
| Minor investments | 20 | 20 | 0 |
| Other receivables | 436 | 745 | (309) |
| **Total non-current receivables** | **5,080** | **5,220** | **(140)** |

The "Other current receivables" item relates to guarantee deposits made for new leases amounting to €322 thousand and receivables for customs duties of €421 thousand, while the remainder refers to social security receivables and advances to suppliers and shippers.

Receivables from insurance companies mainly comprise the scheduled reimbursement for fire damage to the store at Via Giotto in Padua in 2017 (€43 thousand) and damage to goods in transit (€118 thousand).

The item "Accrued income and prepaid expenses - other" primarily includes prepayments for advertising and marketing services of €2,268 thousand and the share of deferred financial fees (€295 thousand) incurred to obtain medium/long-term revolving lines of credit and to obtain lines of credit described in more detail in the "Financial liabilities" section below.

The residual amount mainly refers to prepaid expenses on utilities costs, costs for services and reimbursement of training costs.

Also note that, to serve as collateral for the Loan Agreement, at 31 January 2018 insurance receivables were sold by warranty for €0.2 million.

"Other non-current receivables" included security deposits that relate mainly to securities paid under leases, utilities and deposits with customs to guarantee goods imports.

The "Minor investments" item mainly includes equity investments in consortia recognised at cost.

The "Other non-current receivables" item includes receivables from affiliates due beyond 12 months for €116 thousand and the medium-/long-term portion of deferred financial fees for €320 thousand.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 7 | **Property, plant and equipment** | **276,513** | 267,359 | 9,154 |

Appendix 1 shows the historical cost for each item, the accumulated depreciation and amortisation, changes during the year and the final balances.

Investments in the period mainly related to:

- expenses for modernising, renovating and upgrading stores in the commercial network;
- purchases of furniture and fittings for the commercial network to furnish both newly opened and renovated branches.

Leasehold improvements, allocated to the items in question, mainly relate to renovations of stores not under direct ownership.

Pursuant to IAS 36, for businesses showing signs of impairment the Group assessed the recoverability of the relative assets using the discounted cash flow method.

The analysis did not show any impairment during the year.

In addition, pursuant to the Loan Agreement, at 31 January 2018 a lien was created on property in the amount of €173.4 million.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 8 | **Intangible assets** | **636,639** | 639,924 | (3,285) |

Appendix 2 to these notes shows the change for each item in the period.

Intangible assets at 31 January 2018 mainly include the amounts allocated to the OVS Group deriving from the acquisition of Gruppo Coin by Icon.

At 31 January 2018, these amounts included:

- The OVS brand for €377.5 million, with an indefinite life (included in "Concessions, licences and brands");
- The UPIM brand for €13.3 million, with an indefinite life (included in "Concessions, licences and brands");
- The OVS franchising network for €74.1 million, amortised over 20 years (included in "Other intangible assets");
- The UPIM franchising network for €29.4 million, amortised over 20 years (included in "Other intangible assets");

- Licences relating to OVS stores for €90.3 million, amortised over 40 years (included in "Concessions, licences and brands");
- Licences relating to UPIM stores for €18.6 million, amortised over 40 years (included in "Concessions, licences and brands");
- Licences relating to former Bernardi stores for €3.6 million, amortised over 40 years (included in "Concessions, licences and brands").

The brands attributed to the OVS Group are regarded as having an indefinite useful life.
To establish this, a management analysis was performed on all relevant factors (legal, judicial, contractual, competitive, economic and other) relating to the brands. The conclusion was reached that there is no foreseeable time limit for the generation of cash inflows for the OVS Group.
The recoverability of the value of these brands was measured using the discounted cash flow method for the CGUs to which these brands are allocated. Please see the following section, "Impairment testing", for the outcome of the assessments carried out.

The useful life of the licences is 40 years.
This was estimated on the basis of historical analyses carried out within the OVS Group.
It should be noted, in this regard, that the time limit placed on the term of the leases is insignificant. In fact, there are protections provided to the tenant in market practice and under specific legal provisions; in addition, a strategy of gradual further expansion of the network is being implemented by the OVS Group, which usually renews leases before they expire naturally. All these factors have resulted over time in the almost completely successful implementation of the renovation policy. We have also identified a component of residual value (non-amortised residual value at the end of the useful life) calculated over 18 monthly rental payments, representing the amount payable by the lessor if the lease is not renewed for a reason not attributable to the OVS Group.

The remainder of the item mainly consists of rights to industrial patents and intellectual property rights relating to investments in software programmes.

Also, pursuant to the Loan Agreement, at 31 January 2018 a lien was created on OVS Group brands in the amount of €390.8 million.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 9 | **Goodwill** | **452,541** | 453,165 | (624) |

The goodwill allocated to the OVS Group mainly relates to the acquisition of Gruppo Coin by Icon on 30 June 2011, for €451,778 thousand. The €624 thousand in goodwill from the acquisition of OVS Fashion España SL in 2016 was written off, as the analysis of the Spanish company's expected future cash flows indicated that the recoverable amount of this goodwill was nil.

Goodwill was tested for impairment: the results are shown in the "Impairment testing" section below.

## Impairment testing

Pursuant to IAS 36, the Group verifies the recoverability of intangible assets with an indefinite useful life (goodwill and brands) when indicators of impairment are identified, and in any event at the closing date of the year, while for tangible assets and other assets with a finite useful life this takes place when indicators of impairment are identified. The recoverable amount of the cash-generating units (CGUs) to which the individual assets are allocated is verified by calculating their value in use and/or fair value.

***a) OVS CGU***

Impairment testing entailed the comparison of the carrying amount of the cash generating unit (CGU) and its value in use (VIU). Note that the carrying amount of the OVS CGU includes goodwill, entirely allocated to the CGU, of €452.5 million, and the OVS brand for €377.5 million, both with an indefinite useful life.
The cash generating units identified by management coincide with the OVS and UPIM operating segments, which include all services and products provided to customers.
The estimated value in use of the OVS operating segment for the purposes of impairment testing is based on the discounting of provisional data for the OVS CGU, determined on the basis of the following assumptions:

- the projected cash flows for the OVS operating segment were extrapolated from the business plan for the three years from 2018 to 2020, drawn up by management. Provisional cash flows for the OVS CGU were determined according to growth levels of turnover and EBITDA, based on both past operating and profit performance and on future projections;
- future cash flows, standardised to calculate the terminal value, were constructed by consistently applying a growth rate "g" for EBITDA of 2% annually, applied to EBITDA in the final year of the Plan. Annual investments were estimated consistently on the basis of the last year of the plan (€36.7 million): this amount is believed to be representative of the normalised investments needed to maintain existing

fixed assets. Moreover, a negative change in net working capital of €4 million was taken into account: this was believed to be reasonable in light of the specific business in which the CGU operates, assuming a partial balancing in the long term between i) trade receivables and payables and ii) inventories related to growth.

- the discount rate (WACC) used to estimate the present value of cash flows was 6.65% and was determined based on the following assumptions: i) the risk-free rate used was 2.06%, corresponding to the return on ten-year government bonds issued by the Italian government; ii) the equity risk premium used was 5.5%, an average rate in line with both the results of the long-term analysis for industrialised countries and professional practices; iii) the beta coefficient was estimated based on a panel of comparable listed companies operating in the retail clothing sector; iv) the cost of financial debt (2.2%) was estimated as the one-month average of the ten-year EurIRS rate, plus a spread of 140 bps; and v) the debt/equity ratio used was calculated based on the average figure presented by a panel of comparable companies.

Based on the above considerations, the value in use of the OVS CGU at 31 January 2018 was €2,221.1 million. The comparison between the VIU (€2,221.1 million) and the carrying amount (net invested capital) of the OVS CGU (€1,088.7 million) shows that the value in use of the CGU is higher than its carrying amount: therefore, there is no impairment to be recognised.

***b) UPIM CGU***

Although no goodwill amount has been allocated to the UPIM CGU, the Group has carried out impairment testing on it, in view of the fact that it includes an amount allocated to the brand of €13.3 million, with an indefinite useful life.

The estimated value in use of the UPIM operating segment for the purposes of impairment testing is based on the discounting of provisional data for the UPIM CGU, determined on the basis of the following assumptions:

- the projected cash flows for the UPIM operating segment were extrapolated from the business plan for the three years from 2018 to 2020, drawn up by management. Provisional cash flows for the UPIM CGU were determined according to growth levels of turnover and EBITDA, based on both past operating and profit performance and on future projections;
- future cash flows, standardised to use for the terminal value, were constructed by consistently applying a growth rate "g" for EBITDA of 2% annually, applied to EBITDA in the final year of the Plan. Annual investments were estimated consistently on the basis of the last year of the plan (€21.9 million): this amount is believed to be representative of the normalised investments needed to maintain existing fixed assets. Moreover, a negative change in net working capital of €1 million was taken into account: this was believed to be reasonable in light of the specific business in which the CGU operates, assuming an almost-perfect balancing in the long term between i) trade receivables and payables and ii)

inventories.

- the discount rate (WACC) used to estimate the present value of cash flows was 6.65% and was determined based on the following assumptions: i) the risk-free rate used was 2.06%, corresponding to the return on ten-year government bonds issued by the Italian government; ii) the equity risk premium used was 5.5%, an average rate in line with both the results of the long-term analysis for industrialised countries and professional practices; iii) the beta coefficient was estimated based on a panel of comparable listed companies operating in the retail clothing sector; iv) the cost of financial debt (2.2%) was estimated as the one-month average of the ten-year EurIRS rate, plus a spread of 140 bps; and v) the debt/equity ratio used was calculated based on the average figure presented by a panel of comparable companies.

Based on the above considerations, the VIU of the UPIM CGU at 31 January 2018 was €261.3 million. The comparison between the VIU (€261.3 million) and the carrying amount (net invested capital) of the UPIM CGU (€107.0 million) shows that the value in use of the CGU is higher than its carrying amount: therefore, there is no impairment to be recognised.

*Impairment testing of store licences*

Licences relating to OVS and UPIM stores indicating impairment were tested for impairment by calculating value in use for each store thus identified.

The key assumptions used to determine the value in use of the CGUs concern the discounting rate and the growth rate. Specifically, the post-tax discount rate (WACC) used was 6.65% and no growth rate was predicted for the period following the 2018 Budget.

Based on the analysis performed, in the current year the store licences for one store in the OVS segment and three stores in the UPIM segment were written down by a total amount of €731 thousand.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **10** | **Equity investments** | **136** | 8,420 | (8,284) |

This item includes the value of the equity investment of 31.63% (€136 thousand) held by OVS S.p.A. in the Centomilacandele S.c.p.A. consortium.

It should be stressed that the carrying amount of the equity investment in Sempione Retail AG at 31 January 2018 of €8,284 thousand, equivalent to the capital increases subscribed during 2016, was measured at equity, in line with the accounting standards and consolidation criteria set out above. On the basis of the negative results of the first consolidated financial statements of the Sempione Retail Group, which show negative shareholders' equity, it became necessary to write off the entire value of the investment.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **11** | **Current financial liabilities** | **57,190** | 6,559 | 50,631 |
| **11** | **Non-current financial liabilities** | **381,115** | 373,363 | 7,752 |

The breakdown of the "Current financial liabilities" and "Non-current financial liabilities" items at 31 January 2018 and 31 January 2017 is shown below:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Current bank payables | 3,936 | 3,958 |
| Other current financial payables | 53,254 | 2,601 |
| **Current financial liabilities** | **57,190** | **6,559** |
| Non-current bank payables | 372,388 | 371,190 |
| Other non-current financial payables | 8,727 | 2,173 |
| **Non-current financial liabilities** | **381,115** | **373,363** |

**Current and non-current bank payables and the current portion of long-term debt**

The OVS Group's current and non-current bank payables at 31 January 2018 are shown below:

| (amounts in thousands of euros) | Maturity date | Interest rate | At 31 January 2018 Total | of which non-current portion | of which current portion |
|---|---|---|---|---|---|
| Due for financial expenses | | | 3,936 | - | 3,936 |
| **Current bank payables** | | | **3,936** | **-** | **3,936** |
| Facility B | 2020 | Euribor + 2.50% | 375,000 | 375,000 | - |
| Loan ancillary costs | | | (2,612) | (2,612) | - |
| **Non-current bank payables** | | | **372,388** | **372,388** | **-** |

The lines of credit available to the Group, at 31 January 2018, refer to the loan agreement signed on 23 January 2015 and disbursed on 2 March 2015 (the Loan Agreement) totalling €475,000,000. This agreement provides for the granting of a medium-/long-term line of credit of €375,000,000, which, together with the income from the capital increase servicing the global offer, was intended to repay the pre-existing debt of the Issuer and to pay costs associated with the listing process (the "Senior Loan"), and a revolving line of credit of €100,000,000 that may be drawn down in different currencies (the "Revolving Line of Credit").
The Senior Loan was disbursed as trading of the Company's shares began on the MTA. On the date when trading in the shares started on the MTA, the Company therefore fully repaid the previous loan agreement (which therefore ceased to be effective).
The applicable interest rate for both the Senior Loan and the Revolving Line of Credit is now equal to the sum of (i) the margin of 2.5% per annum (the "Margin") and (ii) the Euribor or, if the currency used is not the euro, the Libor (the "Interest"). The Interest will be calculated on a quarterly or half-yearly basis for the

Senior Loan, and on a monthly or quarterly or half-yearly basis for the Revolving Line of Credit (unless otherwise agreed between the parties).
The Margin may be reduced or increased further according to the ratio of average total net debt to EBITDA (as contractually specified), calculated on the basis, depending on the case, of the consolidated financial statements (audited) at 31 January and the consolidated half-year report (not audited) at 31 July, drawn up pursuant to IFRS. Specifically, the Loan Agreement stipulates that:

- if the ratio is greater than or equal to 3.00:1, the applicable Margin will be 3.50%;
- if the ratio is less than 3.00:1 but greater than or equal to 2.00:1, the applicable Margin will be 3.00%;
- if the ratio is less than 2.00:1 but greater than or equal to 1.50:1, the applicable Margin will be 2.50%; and
- if the ratio is less than 1.50:1, the applicable Margin will be 2.00%;

At 31 January 2018, the ratio of average financial debt to EBITDA was 1.71. The Margin will therefore stay at 2.5%. The next test is scheduled for 31 July 2018.

The final due date of the Loan Agreement, which also coincides with the repayment date for the lines of credit, is fixed as the fifth anniversary of the date at which the Senior Loan was initially disbursed.
The Loan Agreement provides for mandatory early repayment if one of the following circumstances, *inter alia*, should occur:

- the lending banks are unable to maintain the commitments provided for under the Loan Agreement due to an illegal event; and
- there is a change in control in the Issuer (intended to mean the acquisition by one party (or several parties acting in concert) (i) of a percentage of voting rights that is sufficient, directly or indirectly, to result in a mandatory public tender offer for shares of the Issuer and/or (ii) of the power to appoint or dismiss all, or the majority, of the Issuer's directors).

The Loan Agreement provides that, to ensure that the relative obligations are met, the following guarantees are made in favour of the banking syndicate on its movable property, inter-company loans, patents, current accounts and trade and insurance receivables, and in particular:

1. the assignment as collateral of receivables arising from any inter-company loan for which OVS S.p.A. is the lending party;
2. the assignment as collateral of trade and insurance receivables (mainly receivables for the provision of products to the franchising affiliates and insurance receivables);
3. a lien on some corporate assets (mainly furnishings and equipment related to the business of OVS) owned by the Group;
4. a pledge on 100% of the shares of OVS Hong Kong Sourcing Limited held by OVS S.p.A.;
5. a pledge on 100% of the shares of the other subsidiaries of OVS S.p.A. that will fall under the definition of "Material Company" pursuant to the Loan Agreement. A Material Company is intended to mean any new company that will be controlled by OVS S.p.A. in the future and which is material, pursuant to the

Loan Agreement, according to the revenues it generates in proportion to Group EBITDA;

6. a pledge on some brands owned by OVS S.p.A. (in particular on the OVS and UPIM brands);
7. a pledge on some current accounts held by OVS S.p.A.

OVS S.p.A. undertakes to announce the occurrence of any significant adverse events or default events that could restrict and/or impede the ability of OVS S.p.A. or any guarantor to meet its contractual obligations under the Loan Agreement.

In terms of financial obligations, the only parameter that OVS S.p.A. is committed to comply with is the leverage ratio, i.e. the OVS Group's ratio of net debt to EBITDA, on a consolidated basis. From 31 July 2015, this ratio must be equal to or less than 3.50:1 for each 12-month period ending in a reporting date (i.e. 31 January and 31 July of each year), according to a calculation based on the consolidated financial statements and consolidated half-year reports of the OVS Group, except for the test of July 2015 and January 2016, in which average net debt was calculated based on the final value of each month that had actually passed since the disbursement date. As previously mentioned, at 31 January 2018, the ratio of average financial debt to EBITDA was 1.71. The obligation is therefore completely fulfilled.

The Loan Agreement is governed by UK law and any disputes relating thereto are under the exclusive jurisdiction of the UK courts.

Any breach of the contractual covenants is a default event that the Group has the power to rectify within 15 working days from the expiry of the obligation to send the compliance certificate relating to the calculation period. However, default may be prevented by an intervention by shareholders to ensure that the new calculation of the covenant complies with the contractual limits at the reporting date, if the shareholder intervention takes place before this date. The shareholder intervention might take the form, for example, of a subordinated loan or a new issue of OVS shares.

If the default is not rectified, Banca IMI as the Agent Bank may (but is not obliged to) demand early payment of the loan, including by activating the guarantees granted.

The breakdown of the consolidated net financial debt of the OVS Group at 31 January 2018 and 31 January 2017, determined according to the provisions of the Consob Communication of 28 July 2006 and pursuant to the ESMA/2013/319 Recommendations, is shown below:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| **Net debt** | | |
| A. Cash | 60,498 | 89,713 |
| B. Cash equivalents | - | - |
| C. Securities held for trading | - | - |
| **D. Liquid assets (A)+(B)+(C)** | **60,498** | **89,713** |
| **E. Current financial receivables** | **-** | **18,897** |
| F. Current bank payables | (3,936) | (3,958) |
| G. Current portion of non-current debt | - | - |
| H. Other current financial payables | (53,254) | (2,601) |
| **I. Current debt (F)+(G)+(H)** | **(57,190)** | **(6,559)** |
| **J. Net current debt (I)+(E)+(D)** | **3,308** | **102,051** |
| K. Non-current bank payables | (372,388) | (371,190) |
| L. Bonds issued | - | - |
| M. Other non-current financial payables | (8,727) | (2,173) |
| **N. Non-current debt (K)+(L)+(M)** | **(381,115)** | **(373,363)** |
| **O. Net debt (J)+(N)** | **(377,807)** | **(271,312)** |
| | | |
| **Non-current financial receivables** | **0** | **5,491** |
| **Net financial position** | **(377,807)** | **(265,821)** |

***Other current and non-current financial payables***

The following table shows the breakdown of other current and non-current financial payables at 31 January 2018 and at 31 January 2017.

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Derivatives | 52,211 | 1,404 |
| Payables for finance leases | 1,043 | 1,142 |
| Other loans and minor financial payables | - | 55 |
| **Other current financial payables** | **53,254** | **2,601** |
| Derivatives | 7,687 | 121 |
| Payables for finance leases | 1,040 | 2,052 |
| Other loans and minor financial payables | - | - |
| **Other non-current financial payables** | **8,727** | **2,173** |

The breakdown by maturity of minimum payments and principal amounts on finance leases is shown below:

| | Minimum payments owed for finance leases | | Principal amount | |
|---|---|---|---|---|
| | 31.01.2018 | 31.01.2017 | 31.01.2018 | 31.01.2017 |
| Within 1 year | 1,196 | 1,325 | 1,043 | 1,142 |
| From 1 to 5 years | 1,042 | 2,204 | 1,040 | 2,052 |
| Beyond 5 years | 0 | 0 | 0 | 0 |
| **Total** | **2,238** | **3,529** | **2,083** | **3,194** |

The reconciliation between the minimum payments owed to the leasing company and their present value (principal) is as follows:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Minimum payments owed for finance leases | 2,238 | 3,529 |
| (Future financial expenses) | (155) | (335) |
| Present value of payables for finance leases | 2,083 | 3,194 |

The Group has furniture, equipment and vehicles under finance leases. The weighted average term of the leases is around four years.

The interest rates are set at the date on which the contract is entered into and are indexed to the 3-month Euribor. All lease agreements are repayable in equal instalments, and no restructuring of the original repayment plan is provided for contractually.

All the agreements are denominated in the accounting currency (euro).

Payables to leasing companies are guaranteed to the lessor by means of rights over the leased assets.

| | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|
| **12 Trade payables** | **403,406** | 367,662 | 35,744 |

The breakdown of the "Trade payables" item at 31 January 2018 and 31 January 2017 is provided below:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|
| Payables to third-party suppliers | 402,306 | 366,417 | 35,889 |
| Payables to related parties | 1,100 | 1,245 | (145) |
| **Trade payables** | **403,406** | **367,662** | **35,744** |

This item includes payables relating to the OVS Group's normal course of operations, in respect of the supply of goods, assets and services.

The balance includes trade payables to foreign suppliers (mainly in Asia) amounting to €204,309 thousand; it also includes exposure in foreign currency (mainly USD) amounting to USD210,987 thousand.

Also note that at these dates there were no payables with a residual life of more than five years in the statement of financial position.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 13 | **Current tax liabilities** | **1,296** | 15,796 | (14,500) |

The amount shown includes IRAP payables of €0.7 million (net of tax credits of €5.7 million) and taxes paid by the foreign companies for the year.

The amount shown at 31 January 2017 included IRES payables of €3.7 million and IRAP payables of €0.2 million (net of payments on account and tax credits of €21.5 million and €5.4 million respectively), as well as taxes paid by the foreign companies for the year.

This item also included payables to Gruppo Coin S.p.A. for the acquisition of part of the excess IRES resulting from the 2016 Consolidated Corporate Income Tax Return (CNM) submitted by Gruppo Coin S.p.A., amounting to €11,460 thousand, paid in March 2017.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| 14 | **Other current payables** | **108,499** | 95,420 | 13,079 |
| 14 | **Other non-current payables** | **19,763** | 17,030 | 2,733 |

The breakdown of the "Other payables" item into current and non-current at 31 January 2018 and at 31 January 2017 is shown below:

| | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|
| Payables to employees for unused leave and related contributions | 8,777 | 7,840 | 937 |
| Payables to employees for deferred salaries, overtime, bonuses and related contributions | 24,881 | 21,771 | 3,110 |
| Payables to Directors and Auditors for emoluments | 355 | 388 | (33) |
| Other payables | 7,887 | 6,682 | 1,205 |
| Payables to pension and social security institutions | 7,156 | 6,658 | 498 |
| VAT payables | 32,584 | 29,048 | 3,536 |
| Other tax payables | 3,459 | 3,109 | 350 |
| Other payables - to customers | 163 | 129 | 34 |
| Accrued expenses/deferred income - rents and leasing | 6,920 | 9,088 | (2,168) |
| Accrued expenses and deferred income - utilities | 3,880 | 2,437 | 1,443 |
| Accrued expenses and deferred income - insurance | 574 | 401 | 173 |
| Accrued expenses and deferred income - other | 11,863 | 7,869 | 3,994 |
| **Total current payables** | **108,499** | **95,420** | **13,079** |
| Linearisation of rents | 12,469 | 12,179 | 290 |
| Accrued expenses and deferred income - other | 7,294 | 4,851 | 2,443 |
| **Total non-current payables** | **19,763** | **17,030** | **2,733** |

"Payables to employees" relates to benefits accrued and not paid out at 31 January 2018.
"Other payables" mainly refers to customer advances to book goods and purchases of goods vouchers for €4,182 thousand, payables for deposits received from customers as guarantees for an affiliation agreement for €3,221 thousand, and payables to a former Upim S.r.l. supplier for a legal dispute amounting to €340 thousand.
The increase in payables to pension and social security institutions reflects payables to the INPS.
At the reporting date the Group had a VAT payable deriving from retail and wholesale sales and to a lesser extent from the sale of goods and services.

The "Other tax payables" item includes IRPEF (personal tax) on employees, payables to tax offices and payables for unpaid withholding tax.
The "Other accrued expenses/deferred income" item includes €4,743 thousand in accrued expenses for local taxes, €1,729 thousand for travel expenses, €353 thousand for bank charges, €1,482 thousand in deferred income for contributions payable by partners and lessors and €1,450 thousand in deferred income for unredeemed reward points relating to customer loyalty programmes.
It also includes €240 thousand relating to the current portion of the extension of software usage rights to Gruppo Coin S.p.A. for a five-year period (the non-current portion, recognised under "Other accrued expenses/deferred income - non-current", amounts to €120 thousand).

**Non-current payables** refer, in the amount of €12,469 thousand, to the recognition of the payable due to the linearisation of leases with payment instalments that increase throughout the life of the lease. The same item includes the €120 thousand already mentioned in the previous item and €776 thousand relating to the deferral of the contribution deriving from investments in new capital goods, which benefited from the "Tremonti-quater" exemption. Note that investments were booked including the contribution amount, which was spread throughout the period of depreciation of the goods concerned.
This item also includes €6,398 thousand as the non-current portion of deferred income for contributions recognised by lessors after store restructurings and conversions. These contributions were discounted based on the term of the lease.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **15** | **Employee benefits** | **38,647** | 39,906 | (1,259) |

The amount mainly includes the provisions made by the Parent Company, OVS S.p.A., for accrued employee severance benefits. Post-employment benefits are guaranteed by the Group as part of its defined benefit plans. The defined benefit plans include the provision for employee severance benefits accrued at 31 December 2006, the date since which, due to the reform that has taken place, the provision has been identified as a defined contribution provision.

As already mentioned, from 1 January 2007, the 2007 Budget and the associated implementing decrees introduced significant amendments to the rules on employee severance benefits, including options for employees with regard to the allocation of their accruing severance benefits. Specifically, new flows of severance benefits may be directed by the employee to preselected or company pension schemes (in the latter case, the company will pay severance benefit contributions into a treasury account set up with the INPS (the Italian social security and welfare institution)).

The change in the "Employee benefits" item is shown below.

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| **Balance at beginning of year** | **39,906** | **40,529** |
| Increase in period | 579 | 1,157 |
| Actuarial (gains)/losses | 302 | 323 |
| Contributions made/benefits paid | (2,140) | (2,103) |
| **Balance at end of year** | **38,647** | **39,906** |

The item also includes €71 thousand relating to the pension provision, which is disbursed when employees retire. Like the employee severance benefits, the provision is calculated on an actuarial basis using the projected unit credit method.

The economic and demographic assumptions used for actuarial evaluation are listed below:

**Demographic assumptions:**

- for the expectation of death, the IPS55 demographic, broken down by gender;
- for the expectation of disability, the assumptions used by the INPS model for projections to 2010. Expectations are constructed starting with the distribution by age and gender of pensions in force at 1 January 1987 starting in 1984, 1985 and 1986 relating to personnel in the credit unit;
- for the age of retirement of the general working population, achievement of the first retirement requirement applicable for Mandatory General Insurance was assumed;
- for the probability of leaving employment for reasons other than death, based on statistics provided by the Group, an annual frequency rate of 5.00% was assumed;
- for the probability of early retirement, a year-on-year figure of 3.00% was assumed.

**Economic and financial assumptions:**

| | |
|---|---|
| Annual discount rate | 1.35% |
| Annual inflation rate | 1.50% |
| Annual increase in employee severance benefits | 2.63% |

The iBoxx Eurozone Corporates AA 10+ at the calculation date was used as the benchmark for the discount rate. This expiry relates to the average remaining period of service at the company of the employees of Group Companies, weighted with the expected payment.

**Sensitivity analysis**

As required by the revised version of IAS 19, a sensitivity analysis was carried out on changes in the key actuarial assumptions included in the calculation model.

The above scenario was used as the baseline scenario; from this, the most significant assumptions - i.e. the average annual discount rate, the average inflation rate and the turnover rate - were increased and decreased by one half, one quarter and two percentage points respectively.

The results obtained are summarised in the following table:

| | Annual discount rate | | Annual inflation rate | | Annual turnover rate | |
|---|---|---|---|---|---|---|
| (amounts in millions of euros) | +0.50% | -0.50% | +0.25% | -0.25% | +2.00% | -2.00% |
| OVS | 37.0 | 40.2 | 39.1 | 38.1 | 38.3 | 39.0 |

**Future cash flows**

As required by IAS 19 Revised, the expected payment flows for the next few years were calculated as shown in the table below (in millions of euros):

| years | Cash Flow |
|---|---|
| 0 - 1 | 2.9 |
| 1 - 2 | 2.6 |
| 2 - 3 | 2.9 |
| 3 - 4 | 3.1 |
| 4 - 5 | 2.9 |
| 5 - beyond | 29.0 |

The average number of personnel during the year just ended was 91 managers, 6,383 white-collar workers and 263 blue-collar workers.

At 31 January 2018, the Group had 100 managers, 6,452 white-collar workers and 269 blue-collar workers in its own employ.

| | | 31.01.2018 | 31.01.2017 | change |
|---|---|---|---|---|
| **16** | **Provisions for risks and charges** | **5,024** | 7,785 | (2,761) |

Changes in the "Provision for risks and charges" item are shown below:

| (amounts in thousands of euros) | 31.01.2018 | 31.01.2017 |
|---|---|---|
| **Balance at beginning of year** | **7,785** | **8,216** |
| Allocations in the period | 250 | 0 |
| Utilisations in the period | (3,011) | (431) |
| **Balance at end of year** | **5,024** | **7,785** |

The provision reflects the risk of disputes with former employees, public entities and third parties of various kinds.

The outcome of these risks cannot be defined with certainty, and the amount recorded therefore represents the best estimate of the presumed charge at year-end.

The decreases of €3,011 thousand refer to the draw-down of provisions previously allocated for litigation with former employees and for various lawsuits, in addition to the release of €1.2 million from a provision for case that will not be pursued.

| | | 31.01.2018 | 31.01.2017 | variazione |
|---|---|---|---|---|
| **17** | **Deferred tax liabilities** | **134,287** | 140,939 | (6,652) |

The change in the "Deferred tax liabilities" item is shown below.

| (amounts in thousands of euros) | Balance at 31.01.2017 | Allocated/ released to income statement | Allocated/ released to statement of comprehensive income | Balance at 31.01.2018 |
|---|---|---|---|---|
| Provision for stock write-downs | 6,258 | 929 | | 7,187 |
| Appropriation for local taxes | 880 | 215 | | 1,095 |
| Provisions for risks and charges | 1,868 | (662) | | 1,206 |
| Doubtful accounts | 2,526 | 2,974 | | 5,500 |
| Tangible and intangible assets | (155,808) | 4,607 | | (151,201) |
| Employee severance benefits calculated according to IAS 19 | 429 | 0 | 73 | 502 |
| Provision for Collective Agreements | 419 | 594 | | 1,013 |
| Other minor | 2,489 | (2,078) | | 411 |
| **Total net prepaid (deferred)** | **(140,939)** | **6,579** | **73** | **(134,287)** |

The same details are shown for the previous year:

| (amounts in thousands of euros) | Balance at 31.01.2016 | Allocated/ released to income statement | Allocated/ released to statement of comprehensive income | Balance at 31.01.2017 |
|---|---|---|---|---|
| Provision for stock write-downs | 6,920 | (662) | | 6,258 |
| Appropriation for local taxes | 999 | (119) | | 880 |
| Provisions for risks and charges | 2,259 | (391) | | 1,868 |
| Doubtful accounts | 2,694 | (168) | | 2,526 |
| Tangible and intangible assets | (159,363) | 3,555 | | (155,808) |
| Employee severance benefits calculated according to IAS 19 | 403 | 0 | 26 | 429 |
| Provision for Collective Agreements | 0 | 419 | | 419 |
| Other minor | 3,355 | (866) | | 2,489 |
| **Total net prepaid (deferred)** | **(142,733)** | **1,768** | **26** | **(140,939)** |

Deferred tax liabilities related to the higher value of intangible assets in the financial statements were mainly due to their recognition at fair value according to the acquisition method at the time of the business combination.

## SHAREHOLDERS' EQUITY

Shareholders' equity was €841.7 million.
Details of changes in the items included in shareholders' equity are provided in the relative accounting schedule.

### 18 Share capital

At 31 January 2018, the share capital of OVS S.p.A. amounted to €227,000,000, comprising 227,000,000 ordinary shares with no par value.
OVS was incorporated on 14 May 2014 with share capital of €10,000.
The Transferral of the OVS-UPIM Business Unit by the then sole shareholder Gruppo Coin, which took effect from 31 July 2014, entailed a share capital increase from €10,000 to €140,000,000, with a premium of €249,885,000.
Lastly, on 24 February 2015, the global offer for subscription and sale of ordinary shares of OVS S.p.A., with the aim of listing this company on the MTA, was successfully completed.
The subscription operation entailed a further capital increase of €87,000,000, taking the share capital from €140,000,000 to €227,000,000, divided into 227,000,000 ordinary shares with no par value.

### 18 Other reserves

The breakdown of other reserves is as follows:

The **share premium reserve**, amounting to €512.0 million, derives from increases in the capital of OVS S.p.A., as previously mentioned, and is shown net of listing costs of €7,590 thousand (gross costs of €10,469 thousand and deferred tax of €2,879 thousand).
With regard to the accounting treatment applied to these costs, pursuant to IAS 32, following the positive outcome of the listing process, the ratio between the number of new shares/number of shares post-listing determined the percentage of charges registered as a direct reduction in shareholders' equity, while the remainder was recognised under costs in the income statement.
The **legal reserve** came to €7.9 million, and was created when earnings for previous years were allocated.
There are also **other reserves**, with a positive net balance of €89.7 million, which mainly include retained earnings of €84.8 million, the effects of the direct recognition in shareholders' equity of actuarial gains/(losses) relating to employee severance benefits, the translation reserve and the effects of booking management incentive plans in equity reserves in accordance with the provisions of IFRS 2 (see also note 22 ("Staff costs")).

## 18 Non-controlling interests capital and reserves

The increase in non-controlling interests relates to the incorporation during the year of 82 S.r.l., which is 70% owned by OVS S.p.A. and 30% by Massimo Piombo; of the amount shown, €3 thousand refers to share capital and -€71 thousand to losses accrued during the year for start-up costs.

Changes in the reserve for actuarial gains/(losses) were as follows:

| (amounts in thousands of euros) | **2017** | **2016** |
|---|---|---|
| **Value at beginning of year** | **(1,360)** | **(1,063)** |
| Change in provision for employee severance benefits under IAS 19 | (302) | (323) |
| Deferred tax effect | 73 | 89 |
| Tax effect - adjustment IRES rate | 0 | (63) |
| *Total changes* | *(229)* | *(297)* |
| **Value at end of year** | **(1,589)** | **(1,360)** |

For further details on changes during the year, please see the consolidated statement of changes in shareholders' equity.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

We will now provide details of some income statement items (values are expressed in thousands of euros).

### 19 Revenues

The breakdown of the "Revenues" item is provided below:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Revenues from retail sales | 1,470,394 | 1,438,498 |
| VAT on retail sales | (265,682) | (259,906) |
| **Net sales** | **1,204,712** | **1,178,592** |
| Revenues from sales to affiliates, administered and wholesale | 320,735 | 183,890 |
| **Subtotal net sales** | **1,525,447** | **1,362,482** |
| Revenues from services | 239 | 142 |
| **Total** | **1,525,686** | **1,362,624** |

### 20 Other operating income and revenues

The breakdown of the "Other operating income and revenues" item is provided below:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Revenues from services rendered | 45,133 | 44,059 |
| Rental and leasing revenues | 19,100 | 17,274 |
| Damages | 513 | 112 |
| Capital gains from asset disposals | 4 | 4 |
| Other revenues | 8,695 | 5,345 |
| **Total** | **73,445** | **66,794** |

Revenues from services provided mainly relate to the recovery of transport expenses, the recovery of advertising expenses, promotional contributions and charges for staff costs and other services provided, including fees from commercial partners in concessions at the OVS Group's stores.

The item "Rental income and leases" mainly includes rent from concession partners at OVS and UPIM stores.

The "Other revenues" item mainly includes contributions from suppliers and lessors, repayment of start-up costs and various contingent assets.

## 21 Purchases of raw materials, consumables and goods

Purchases of raw materials, supplies, consumables and goods mainly consist of purchases of products for sale and amount to €701,423 thousand.
The item breaks down as follows:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Purchases of raw materials, consumables and goods | 748,991 | 637,485 |
| Change in inventories | (47,568) | (49,550) |
| **Total** | **701,423** | **587,935** |

The consideration in euros for purchases abroad, mainly in dollars, including ancillary costs, is €625,076 thousand.

## 22 Staff costs

The breakdown of the "Staff costs" item is provided below:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Wages and salaries | 216,324 | 204,305 |
| Social security charges | 61,847 | 59,211 |
| Employee severance benefits | 13,186 | 12,464 |
| Other staff costs | 640 | 1,043 |
| Directors' fees | 994 | 793 |
| **Total** | **292,990** | **277,815** |

The number of employees, expressed as the "full-time equivalent" headcount, was 5,938 at the end of the year, compared with 5,788 at 31 January 2017.

### MANAGEMENT INCENTIVE PLANS

**Approval of Stock Option Plan 2015-2020**

On 26 May 2015, the shareholders' meeting approved the Stock Option Plan 2015-2020 (hereinafter, the "Plan"), to be implemented through the free granting of options for subscription to ordinary newly issued shares of OVS S.p.A.. The Plan is reserved for directors who are also employees, managers with strategic responsibilities and/or other employees of OVS S.p.A. and its subsidiaries. The Plan is intended to create value for shareholders by improving long-term corporate performance and attracting personnel that play a key role in the development of the Company and the Group.

The Plan provides for the issue of up to 5,107,500 options, which will be freely allocated to the Beneficiaries if certain performance targets are met, and confers on each of them the right to subscribe to one ordinary share of the Company for each option assigned.

The same meeting was also convened in an extraordinary session to resolve upon the proposal to give the Board of Directors, for a period of five years from the date of the resolution, the power to increase the share capital, pursuant to Article 2443 of the Italian Civil Code, in tranches, excluding option rights pursuant to Article 2441, paragraph 8 of the Italian Civil Code, for a total maximum nominal amount of €35,000,000, through the issue, in one or more tranches, of up to 5,107,500 ordinary shares with no par value, to be reserved for the beneficiaries of the “Stock Option Plan 2015-2020”, with the consequent amendment of Article 5 of the Articles of Association.

**Implementation of the "Stock Option Plan 2015-2020"**

On 8 June 2015, the Board of Directors, implementing the resolutions passed by the shareholders' meeting of 26 May 2015, resolved to execute the mandate to increase the share capital, pursuant to Article 2443 of the Italian Civil Code, granted to the Board of Directors by the extraordinary shareholders' meeting of 26 May 2015, and, for this purpose, resolved upon a capital increase to service the stock option plan called the "Stock Option Plan 2015-2020", which was approved by the same shareholders' meeting. In particular, pursuant to the mandate granted by the extraordinary shareholders' meeting of 26 May 2015, the Board of Directors resolved to carry out a paid share capital increase by the deadline of 8 June 2025, by issuing, in one or more tranches, up to 5,107,500 new ordinary shares of OVS, constituting 2.25% of the current share capital of OVS S.p.A., subscribed and paid up, with no par value, with the same characteristics as the ordinary shares outstanding on the issue date, with ordinary rights, excluding option rights pursuant to Article 2441, paragraph 8, of the Italian Civil Code, to be reserved for subscription by the Beneficiaries of the aforementioned stock option plan called the "Stock Option Plan 2015-2020".

The key elements of the Stock Option Plan are as follows.

The reasons for the adoption of the Stock Option Plan 2015-2020, which was approved by the shareholders' meeting of 26 May 2015, are the need to offer, on conditions that take account of the current value from time to time of the OVS stock, a system of remuneration that incentivises managers and key personnel of the Company and the Subsidiaries, linking the variable portion of the remuneration to the Group's actual performance and the creation of new value for shareholders, as well as an incentive system designed to attract individuals who are highly qualified in management.

The Stock Option Plan is reserved for individuals who, at the option grant date, hold the role of executive directors and/or will have an employment relationship of indefinite duration with one of the Group's companies. This plan provides for the free granting of options (the "Options") that will give Beneficiaries

the right to subscribe to ordinary shares of OVS (in the ratio of 1 (one) ordinary share for every 1 (one) Option exercised) arising from the paid share capital increase in tranches described above, for a nominal amount of up to €35,000,000, excluding option rights pursuant to Article 2441, paragraphs 5 and 6 of the Italian Civil Code, through the issue of up to 5,107,500 new ordinary shares of OVS.
For each Beneficiary and for the first cycle of options granted under the Plan, the exercise price of the shares is set at €4.88 per share. The exercise price for the first cycle of options, established by the Company's Board of Directors on 22 April 2015 after consultation with the Nomination and Remuneration Committee, is equal to the definitive unit price at which OVS shares were placed under the Global Offer between 16 February 2015 and 24 February 2015, which comprised a public offer to the general public in Italy and an institutional placement for qualified investors in Italy and institutional investors abroad, for the purpose of listing shares of OVS, as of 2 March 2015, on the Mercato Telematico Azionario, organised and managed by Borsa Italiana S.p.A., ("MTA"), at €4.10 for each OVS share subject to the Global Offer, plus 19.1%.
The exercise of the Options is subject to the achievement of predetermined and measurable performance targets, which include, *inter alia*, the parameter of EBITDA, as indicated by the Board of Directors after consultation with the Remuneration Committee, for the reference period under the Group's business plan and/or budget.
The Stock Option Plan authorises Beneficiaries to exercise the options early if certain events occur, including:

- a change of control within the meaning of Article 93 of the TUF, including if this does not entail a public tender offer obligation;
- a public tender offer for the Company's shares pursuant to Article 102 *et seq*. of the TUF; or
- resolutions on transactions that could result in the delisting of ordinary shares of OVS.

The Stock Option Plan also requires, as a condition for participation in the plan itself, that the employee relationship of indeterminate duration or executive management with OVS or a subsidiary, depending on the type of Beneficiary (the "Relationship"), be maintained.
In particular, the Stock Option Plan provides that, on termination of the Relationship due to a "bad leaver" scenario, all Options awarded to the Beneficiary, including Options that have become effective but have not yet been exercised, will automatically lapse and will have no effect or validity.
The following events are regarded as "bad leaver" scenarios, depending on the case: (i) dismissal of the Beneficiary, termination of the post as director and/or the powers of the Beneficiary, or non-renewal of the position as Board member and/or the powers of the Beneficiary, all of the above for just cause; and (ii) termination of the Relationship due to voluntary resignation by the Beneficiary not justified by a "good leaver" scenario.
If the Relationship is terminated due to a "good leaver" scenario, the Beneficiary or his/her heirs, provided

that the obligations, terms and conditions set out in the Stock Option Plan are adhered to, will retain the right to exercise the Options granted, taking account of the time at which the Relationship was terminated in accordance with the procedures set out in the Plan.
The following events are regarded as "good leaver" scenarios, depending on the case: (i) dismissal without just cause; (ii) termination of the post of director or non-renewal of the post of Board member without just cause; (iii) resignation as a Board member when the Beneficiary, without just cause, suffers a termination or non-confirmation of powers, so that his/her relationship with the Company or the Subsidiary is substantially altered; and (iv) resignation from the post or withdrawal from the employment relationship in the event of any one of the following cases: (a) permanent physical or psychological incapacity (due to illness or accident) of the Beneficiary; or (b) decease of the Beneficiary.
The Stock Option Plan will end on 31 December 2020 and provides for a vesting period for the Options granted to the Beneficiary.

As already mentioned, the Stock Option Plan will end on 8 June 2025 (the expiration date, by which the exercisable Options must be exercised on penalty of forfeiture). There are three vesting periods for the Options granted to the Beneficiaries, with the following scope and terms:

- 1/3 of the Options are exercisable after 36 months from the grant date (First Vesting Period);
- 1/3 of the Options are exercisable after 48 months from the grant date (Second Vesting Period);
- 1/3 of the Options are exercisable after 60 months from the grant date (Third Vesting Period).

At 31 January 2018, 4,911,375 option rights had been granted in two separate tranches, by resolution of the Board of Directors at its meeting of 8 June 2015.
The Plan described above is defined as equity-settled pursuant to IFRS 2. In accordance with this accounting standard, the fair value of the Plan was estimated at the grant date, using the Black-Scholes method.
The portion of the overall fair value of the Plan pertaining to the reporting period has therefore been recognised in the consolidated income statement. In particular, staff costs attributable to the granting of OVS shares, amounting to €6,225 thousand (already booked in the amount of €3,882 thousand at 31 January 2017), were recognised with a contra-entry in shareholders' equity.

**Approval of Stock Option Plan 2017-2022**

The shareholders' meeting of 31 May 2017 approved a new stock option plan called the "Stock Option Plan 2017-2022", reserved for directors who are also employees, managers with strategic responsibilities and/or other employees of OVS S.p.A. and its subsidiaries, which may be implemented using either: (i) treasury shares bought back under the authorisation pursuant to Article 2357 of the Italian Civil Code granted by the shareholders' meeting from time to time; or (ii) shares arising from a capital increase by the Board of Directors, after the granting of a mandate to increase the share capital pursuant to Article 2443 of the Civil Code, in tranches, excluding option rights pursuant to Article 2441, paragraph 8 of the Civil Code, for a total

maximum nominal amount of €4,080,000.00, through the issue, in one or more tranches, of up to 4,080,000.00 new ordinary shares of OVS, to be reserved for the beneficiaries of the "Stock Option Plan 2017-2022", with the consequent amendment of Article 5 of the Articles of Association.
The new Plan is also intended to create value for shareholders by improving long-term corporate performance and attracting personnel that play a key role in the Group's development.

**Implementation of the "Stock Option Plan 2017-2022"**

On 21 September 2017, the Board of Directors, implementing the resolutions passed by the shareholders' meeting of 31 May 2017, resolved to execute the mandate to increase the share capital, pursuant to Article 2443 of the Italian Civil Code, granted to the Board of Directors by the extraordinary shareholders' meeting of 31 May 2017, and, for this purpose, resolved upon a capital increase to service the stock option plan called the "Stock Option Plan 2017-2022", which was approved by the same shareholders' meeting. In particular, pursuant to the mandate granted by the extraordinary shareholders' meeting of 31 May 2017, the Board of Directors resolved to carry out a paid share capital increase by the deadline of 30 June 2027, by issuing, in one or more tranches, up to 3,935,000 new ordinary shares of OVS with no par value, with the same characteristics as the ordinary shares outstanding on the issue date, with ordinary rights, excluding option rights pursuant to Article 2441, paragraph 8, of the Italian Civil Code, to be reserved for subscription by the beneficiaries of the aforementioned stock option plan called the "Stock Option Plan 2017-2022".

The key elements of the Stock Option Plan are as follows.

The Plan provides for the free allocation to each beneficiary of up to 3,935,000 options, which give the right to subscribe or purchase ordinary shares of OVS in the ratio of one share for each option exercised.
The Company will make available to beneficiaries the ordinary shares of OVS to which they are entitled after the exercise of the Options within the time limits and according to the methods established in the Plan regulations, at a price of €6.39 per share. The ordinary shares of the Company allocated to beneficiaries after the exercise of the Options will carry ordinary rights, the same as those of the ordinary shares of the Company outstanding on the allocation date, and will therefore carry the coupons in effect at that date.
The Plan will expire on 30 June 2027 and provides for a vesting period of at least three years for Options allocated to beneficiaries. Each beneficiary may exercise the Options allocated on condition that specific annual performance targets are met, relating to OVS's consolidated EBITDA.
The beneficiaries will be able to exercise the potentially exercisable options with respect to which the performance objectives have been achieved, to the extent and within the periods set out below:

- up to 1/3 of the Options granted, rounded down to the lowest whole unit, from 36 months after the Grant Date (First Vesting Period);
- up to 1/3 of the Options granted, rounded down to the lowest whole unit, from 48 months after the Grant Date (Second Vesting Period);
- the balance of the Potentially Exercisable Options after 60 months from the Grant Date (Third Vesting Period).

In no circumstances may the Options exercisable by the Beneficiaries be greater than those actually vested by virtue of the achievement of the Performance Objectives.

The Plan provides that the beneficiaries may not exercise the Options in the 30 calendar days preceding the publication of the financial statements and interim financial reports that the Company is required to publish pursuant to the laws and regulations from time to time in force, and the regulations of the markets organised and managed by Borsa Italiana. The Board of Directors, after consulting the Nomination and Remuneration Committee, may also stipulate additional lock-up periods for the Options, or amend the terms indicated in the Plan regulations in the event of significant legislative or regulatory changes. As a condition for benefiting from the Plan, these regulations provide that the beneficiaries must be and must remain employees and/or directors of and the Company and its Subsidiaries. The termination of the relationship in the circumstances provided for by the Plan affects the exercise of the Options, resulting in the forfeiture of the Options according to the procedures, terms and conditions set forth in the Plan regulations. The Plan also provides for the right to continue participating in the Plan or, without prejudice to any different contractual proposals put in place by the party that will acquire control, the early exercise of the Options if there is a change of control. A "change of control" is defined as when one or more parties acting in concert (other than Gruppo Coin S.p.A. and/or funds assisted and managed by BC European Capital funds, CIE Management II Limited and/or any of the entities controlled by them), directly or indirectly acquire an equity investment in the share capital of OVS, such that:

(i) this party (or parties) is obliged to make a mandatory public tender offer for the ordinary shares of the Issuer pursuant to the TUF; or

(ii) this party (or parties) appoints or dismisses all or the majority of the directors of the Issuer.

Options are assigned on an individual basis and each Option and all the rights incorporated therein are strictly personal, registered, non-transferable *inter vivos* and non-negotiable and therefore undistrainable and not usable for debts or contracts entered into by each of the beneficiaries in respect of OVS and/or the Subsidiaries.

Beneficiaries who are executive directors or managers with strategic responsibility of OVS, as identified by the Board of Directors, will be obliged to hold for a consecutive period of at least 12 months from the exercise date a number of shares at least equal to 20% of the shares subscribed or purchased as a result of the exercise of the Options, net of the shares that may be sold to pay (a) the exercise price of the Options,

as well as (b) the tax, social security and welfare charges, where due, related to the exercise of the Options.
Beneficiaries classified as executive directors, in compliance with the recommendations of the Corporate Governance Code, will in any case be obliged, even after the lock-up period indicated above, to hold a number of shares equal to at least 20% of the shares subject to the lock-up commitment pursuant to the Plan regulations without interruption, until the end of their term in office.
The Plan also includes claw-back and restitution clauses.
In particular, the Plan provides that if the Board of Directors, after consulting the Nomination and Remuneration Committee, ascertains - within a period of three years from the initial exercise date - that the performance objectives have been determined on the basis of data that have proved to be manifestly wrong or if, by a judgement of the first instance, the beneficiary is found to have engaged in fraudulent behaviour or gross negligence to the detriment of the Company, resulting in a financial loss for the Company, or without which the performance objectives would not have been achieved, the Board of Directors, after consulting the Nomination and Remuneration Committee, reserves the right, in respect of the beneficiary who has committed or caused one of the aforementioned acts or events, to revoke the exercisable Options or demand the restitution of the shares held in the beneficiary’s name, less a number of shares of a value corresponding to the exercise price of the Options and the tax, social security and welfare charges related to the exercise of the Options actually paid, or the restitution of the sale value (less the amount corresponding to the exercise price of the Options and the tax, social security and welfare charges related to the exercise of the Options, possibly also by offsetting against the beneficiary's pay and/or severance amounts due) if the beneficiary's shares have already been sold.

At 31 January 2018, 3,935,000 options had been granted under the new “Stock Option Plan 2017-2022”.

The Plan described above is defined as equity-settled pursuant to IFRS 2. In accordance with this accounting standard, the fair value of the Plan was estimated at the grant date, using the Black-Scholes method.
The portion of the overall fair value of the Plan pertaining to the reporting period has therefore been recognised in the consolidated income statement. In particular, staff costs attributable to the assignment of OVS shares, amounting to €621 thousand, were recognised with a contra-entry in shareholders' equity.

For further details of the Plan, see the Report of the Board of Directors and the information memorandum, pursuant to Article 84-*bis* of Consob Regulation 11971/1999, which is available on the Company website at www.ovscorporate.it, in the Governance/Shareholders' Meeting section.

Also note that, as part of the operation to acquire an equity investment in Gruppo Coin by funds assisted by BC Partners, which was completed on 30 June 2011, Icon 1 S.A., a holding company operating under Luxembourg law, issued a series of financial instruments to serve the acquisition, assigned to a range of classes of persons, including some managers at Gruppo Coin and now at the OVS Group.

For details of the characteristics of these financial instruments and the related accounting treatment used by the conferor, Gruppo Coin S.p.A., please see the information provided in the Prospectus prepared for the listing, in the section on carve-out financial statements (chapter 20.1.3) published in the "Investor Relations" section of the Company's website.

It should also be noted for completeness that, when three additional managers became shareholders of Icon 1 S.A., the characteristics of these instruments were redefined, partly with the aim of rebalancing the position of the managers, which had been prejudiced by the issue by Icon 1 S.A. of a preferred financial instrument. These changes did not affect the OVS Group's financial position and results, given that in June 2015 the managers had added to the initial payments made based on the fair value of the financial instruments, recalculated at the effective date of the changes.

### 23 Depreciation, amortisation and write-downs of assets

The breakdown of the "Depreciation, amortisation and write-downs of assets" item is provided below:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Amortisation of intangible assets | 15,703 | 14,674 |
| Depreciation of tangible assets | 44,117 | 42,718 |
| Write-downs of tangible and intangible assets | 2,915 | 1,658 |
| **Total** | **62,735** | **59,050** |

Note that the amount relating to write-downs of tangible and intangible assets in the appendices in question was included in the amounts shown in the "Disposals" and "Write-downs" columns.
Write-downs refer to assets written down due to store closures that have already taken place or are planned, and/or the results of impairment testing.

## 24 Other operating expenses: Service costs

Service costs, which reflect the Group's use of external resources, can be broken down as follows:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Advertising | 25,222 | 24,084 |
| Utilities | 32,948 | 32,360 |
| Miscellaneous sales costs | 48,380 | 42,205 |
| Service costs - professional and consulting services | 26,978 | 23,425 |
| Travel and other employee expenses | 14,309 | 13,185 |
| Insurance | 3,411 | 3,326 |
| Maintenance, cleaning and security | 35,199 | 33,010 |
| Service costs - other services | 5,127 | 4,640 |
| Board of Statutory Auditors' fees / Supervisory Body | 203 | 192 |
| **Total** | **191,777** | **176,427** |

## 25 Other operating expenses: Costs for the use of third-party assets

Costs for the use of third-party assets break down as follows:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Rental costs and ancillary charges | 194,938 | 187,625 |
| Leasing of plant, equipment and vehicles | 3,798 | 5,041 |
| **Total** | **198,736** | **192,666** |

The item "Rental expenses and related charges" mainly includes rents and service charges generated by the sales network. The leases were signed under arm's length conditions.

## 26 Other operating expenses: Write-downs and provisions

The breakdown of the "Write-downs and provisions" item is provided below:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Doubtful accounts | 16,170 | 1,200 |
| Provisions for risks | 250 | 0 |
| Release of provisions | (1,200) | 0 |
| **Total** | **15,220** | **1,200** |

For details of the amounts described above, please see the details for the respective items of the provision for doubtful accounts and the provision for risks and charges.

## 27 Other operating expenses: Other operating charges

Other operating charges break down as follows:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Materials and equipment for offices and stores | 7,859 | 7,700 |
| Taxes | 10,628 | 9,464 |
| Capital losses | 501 | 208 |
| Donations | 646 | 465 |
| Corporate expenses | 700 | 526 |
| Other general and administrative expenses | 1,273 | 3,700 |
| Other operating expenses | 2,617 | 2,022 |
| **Total** | **24,224** | **24,086** |

The "Other operating charges" item mainly comprises €647 thousand relating to rebates, fines and rounding liabilities and €56 thousand for discounts on partner goods distributed to customers during special events; the same item also includes transactional agreements with lessors and suppliers for €831 thousand, and miscellaneous reimbursements for expenses.

## 28 Financial income (expenses)

FINANCIAL INCOME

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Financial income on bank current accounts | 24 | 52 |
| Financial income from miscellaneous sources | 8 | 48 |
| Income from related company | 1,121 | 100 |
| **Total** | **1,153** | **200** |

FINANCIAL EXPENSES

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Financial expenses on bank current accounts | 29 | 23 |
| Financial expenses on loans | 11,531 | 11,532 |
| Financial expenses payable to other lenders | 184 | 199 |
| Interest cost on provision for employee severance benefits | 583 | 712 |
| Other financial expenses/fees | 3,410 | 3,350 |
| **Total** | **15,737** | **15,817** |

Other financial expenses on loans mainly include fees associated with existing loans.

EXCHANGE RATE GAINS AND LOSSES

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Foreign exchange gains | 26,051 | 13,701 |
| Foreign exchange losses | (15,559) | (1,617) |
| Gains (losses) on the change in fair value of currency derivatives | (77,270) | (917) |
| **Total** | **(66,778)** | **11,167** |

GAINS (LOSSES) FROM EQUITY INVESTMENTS

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Write-downs of equity investments and other long-term equity interests | (21,137) | 0 |
| **Total** | **(21,137)** | **0** |

As already indicated in item 4 "Non-current financial assets" and in item 10 "Equity investments", a write-down was made in respect of Sempione Retail AG relating to the equity investment (€8,284 thousand) and the financial receivable (€12,781 thousand), totalling €21,065 thousand.

This write-down became necessary due to this company's results in the consolidated financial statements at 31 December 2017, which show negative shareholders' equity.

## 29 Taxes

The following is a breakdown of the charge to the income statement:

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| IRES tax | 3,840 | 25,164 |
| IRAP tax | 6,338 | 5,670 |
| Tax on foreign companies | 1,016 | 457 |
| Deferred tax (net change) | (6,731) | (3,517) |
| **Total** | **4,463** | **27,774** |

The following table shows the reconciliation of the theoretical tax charge with the effective tax charge:

| (amounts in thousands of euros) | 31.01.2018 | % | 31.01.2017 | % |
|---|---|---|---|---|
| Net result for the year before tax | 9,527 | | 105,789 | |
| Theoretical income tax (IRES) | (2,286) | (24.0)% | (29,092) | (27.5)% |
| IRAP | (6,338) | (66.5)% | (5,670) | (5.4)% |
| Tax effect of permanent differences and other differences | 4,161 | 43.7% | 6,988 | 6.6% |
| **Taxes** | **(4,463)** | | **(27,774)** | |
| **Effective tax rate** | | **(46.9)%** | | **(26.3)%** |

With regard to the financial year ended 31 January 2018, an amount of €3,130 thousand was recognised deriving from the recalculation of IRES taxes for the financial years 2015 and 2016, following the definition of benefits deriving from costs incurred for "Research and Development".
The tax rate is significantly affected by the tax effect of permanent differences.

A tax audit of OVS S.p.A. is currently being carried out by the Venice tax division of the Italian finance police (Guardia di Finanza). The audit, which began on 13 December 2017, concerns income tax for the 2014, 2015 and 2016 financial years; and VAT and other taxes for the years 2014, 2015, 2016 and 2017, up to the date of the audit. At the date of writing, there are no findings to report.

## EARNINGS PER SHARE

As previously indicated, after the Company was listed the current share capital was divided into 227,000,000 shares with no par value.
Earnings per share was calculated by dividing profit for the year by the average weighted number of shares of the Company outstanding in the period. The following table provides details of the calculation:

| | **31.01.2018** | **31.01.2017** |
|---|---|---|
| Result for the year (in thousands of euros) | 5,135 | 78,015 |
| Number of ordinary shares at end of year | 227,000,000 | 227,000,000 |
| Average weighted number of shares outstanding for the calculation of basic earnings per share | 227,000,000 | 227,000,000 |
| **Basic earnings per share (in euros)** | **0.02** | **0.34** |
| **Diluted earnings per share (in euros)** | **0.02** | **0.34** |

There were no significant dilutive effects at 31 January 2018 deriving from the stock option plan: the figure for diluted net earnings is therefore the same as for basic net earnings.

## RELATIONS WITH RELATED PARTIES

Relations with related parties mainly concern the associate Sempione Retail and its subsidiaries, and the Parent Company, Gruppo Coin S.p.A., and its subsidiaries.

OVS S.p.A. carries out, for its Parent Company, the subsidiaries and associates, mainly commercial activities relating to the sale of goods, in addition to providing logistics, IT and supply chain services.

The following table summarises the OVS Group's lending and borrowing relationships with related parties, as defined by IAS 24:

| (amounts in thousands of euros) | Related parties | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gruppo Coin S.p.A. | Coin S.r.l. | Excelsior Milano S.r.l. | COSI - Concept of Style Italy S.p.A. | Excelsior Verona S.r.l. in liquidazione | GCF S.p.A. in liquidazione | Gruppo Coin Interna-tional S.A. | Centomila-candele S.c.p.a. | Sempione Retail AG | Sempione Fashion AG | Charles Vögele Austria GMBH | Charles Vögele Deutschland GMBH | Charles Vögele Trgovina stekstilom DOO (Slovenia) | Directors and managers with strategic responsibilities | Total | Total balance sheet item | Percentage of balance sheet item |
| **Trade receivables** | | | | | | | | | | | | | | | | | |
| At 31 January 2018 | 226 | 3,703 | 57 | 9 | - | 4 | 3 | - | - | 16,170 | 6,535 | 7,926 | 688 | - | 35,321 | 112,960 | 31.3% |
| At 31 January 2017 | 1,004 | 1,927 | 4 | 5 | 2 | 5 | 2 | - | 128 | 3,531 | - | - | - | - | 6,608 | 75,259 | 8.8% |
| **Non-current financial assets** | | | | | | | | | | | | | | | | | |
| At 31 January 2018 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | 0 | 0.0% |
| At 31 January 2017 | - | - | - | - | - | - | - | - | 5,491 | - | - | - | - | - | 5,491 | 5,491 | 100.0% |
| **Trade payables** | | | | | | | | | | | | | | | | | |
| At 31 January 2018 | (27) | (90) | - | - | - | - | - | - | - | (983) | - | - | - | - | (1,100) | (403,406) | 0.3% |
| At 31 January 2017 | - | (8) | - | - | - | - | - | (1,237) | - | - | - | - | - | - | (1,245) | (367,662) | 0.3% |
| **Current tax liabilities** | | | | | | | | | | | | | | | | | |
| At 31 January 2018 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 0 | (1,296) | 0.0% |
| At 31 January 2017 | (11,460) | - | - | - | - | - | - | - | - | - | - | - | - | - | (11,460) | (15,796) | 72.6% |
| **Other current payables** | | | | | | | | | | | | | | | | | |
| At 31 January 2018 | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,808) | (1,808) | (108,499) | 1.7% |
| At 31 January 2017 | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,018) | (2,018) | (95,420) | 2.1% |

With regard to 31 January 2018, commercial relations with Coin S.r.l. mainly relate to the provision of services and the leasing of commercial premises.

Transactions with the Sempione Retail Group companies mainly relate to the supply of goods and the provision of related services.

Relationships with Centomilacandele S.c.p.a. relate to the provision of services for the purchase of electricity. Centomilacandele S.c.p.A. is a non-profit consortium company, engaged in the supply of electricity and natural gas under the best possible conditions to the consortium entities.

The following table summarises the economic relationships of the OVS Group with related parties:

| (amounts in thousands of euros) | Related parties | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gruppo Coin S.p.A. | Coin S.r.l. | COSI - Concept of Style Italy S.p.A. | Excelsior Milano S.r.l. | Centomila-candele S.c.p.a. | Sempione Retail AG | Sempione Fashion AG | Charles Vögele Austria GMBH | Charles Vögele Deutschland GMBH | Charles Vögele Trgovina stekstilom DOO (Slovenia) | Directors and managers with strategic responsibilities | Total | Total balance sheet item | Percentage of balance sheet item |
| **Year ended 31 January 2018** | | | | | | | | | | | | | | |
| Revenues | - | 1,133 | - | - | - | - | 44,209 | 33,079 | 32,351 | 2,929 | - | 113,701 | 1,525,686 | 7.5% |
| Other operating income and revenues | 408 | 2,449 | - | 39 | - | - | 1,611 | 15 | 10 | 34 | - | 4,566 | 73,445 | 6.2% |
| Purchases of raw materials, consumables and goods | - | (15) | - | - | - | - | (3,605) | - | - | - | - | (3,620) | (701,423) | 0.5% |
| Staff costs | - | - | - | - | - | - | 2,526 | 170 | 56 | 223 | (6,337) | (3,362) | (292,990) | 1.1% |
| Service costs | - | (386) | - | - | (14,467) | - | 1,652 | 105 | 36 | 149 | - | (12,911) | (191,777) | 6.7% |
| Costs for the use of third-party assets | (1,617) | 1,937 | - | - | - | - | - | - | - | - | - | 320 | (198,736) | (0.2)% |
| Write-downs and provisions | - | - | - | - | - | - | (6,800) | (6,400) | (1,300) | - | - | (14,500) | (15,220) | 95.3% |
| Other operating charges | - | - | - | - | - | - | 121 | 9 | 4 | 29 | - | 163 | (24,224) | (0.7)% |
| Financial income | - | - | - | - | - | 1,121 | - | - | - | - | - | 1,121 | 1,153 | 97.2% |
| Gains (losses) from equity investments | - | - | - | - | - | (21,065) | - | - | - | - | - | (21,065) | (21,137) | 99.7% |
| **Year ended 31 January 2017** | | | | | | | | | | | | | | |
| Revenues | 992 | 86 | (429) | - | - | - | 3,531 | - | - | - | - | 4,180 | 1,362,624 | 0.3% |
| Other operating income and revenues | 3,669 | 200 | - | 3 | - | - | - | - | - | - | - | 3,872 | 66,794 | 5.8% |
| Purchases of raw materials, consumables and goods | (2) | - | - | - | - | - | - | - | - | - | - | (2) | (587,935) | 0.0% |
| Staff costs | - | - | - | - | - | - | - | - | - | - | (5,619) | (5,619) | (277,815) | 2.0% |
| Service costs | (94) | (44) | - | - | (16,879) | - | - | - | - | - | - | (17,017) | (176,427) | 9.6% |
| Costs for the use of third-party assets | 27 | 377 | - | - | - | - | - | - | - | - | - | 404 | (192,666) | (0.2)% |
| Write-downs and provisions | - | - | - | - | - | - | - | - | - | - | - | 0 | (1,200) | 0.0% |
| Other operating charges | (14) | 0 | - | - | - | - | - | - | - | - | - | (14) | (24,086) | 0.1% |
| Financial income | - | - | - | - | - | 100 | - | - | - | - | - | 100 | 200 | 50.0% |
| Gains (losses) from equity investments | - | - | - | - | - | - | - | - | - | - | - | 0 | 0 | 0.0% |

The main economic relationships with related parties are as follows:

- goods brokerage fees for services provided by subsidiary OVS Hong Kong Sourcing Limited to Coin S.r.l., included in the "Revenues" item;
- sales of goods to the Sempione Retail Group companies included in the “Revenues” item;
- the provision of services to companies in the Sempione Retail Group and chargebacks to Coin S.r.l. of costs for central IT, logistics and leasing services incurred by the OVS Group, included in the "Other income and operating revenues" item;
- the provision of services relating to the purchase of electricity by Centomilacandele S.c.p.a., included in the "Service costs" items;

and

- the write-down of the Sempione Retail AG equity investment and receivable, included in the item “Gains (losses) from equity investments”;
- interest accrued on financial receivables from Sempione Retail AG, included in the item "Financial income".

The cash flows shown in the following table represent the actual payments and receipts registered with related parties, rather than changes during the year in the balance sheet item to which they relate:

| (amounts in thousands of euros) | Related parties | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gruppo Coin S.p.A. | Coin S.r.l. | COSI - Concept of Style Italy S.p.A. | Excelsior Verona S.r.l. in liquidazione | GCF S.p.A. in liquidazione | Centomila-candele S.c.p.a. | Sempione Retail AG | Sempione Fashion AG | Charles Vögele Austria GMBH | Charles Vögele Deutschland GMBH | Charles Vögele Trgovina stekstilom DOO (Slovenia) | Directors and managers with strategic responsibilities | Total | Total cash flow from the cash flow statement | Percentage of balance sheet item |
| **Year ended 31 January 2018** | | | | | | | | | | | | | | | |
| Cash flow generated (absorbed) by operating activities | (11,431) | 5,512 | - | 2 | 5 | (18,232) | - | 28,023 | 20,440 | 23,385 | 2,676 | (4,677) | 45,703 | 75,688 | 60.4% |
| Cash flow generated (absorbed) by investing activities | - | - | - | - | - | - | - | - | - | - | - | - | 0 | (69,308) | 0.0% |
| Cash flow generated (absorbed) by financing activities | - | - | - | - | - | - | (6,945) | - | - | - | - | - | (6,945) | (35,595) | 19.5% |
| **Year ended 31 January 2017** | | | | | | | | | | | | | | | |
| Cash flow generated (absorbed) by operating activities | (13,714) | (83) | 193 | 33 | 23 | (20,704) | (28) | - | - | - | - | (4,712) | (38,992) | 75,264 | (51.8)% |
| Cash flow generated (absorbed) by investing activities | (3,931) | - | - | - | - | - | (8,284) | - | - | - | - | - | (12,215) | (73,799) | 16.6% |
| Cash flow generated (absorbed) by financing activities | - | - | - | - | - | - | (5,491) | - | - | - | - | - | (5,491) | (37,388) | 14.7% |

The transactions listed above took place under arm's length conditions.

## OTHER INFORMATION

### Contingent liabilities

No other potential risks exist other than as described in note 16 “Provisions for risks and charges”.

### Sureties and guarantees granted to third parties

These came to €70,075 thousand (€59,370 thousand at 31 January 2017) and were granted on behalf of the Group by banks or insurance companies, mainly to guarantee Italian leases.

### Other commitments

Commitments for lease payments on stores and warehouses to be settled within the contractual deadlines, with or without a termination clause. In the vast majority of agreements, this clause is assumed to cover a period of 12 months. The consequent commitment relates to one year's rent and amounts to €173.3 million.

### Directors' and Statutory Auditors' fees

The following table shows the fees payable to Directors and Statutory Auditors for positions held at the Group:

| (amounts in thousands of euros) | Directors | Auditors |
|---|---|---|
| Year ended 31 January 2018 | 830 | 152 |
| Year ended 31 January 2017 | 630 | 152 |

## RECONCILIATION OF SHAREHOLDERS' EQUITY AND RESULT FOR THE YEAR OF THE PARENT COMPANY WITH CONSOLIDATED SHAREHOLDERS' EQUITY AND RESULT FOR THE YEAR

| (amounts in thousands of euros) | Result for the year | Shareholders' equity |
|---|---|---|
| **Financial statements of OVS S.p.A. at 31 January 2018, prepared according to the international reporting standards (IFRS)** | (7,716) | 816,244 |
| Shareholders' equity and profit for the year of the fully consolidated subsidiaries, net of the carrying amount of the equity investments | 32,286 | 23,958 |
| Elimination of infra-group dividends | (21,749) | 0 |
| Elimination of unrealised infra-group results net of the relative tax effect | (185) | (544) |
| Exchange rate gains or losses from the translation of financial statements in foreign currencies | 0 | (2,917) |
| Intangibles impairment - consolidation process | (624) | 0 |
| Elimination of inter-company write-downs | 3,052 | 4,939 |
| **Consolidated financial statements of OVS Group at 31 January 2018, prepared according to the international reporting standards (IFRS)** | **5,064** | **841,680** |

### Transactions arising from atypical and/or unusual operations

In accordance with the Consob Communication of 28 July 2006, note that in 2017, no atypical and/or unusual operations were entered into as defined by the Communication.

### Significant non-recurring events and operations

In accordance with the Consob Communication of 28 July 2006, the Group's results for 2017 were influenced by non-recurring net expenses of €21,593 thousand.

| | 31.01.2018 | 31.01.2017 |
|---|---|---|
| Staff costs | 560 | 161 |
| Service costs | 37 | 889 |
| Costs for the use of third-party assets | 98 | 48 |
| Other operating charges | 0 | 2,697 |
| Write-downs of equity investments | 21,065 | 0 |
| Taxes | (167) | (1,044) |
| **Total** | **21,593** | **2,751** |

The non-recurring expenses mainly refer to:

-€535 thousand for transactions with employees, recognised in “Staff costs”;

-€21,065 thousand for the write-down in respect of Sempione Retail AG (€8,284 thousand for the equity investment and €12,781 thousand for the financial receivable), recognised in “Gains (losses) from equity investments”. This write-down became necessary due to this company's results in the consolidated financial statements at 31 December 2017, which show negative shareholders’ equity.

**Significant events after the reporting date**

Please refer to the Report on Operations.

## APPENDICES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following documents contain additional information on the consolidated financial statements for the year ended 31 January 2018.

Appendices:

- 1: Property, plant and equipment at 31 January 2018,
- 2: Intangible assets at 31 January 2018,
- 3: Property, plant and equipment at 31 January 2017,
- 4: Intangible assets at 31 January 2017.

**APPENDIX 1**

**Property, plant and equipment**

The composition and changes during the period were as follows (amounts in thousands of euros):

| | Balance at 31.01.2017 | Movements during the year | | | | Balance at 31.01.2018 |
|---|---|---|---|---|---|---|
| | | Purchases | Sales / disposals | | Amortisation / write-downs | |
| **Leasehold improvements** | | | | | | |
| initial cost | 207,158 | 8,875 | (4,332) | | 0 | 211,701 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (151,621) | 0 | 3,868 | | (9,027) | (156,780) |
| **net** | **55,537** | **8,875** | **(464)** | | **(9,027)** | **54,921** |
| **Land and buildings** | | | | | | |
| initial cost | 34,350 | 432 | 0 | | 0 | 34,782 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (8,627) | 0 | 0 | | (707) | (9,334) |
| **net** | **25,723** | **432** | **0** | | **(707)** | **25,448** |
| **Plant and machinery** | | | | | | |
| initial cost | 289,017 | 15,927 | (3,321) | | 0 | 301,623 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (203,807) | 0 | 2,744 | | (13,130) | (214,193) |
| **net** | **85,210** | **15,927** | **(577)** | | **(13,130)** | **87,430** |
| **Industrial and commercial equipment** | | | | | | |
| initial cost | 325,541 | 23,933 | (9,505) | | 0 | 339,969 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (234,782) | 0 | 8,590 | | (19,043) | (245,235) |
| **net** | **90,759** | **23,933** | **(915)** | | **(19,043)** | **94,734** |
| **Other assets** | | | | | | |
| initial cost | 57,263 | 3,891 | (43) | | 0 | 61,111 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (50,855) | 0 | 33 | | (2,210) | (53,032) |
| **net** | **6,408** | **3,891** | **(10)** | | **(2,210)** | **8,079** |
| **Assets under construction and payments on account** | | | | | | |
| initial cost | 3,722 | 3,733 | (1,554) | | 0 | 5,901 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | 0 | 0 | 0 | | 0 | 0 |
| **net** | **3,722** | **3,733** | **(1,554)** | (1) | **0** | **5,901** |
| **Total** | | | | | | |
| initial cost | 917,051 | 56,791 | (18,755) | | 0 | 955,087 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (649,692) | 0 | 15,235 | | (44,117) | (678,574) |
| **net** | **267,359** | **56,791** | **(3,520)** | (2) | **(44,117)** | **276,513** |

(1) Of this amount, € 1,554 thousand represents assets under construction at 31/01/2017, reclassified to the specific asset categories in 2017.

(2) Includes € 1,560 thousand relating to fixed assets disposed of and written down in the period due to the closure of p.o.s..

**APPENDIX 2**

**Intangible assets**

The composition and changes during the period were as follows (amounts in thousands of euros):

| | Balance at 31.01.2017 | Movements during the year: Purchases | Sales / disposals | | Amortisation / write-downs | | Balance at 31.01.2018 |
|---|---|---|---|---|---|---|---|
| **Rights to industrial patents and intellectual property rights** | | | | | | | |
| initial cost | 125,084 | 10,355 | 0 | | 0 | | 135,439 |
| write-downs | 0 | 0 | 0 | | 0 | | 0 |
| amortisation | (106,828) | 0 | 0 | | (6,614) | | (113,442) |
| **net** | **18,256** | **10,355** | **0** | | **(6,614)** | | **21,997** |
| | | | | | | | |
| **Concessions, licences and trademarks** | | | | | | | |
| initial cost | 519,934 | 538 | (421) | | 0 | | 520,051 |
| write-downs | (5,121) | 0 | 413 | | (731) | | (5,439) |
| amortisation | (5,788) | 0 | 8 | | (1,078) | | (6,858) |
| **net** | **509,025** | **538** | **0** | | **(1,809)** | | **507,754** |
| | | | | | | | |
| **Assets under construction and payments on account** | | | | | | | |
| initial cost | 681 | 966 | (284) | | 0 | | 1,363 |
| write-downs | 0 | 0 | 0 | | 0 | | 0 |
| amortisation | 0 | 0 | 0 | | 0 | | 0 |
| **net** | **681** | **966** | **(284)** | (1) | **0** | | **1,363** |
| | | | | | | | |
| **Other intangible assets** | | | | | | | |
| initial cost | 162,968 | 1,574 | (258) | | 0 | | 164,284 |
| write-downs | 0 | 0 | 0 | | 0 | | 0 |
| amortisation | (51,006) | 0 | 258 | | (8,011) | | (58,759) |
| **net** | **111,962** | **1,574** | **0** | | **(8,011)** | | **105,525** |
| | | | | | | | |
| **Total** | | | | | | | |
| initial cost | 808,667 | 13,433 | (963) | | 0 | | 821,137 |
| write-downs | (5,121) | 0 | 413 | | (731) | (2) | (5,439) |
| amortisation | (163,622) | 0 | 266 | | (15,703) | | (179,059) |
| **net** | **639,924** | **13,433** | **(284)** | | **(16,434)** | | **636,639** |
| | | | | | | | |
| **Goodwill** | | | | | | | |
| initial cost | 453,165 | 0 | 0 | | 0 | | 453,165 |
| write-downs | 0 | 0 | 0 | | (624) | (3) | (624) |
| amortisation | 0 | 0 | 0 | | 0 | | 0 |
| **net** | **453,165** | **0** | **0** | | **(624)** | | **452,541** |

(1) Of this amount, € 284 thousand represents assets under construction at 31/01/2017, reclassified to the specific asset categories in 2017.

(2) Includes € 731 thousand relating to assets written down after mpairment testing of the p.o.s..

(3) Includes € 624 thousand relating to activity of impairment test on goodwill of OVS Fashion España S.L..

**APPENDIX 3**

**Property, plant and equipment**
The composition and changes during the period were as follows (amounts in thousands of euros):

| | Balance at 31.01.2016 | Movements during the year: Purchases | Sales / disposals | | Amortisation / write-downs | Balance at 31.01.2017 |
|---|---|---|---|---|---|---|
| **Leasehold improvements** | | | | | | |
| initial cost | 196,713 | 11,504 | (1,059) | | 0 | 207,158 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (143,600) | 0 | 658 | | (8,679) | (151,621) |
| **net** | **53,113** | **11,504** | **(401)** | | **(8,679)** | **55,537** |
| | | | | | | |
| **Land and buildings** | | | | | | |
| initial cost | 33,901 | 449 | 0 | | 0 | 34,350 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (7,934) | 0 | 0 | | (693) | (8,627) |
| **net** | **25,967** | **449** | **0** | | **(693)** | **25,723** |
| | | | | | | |
| **Plant and machinery** | | | | | | |
| initial cost | 278,711 | 11,871 | (1,565) | | 0 | 289,017 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (191,839) | 0 | 994 | | (12,962) | (203,807) |
| **net** | **86,872** | **11,871** | **(571)** | | **(12,962)** | **85,210** |
| | | | | | | |
| **Industrial and commercial equipment** | | | | | | |
| initial cost | 306,473 | 24,032 | (4,964) | | 0 | 325,541 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (220,361) | 0 | 4,207 | | (18,628) | (234,782) |
| **net** | **86,112** | **24,032** | **(757)** | | **(18,628)** | **90,759** |
| | | | | | | |
| **Other assets** | | | | | | |
| initial cost | 54,045 | 3,299 | (81) | | 0 | 57,263 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (49,174) | 0 | 75 | | (1,756) | (50,855) |
| **net** | **4,871** | **3,299** | **(6)** | | **(1,756)** | **6,408** |
| | | | | | | |
| **Assets under construction and payments on account** | | | | | | |
| initial cost | 3,148 | 2,552 | (1,978) | | 0 | 3,722 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | 0 | 0 | 0 | | 0 | 0 |
| **net** | **3,148** | **2,552** | **(1,978)** | (1) | **0** | **3,722** |
| | | | | | | |
| **Total** | | | | | | |
| initial cost | 872,991 | 53,707 | (9,647) | | 0 | 917,051 |
| write-downs | 0 | 0 | 0 | | 0 | 0 |
| amortisation | (612,908) | 0 | 5,934 | | (42,718) | (649,692) |
| **net** | **260,083** | **53,707** | **(3,713)** | (2) | **(42,718)** | **267,359** |

(1) Of this amount, € 1,978 thousand represents assets under construction at 31/01/2016, reclassified to the specific asset categories in 2016.
(2) Includes € 1,599 thousand relating to fixed assets disposed of and written down in the period due to the closure of p.o.s..

**APPENDIX 4**

**Intangible assets**
The composition and changes during the period were as follows (amounts in thousands of euros):

| | Balance at 31.01.2016 | Movements during the year | | | Balance at 31.01.2017 |
|---|---|---|---|---|---|
| | | Purchases | Sales / disposals | Amortisation / write-downs | |
| **Rights to industrial patents and intellectual property rights** | | | | | |
| initial cost | 117,587 | 7,778 | (281) | 0 | 125,084 |
| write-downs | 0 | 0 | 0 | 0 | 0 |
| amortisation | (101,267) | 0 | 266 | (5,827) | (106,828) |
| **net** | **16,320** | **7,778** | **(15)** | **(5,827)** | **18,256** |
| | | | | | |
| **Concessions, licences and trademarks** | | | | | |
| initial cost | 518,394 | 2,339 | (799) | 0 | 519,934 |
| write-downs | (5,852) | 0 | 771 | (40) | (5,121) |
| amortisation | (4,781) | 0 | 9 | (1,016) | (5,788) |
| **net** | **507,761** | **2,339** | **(19)** | **(1,056)** | **509,025** |
| | | | | | |
| **Assets under construction and payments on account** | | | | | |
| initial cost | 700 | 681 | (700) | 0 | 681 |
| write-downs | 0 | 0 | 0 | 0 | 0 |
| amortisation | 0 | 0 | 0 | 0 | 0 |
| **net** | **700** | **681** | **(700)** (1) | **0** | **681** |
| | | | | | |
| **Other intangible assets** | | | | | |
| initial cost | 162,806 | 162 | 0 | 0 | 162,968 |
| write-downs | 0 | 0 | 0 | 0 | 0 |
| amortisation | (43,175) | 0 | 0 | (7,831) | (51,006) |
| **net** | **119,631** | **162** | **0** | **(7,831)** | **111,962** |
| | | | | | |
| **Total** | | | | | |
| initial cost | 799,487 | 10,960 | (1,780) | 0 | 808,667 |
| write-downs | (5,852) | 0 | 771 | (40) (3) | (5,121) |
| amortisation | (149,223) | 0 | 275 | (14,674) | (163,622) |
| **net** | **644,412** | **10,960** | **(734)** (2) | **(14,714)** | **639,924** |
| | | | | | |
| **Goodwill** | | | | | |
| initial cost | 452,541 | 624 | 0 | 0 | 453,165 |
| write-downs | 0 | 0 | 0 | 0 | 0 |
| amortisation | 0 | 0 | 0 | 0 | 0 |
| **net** | **452,541** | **624** (4) | **0** | **0** | **453,165** |

(1) Of this amount, € 700 thousand represents assets under construction at 31/01/2016, reclassified to the specific asset categories in 2016.

(2) Includes € 19 thousand relating to fixed assets disposed of and written down in the period due to the closure of p.o.s..
(3) Includes € 40 thousand relating to assets written down after impairment testing of the p.o.s.
(4) Includes € 624 thousand relating to goodwill recognition after purchasing of OVS Fashion España S.L. on 30/09/2016.

**Certification of the consolidated financial statements pursuant to Article 81-*ter* of Consob Regulation 11971 of 14 May 1999, as subsequently amended and supplemented.**

1. We, the undersigned, Stefano Beraldo, the Chief Executive Officer, and Nicola Perin, the Director responsible for preparing the corporate accounting statements of OVS S.p.A., hereby declare, also taking account of Article 154-*bis*, paragraphs 3 and 4, of Legislative Decree 58 of 24 February 1998:
   - the adequacy with respect to the characteristics of the Company and
   - the effective application

   of the administrative and accounting procedures for the preparation of the consolidated financial statements in the period from 1 February 2017 to 31 January 2018.

2. The evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the consolidated financial statements at 31 January 2018 was based on a process defined by OVS S.p.A. consistent with the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (CoSO), which is a generally accepted international framework.

3. Moreover:

   3.1 the consolidated financial statements:

   a) were prepared in compliance with the international accounting standards recognised by the European Community pursuant to (EC) Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) correspond to the accounting books and records;

   c) are suitable to provide a true and fair view of the financial position and results of the issuer and all the companies included within the scope of consolidation.

   3.2 The Report on Operations includes a reliable analysis of the performance and operating results, as well as the situation, of the issuer and all the companies included within the scope of consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

Mestre, Venice, 18 April 2018

**Stefano Beraldo**
Chief Executive Officer

**Nicola Perin**
Director responsible for preparing the corporate accounting statements

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree n° 39 of 27 January 2010 and article 10 of Regulation (EU) n° 537/2014*

To the shareholders of OVS SpA

## *Report on the audit of the consolidated financial statements*

### *Opinion*

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 January 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 n° 38 of 28 February 2005.

### *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 OVS 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.

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| **Evaluation over the recoverability of the balances of 'Goodwill' and 'Intangible assets'**<br><br>*Notes 8 and 9 to the consolidated financial statements*<br><br>The consolidated financial statements of OVS Group as of 31 January 2018 include goodwill for Euro 452,541 thousand and intangible assets for Euro 636,639 thousand, whereof indefinite-lived intangible assets for Euro 390,799 thousand and intangible assets with definite lives for Euro 245,840 thousand.<br>Goodwill relates entirely to the OVS division. Indefinite-lived intangible assets include the OVS and UPIM brands, carried at Euro 377,492 thousand and Euro 13,307 thousand, respectively. The above amounts originated from the recognition of business combinations carried out in previous years.<br><br>In accordance with the applicable financial reporting standards, management of OVS Group tests goodwill and indefinite-lived intangible assets for impairment at least annually, based on estimates of their values in use obtained by discounting the future cash flows estimated for the next three years and the terminal value ("impairment test"). The inputs used for the impairment test are derived from the most recent business plan developed by management consistently with the 2018 budget approved by the board of directors. Intangible assets with definite lives and tangible assets are tested only if specific indicators of impairment are identified.<br><br>We assumed the measurement of goodwill and indefinite-lived intangible assets significant items in consideration of the magnitude of the balances involved and the elements of estimation and uncertainty intrinsic to evaluation of their recoverability performed by management.<br>The key uncertainties and estimates relate to the correct definition and identification of the cash generating units, the estimation of the future cash | We obtained the valuation models and documentary evidence used by management and approved by the board of directors of OVS SpA to determine the assets' recoverable amounts.<br><br>Also with the support of valuation experts belonging to the PwC network, we analysed the methodological approach used by management to determine the assets' recoverable amounts and we verified the mathematical accuracy of the valuation models used.<br><br>We analysed the reasonableness of OVS Group management's assumptions about the cash generating units identification and the process of allocation to the latter of goodwill and indefinite-lived intangible assets, by verifying their consistency with the Group's structure and operating segments.<br><br>We analysed the business plans of each cash generating unit identified, prepared and used by OVS Group management to assess the recoverability of goodwill and indefinite-lived intangible assets, by verifying the consistency of the figures for the year 2018 with the budget approved by the board of directors on 22 March 2018, and through a critical assessment of the reasonableness of the cash flows estimated by management for subsequent years.<br><br>In fact, we assessed the appropriateness of the main assumptions used with reference to the estimated future cash flows in light of the past performance of OVS Group, by comparing the growth rates used by management with external sources and other information normally available to analysts.<br><br>We verified the method of calculation used by management to estimate the enterprise weighted average cost of capital used to discount the estimated future cash flows. |

| *Key audit matters* | *Auditing procedures performed in response to key audit matters* |
|---|---|
| flows and the discount rate to be applied to the estimated future cash flows. | Finally, our tests included an analysis of the notes to the consolidated financial statements to assess the adequacy and completeness of the disclosures provided. |
| **Measurement of the equity investment in Sempione Retail AG and of financial receivable from the same company, as well as of trade receivables from entities of the Sempione Retail Group**<br><br>*Notes 2, 4 and 10 to the consolidated financial statements*<br><br>As a consequence of the losses matured during fiscal year 2017 by the entities of Sempione Retail Group, which resulted in negative equity, OVS Group management wrote off in full the investment in the associated company Sempione Retail AG for an amount of Euro 8,284 thousand and the financial receivable from the same entity amounting to Euro 12,781 thousand.<br>Moreover, with reference to reasonable estimates of the recoverability of trade receivables as of 31 January 2018 from certain entities of the Sempione Retail Group, management of OVS SpA wrote down the receivables by Euro 14,500 thousand.<br><br>We assumed the equity investment in Sempione Retail AG, the financial receivable and the trade receivables from entities of Sempione Retail Group significant items in consideration of the balances involved and the elements of estimation and uncertainty intrinsic to valuations of their recoverability performed by management.<br>The key uncertainties and estimates relate to the solvency of entities of the Sempione Retail Group and the impact of transactions subsequent to the reporting date on the measurement of the trade receivables. | We obtained from OVS Group management the consolidated financial statements of Sempione Retail Group as of 31 December 2017 as well a management report of the latter with performance of the group through 31 January 2018.<br><br>We obtained and examined the analysis performed by OVS Group management about the measurement of the equity investment in Sempione Retail AG and the financial receivable from the latter.<br><br>We obtained from OVS Group management details of the accounts receivable from entities of the Sempione Retail Group as of 31 January 2018.<br><br>We obtained and examined the analysis performed by OVS Group management about the recoverability of such trade receivables, through an analysis and critical assessment of the supporting evidence.<br><br>We analysed the impacts on the recoverability of the trade receivables of transactions occurring subsequent to the reporting date, and we obtained documentary evidence from OVS Group management supporting their assessment, which we examined.<br><br>Finally, our procedures included an analysis of the notes to the consolidated financial statements to assess the adequacy and completeness of the disclosures provided. |

***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38 of 28 February 2005 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 OVS 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) n° 537/2014*

On 23 July 2014 the shareholders of OVS 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 January 2015 to 31 January 2023.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) n° 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 n° 39 of 27 January 2010 and article 123-bis, paragraph 4, of Legislative Decree n° 58 of 24 February 1998*

Management of OVS SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the OVS Group as of 31 January 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) n° 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 n° 58 of 24 February 1998, with the consolidated financial statements of the OVS Group as of 31 January 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 the OVS Group as of 31 January 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 n° 39 of 27 January 2010, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.

### *Statement in accordance with article 4 of Consob's regulation implementing Legislative Decree n° 254 of 30 December 2016*

Management of OVS SpA is responsible for the preparation of the non-financial statement pursuant to Legislative Decree n° 254 of 30 December 2016.
We have verified that management approved the non-financial statement.

Pursuant to article 3, paragraph 10, of Legislative Decree n° 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Treviso, 10 May 2018

PricewaterhouseCoopers SpA

*Signed by*

Massimo Dal Lago
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

**Separate financial statement of OVS S.p.A.**

**at 31 January 2018**

## Statements of financial position

(euro units)

| ASSETS | Note | 31.01.2018 | of which related parties | 31.01.2017 | of which related parties |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and banks | *1* | 58,084,169 | | 86,159,610 | |
| Trade receivables | *2* | 122,290,825 | 46,232,975 | 81,650,138 | 14,673,156 |
| Inventories | *3* | 384,020,067 | | 337,493,628 | |
| Financial assets | *4* | 0 | | 18,896,624 | |
| Current tax assets | *5* | 24,321,172 | | 1,004,012 | |
| Other receivables | *6* | 33,604,875 | | 30,750,939 | |
| **Total current assets** | | **622,321,108** | | **555,954,951** | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *7* | 272,630,950 | | 265,632,122 | |
| Intangible assets | *8* | 636,608,095 | | 639,906,514 | |
| Goodwill | *9* | 452,540,909 | | 452,540,909 | |
| Equity investments | *10* | 9,121,995 | | 19,346,702 | |
| Financial assets | *4* | 810,000 | 810,000 | 5,491,405 | 5,491,405 |
| Other receivables | *6* | 4,230,032 | | 4,690,281 | |
| **Total non-current assets** | | **1,375,941,981** | | **1,387,607,933** | |
| **TOTAL ASSETS** | | **1,998,263,089** | | **1,943,562,884** | |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 31.01.2018 | of which related parties | 31.01.2017 | of which related parties |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Financial liabilities | *11* | 57,189,653 | | 6,559,196 | |
| Trade payables | *12* | 436,322,189 | 34,918,755 | 390,134,183 | 24,502,279 |
| Current tax liabilities | *13* | 655,581 | | 15,378,965 | 11,460,000 |
| Other payables | *14* | 107,294,882 | 1,808,000 | 94,131,524 | 2,018,267 |
| **Total current liabilities** | | **601,462,305** | | **506,203,868** | |
| **Non-current liabilities** | | | | | |
| Financial liabilities | *11* | 381,115,135 | | 373,363,149 | |
| Employee benefits | *15* | 38,613,762 | | 39,867,853 | |
| Provisions for risks and charges | *16* | 6,568,023 | | 10,748,328 | |
| Deferred tax liabilities | *17* | 134,497,350 | | 141,075,330 | |
| Other payables | *14* | 19,762,591 | | 17,029,597 | |
| **Total non-current liabilities** | | **580,556,861** | | **582,084,257** | |
| **TOTAL LIABILITIES** | | **1,182,019,166** | | **1,088,288,125** | |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | *18* | 227,000,000 | | 227,000,000 | |
| Other reserves | *18* | 596,959,852 | | 551,767,833 | |
| Net result for the year | | (7,715,929) | | 76,506,926 | |
| **TOTAL SHAREHOLDERS' EQUITY** | | **816,243,923** | | **855,274,759** | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,998,263,089** | | **1,943,562,884** | |

# Income statement

(euro units)

| | Note | 31.01.2018 | of which non-recurring | of which related parties | 31.01.2017 | of which non-recurring | of which related parties |
|---|---|---|---|---|---|---|---|
| Revenues | *19* | 1,519,452,564 | | 124,963,235 | 1,357,882,693 | | 9,510,459 |
| Other operating income and revenues | *20* | 72,423,531 | | 4,523,752 | 66,072,426 | | 3,828,479 |
| **Total revenues** | | **1,591,876,095** | **0** | | **1,423,955,119** | **0** | |
| Purchases of raw materials, consumables and goods | *21* | 743,576,025 | | 45,801,025 | 620,435,575 | | 33,012,489 |
| Staff costs | *22* | 282,219,141 | 560,245 | 3,144,338 | 268,558,256 | 161,367 | 5,111,782 |
| Depreciation, amortisation and write-downs of assets | *23* | 61,256,127 | | | 58,454,604 | | |
| Other operating expenses | | | | | | | |
| Service costs | *24* | 187,928,992 | 36,550 | 13,106,431 | 173,528,273 | 888,905 | 17,086,549 |
| Costs for the use of third-party assets | *25* | 194,721,828 | 97,912 | (320,160) | 189,693,128 | 48,386 | (403,686) |
| Write-downs and provisions | *26* | 15,220,000 | | 14,500,000 | 1,200,000 | | |
| Other operating charges | *27* | 23,124,127 | | (360,120) | 23,231,628 | 2,696,380 | (157,008) |
| **Result before net financial expenses and taxes** | | **83,829,855** | **(694,707)** | | **88,853,655** | **(3,795,038)** | |
| Financial income | *28* | 1,153,253 | | 1,126,924 | 186,631 | | 101,852 |
| Financial expenses | | (15,676,645) | | | (15,774,731) | | |
| Exchange rate gains and losses | | (70,598,805) | | | 11,579,165 | | |
| Gains (losses) from equity investments | | (2,905,450) | (21,065,484) | (2,905,450) | 19,001,120 | | 19,001,120 |
| **Net result for the year before tax** | | **(4,197,792)** | **(21,760,191)** | | **103,845,840** | **(3,795,038)** | |
| Taxes | *29* | (3,518,137) | 166,730 | | (27,338,914) | 1,043,635 | |
| **Net result for the year** | | **(7,715,929)** | **(21,593,461)** | | **76,506,926** | **(2,751,403)** | |