



Salvatore Ferragamo Group

Half-year report as at 30 June 2018

Salvatore Ferragamo S.p.A.

Florence

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

General information

Registered office of the Parent company

Salvatore Ferragamo S.p.A.
Via Tornabuoni, 2
50123 Florence

Legal information about the Parent company

Authorized share capital 16,939,000 Euro
Subscribed and paid-up share capital 16,879,000 Euro
Tax code and Florence Company Register no.: 02175200480
Registered with the Florence Chamber of Commerce under REA (Economic and Administrative Register) no. 464724
Corporate website www.ferragamo.com

Corporate boards

Honorary Chairman (1)	Wanda Miletta Ferragamo	
Board of Directors (1)	Ferruccio Ferragamo (4) Giacomo Ferragamo (4) Giovanna Ferragamo (5) Leonardo Ferragamo (5) Diego Paternò Castello di San Giuliano (5) Angelica Visconti (4) Francesco Caretti (5) Peter Woo Kwong Ching (5) Raffaella Pedani (5) Umberto Tombari (5)(6) Marzio Alessandro Alberto Saà (5)(6) Chiara Ambrosetti (5)(6) Lidia Fiori (5)(6)	Chairman Deputy Chairman
Control and Risk Committee	Marzio Alessandro Alberto Saà Umberto Tombari Chiara Ambrosetti	Chairman
Nomination and Remuneration Committee	Umberto Tombari Marzio Alessandro Alberto Saà Lidia Fiori	Chairman
Product and Brand Strategy Committee	Ferruccio Ferragamo Giacomo Ferragamo Diego Paternò Castello di San Giuliano Angelica Visconti	Chairman
Board of Statutory Auditors (2)	Andrea Balelli Fulvio Favini Paola Caramella (8) Roberto Coccia Antonietta Donato (8)	Chairman Acting Statutory Auditor Acting Statutory Auditor Substitute Statutory Auditor Substitute Statutory Auditor
Independent Auditors (3)	EY S.p.A.	
Manager charged with preparing Company's Financial Reports (7)	Ugo Giorcelli	

(1) Appointed by the Shareholders' Meeting on 20 April 2018 and serving for the 2018-2020 period

(2) Appointed by the Shareholders' Meeting on 27 April 2017 and serving for the 2017-2019 period

(3) Appointed for the 2011-2019 period

(4) Executive director

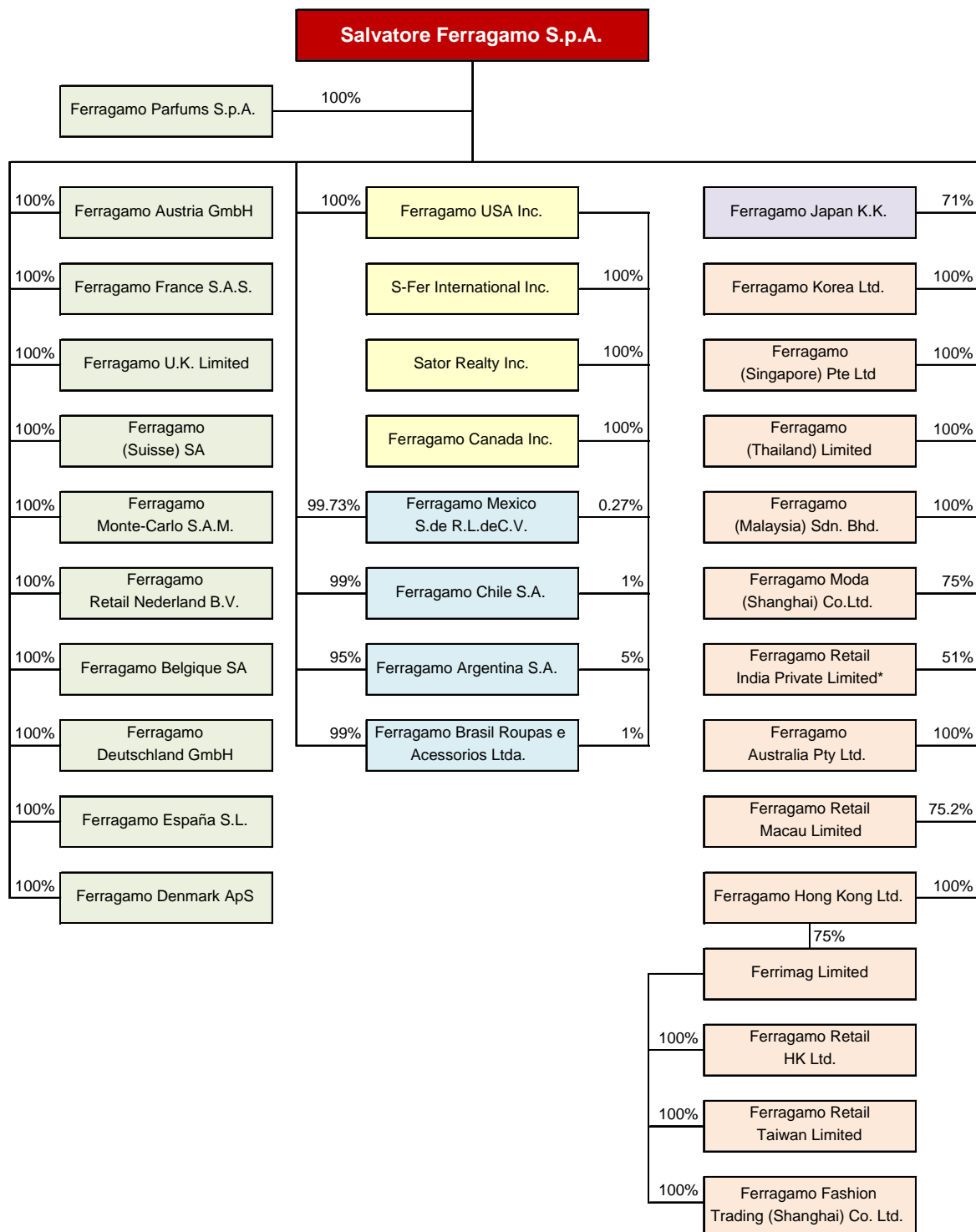
(5) Non-executive director

(6) Independent director pursuant to art. 148, paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code

(7) Appointed by the Board of Directors on 14 March 2017

(8) Appointed by the Shareholders' Meeting on 20 April 2018 and serving for the 2018-2019 period

Group structure



Notes

	European companies
	North America companies
	Central and South America companies
	Asia Pacific companies
	Japanese companies

* Non-operating company

Group description

As at 30 June 2018, the Salvatore Ferragamo Group consists of Salvatore Ferragamo S.p.A. (Parent company) and the following subsidiaries – consolidated on a line by line basis – in which the Parent company holds majority stakes, both directly or indirectly, and which it controls.

Salvatore Ferragamo S.p.A.

Parent company, owner of the Ferragamo and Salvatore Ferragamo brands, as well as of numerous other figurative and shape-based trademarks; it undertakes production activities and it manages the retail distribution channel in Italy and the wholesale channel in Italy and abroad and acts as a holding company.

Europe

Ferragamo Retail Nederland B.V.

It manages directly operated stores (DOS) in Holland

Ferragamo France S.A.S.

It manages directly operated stores (DOS) in France

Ferragamo Deutschland GmbH

It manages directly operated stores (DOS) in Germany

Ferragamo Austria GmbH

It manages directly operated stores (DOS) in Austria

Ferragamo U.K. Limited

It manages directly operated stores (DOS) in the United Kingdom

Ferragamo (Suisse) SA

It manages directly operated stores (DOS) in Switzerland

Ferragamo Belgique SA

It manages directly operated stores (DOS) in Belgium

Ferragamo Monte-Carlo S.A.M.

It manages directly operated stores (DOS) in the Principality of Monaco

Ferragamo Espana S.L.

It manages directly operated stores (DOS) in Spain

Ferragamo Denmark ApS

It manages directly operated stores (DOS) in Denmark

Ferragamo Parfums S.p.A.

Licensee of the Ferragamo and Ungaro brands for the production and distribution of the fragrances product category

North America

Ferragamo USA Inc.

It distributes and promotes products in the USA and acts as a sub-holding for North America (USA and Canada)

Ferragamo Canada Inc.

It manages the retail and wholesale channels in Canada

S-Fer International Inc.

It manages directly operated stores (DOS) in the USA

Sator Realty Inc.

It manages directly operated stores (DOS) in the USA and real estate assets

Central and South America

Ferragamo Mexico S. de R.L. de C.V.

It manages directly operated stores (DOS) and the wholesale channel in Mexico

Ferragamo Chile S.A.

It manages directly operated stores (DOS) in Chile

Ferragamo Argentina S.A.

It manages directly operated stores (DOS) in Argentina

Ferragamo Brasil Roupas e Acessorios Ltda.

It manages directly operated stores (DOS) in Brazil

Asia Pacific

Ferragamo Hong Kong Ltd.

It distributes and promotes products in Asia and acts as a sub-holding for the Chinese area (Hong Kong, Taiwan, PRC)

Ferragamo Australia Pty Ltd.

It manages directly operated stores (DOS) in Australia

Ferrimag Limited

Sub-holding company for the Chinese area (Hong Kong, Taiwan, PRC)

Ferragamo Fashion Trading (Shanghai) Co. Ltd.

It manages directly operated stores (DOS) and the wholesale channel in the People's Republic of China

Ferragamo Moda (Shanghai) Co. Ltd.

It manages directly operated stores (DOS) in the People's Republic of China

Ferragamo Retail HK Limited

It manages directly operated stores (DOS) in Hong Kong

Ferragamo Retail Taiwan Limited

It manages directly operated stores (DOS) in Taiwan

Ferragamo Retail Macau Limited

It manages directly operated stores (DOS) in Macau

Ferragamo Retail India Private Limited

Non-operating company

Ferragamo Korea Ltd.

It manages directly operated stores (DOS) and the wholesale channel in South Korea

Ferragamo (Singapore) Pte. Ltd.

It manages directly operated stores (DOS) in Singapore

Ferragamo (Thailand) Limited

It manages directly operated stores (DOS) in Thailand

Ferragamo (Malaysia) Sdn. Bhd.

It manages directly operated stores (DOS) in Malaysia

Japan

Ferragamo Japan K.K.

It manages directly operated stores (DOS) in Japan

Salvatore Ferragamo Group

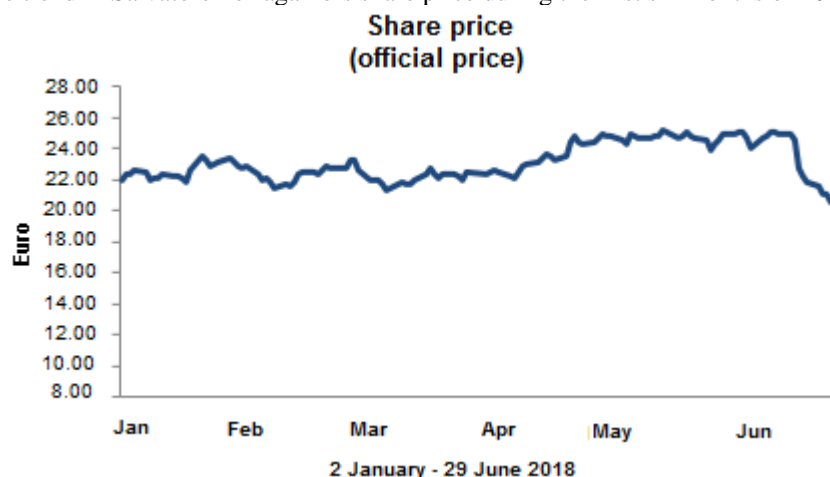
Interim Directors' report on operations

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Main Stock Market indicators – Salvatore Ferragamo S.p.A.

Official price as at 30 June 2018 in Euro	20.7685
Stock Market capitalization as at 30 June 2018 in Euro	3,505,515,115
Number of shares making up the share capital as at 30 June 2018	168,790,000
Number of outstanding shares (free float)	49,129,090

Here below is the trend in Salvatore Ferragamo's share price during the first six months of 2018.



Alternative performance measures

In order to better assess its performance, the Salvatore Ferragamo Group makes use of some alternative performance measures which are not identified as accounting measures under IFRS. Therefore, the determination criterion applied by the Group may differ from that adopted by other groups, and the balance may not be comparable. These alternative performance measures are derived exclusively from historical financial data and are determined in accordance with the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 and adopted by CONSOB with communication no. 92543 of 3 December 2015. They refer exclusively to the performance for the reporting period of this Half-year report as well as the comparative periods, and not to the Group's expected performance and are not to be considered as substitutes for IFRS measures. The definitions of the alternative performance measures adopted in the Half-year report are provided below:

EBITDA: it is *Operating profit before Amortization and depreciation and write-downs* of tangible/intangible assets.

Net working capital: it is *Inventories, plus Right of return assets and Trade receivables net of Trade payables and Refund Liabilities*.

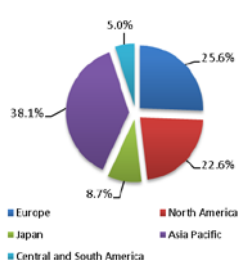
Net invested capital: it is the total amount of *Non current assets, Current assets and Assets held for sale*, excluding financial assets (*Other current financial assets and Cash and cash equivalents*) net of *Non current liabilities, Current liabilities and Liabilities held for sale*, excluding financial liabilities (*Current and non current interest-bearing loans & borrowings, Other current and non current financial liabilities*).

Net financial debt: it is calculated as *Current and non current interest-bearing loans & borrowings plus Other current and non current financial liabilities* including the negative fair value of derivatives (non-hedge component), net of *Cash and cash equivalents and Other current financial assets*, including the positive fair value of derivatives (non-hedge component).

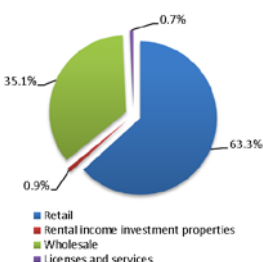
Income and financial highlights for the first half of 2018

(In millions of Euro)	Half-year period ended 30 June			% change	
	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Revenues	673.7	717.9	710.2	(6.2%)	1.1%
Gross profit	432.0	468.2	475.5	(7.7%)	(1.5%)
Gross profit %	64.1%	65.2%	67.0%		
EBITDA	116.6	136.3	166.1	(14.5%)	(17.9%)
EBITDA %	17.3%	19.0%	23.4%		
Operating profit	85.5	104.8	135.5	(18.5%)	(22.6%)
Operating profit %	12.7%	14.6%	19.1%		
Net profit/(loss) for the period	58.6	76.2	90.1	(23.1%)	(15.4%)
Net profit/(loss) – Group	57.5	78.4	90.2	(26.7%)	(13.1%)
Net profit/(loss) – minority interests	1.2	(2.2)	(0.1)		

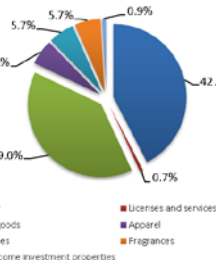
Revenues by geographic area as at 30 June 2018



Revenues by distribution channel as at 30 June 2018



Revenues by product category as at 30 June 2018

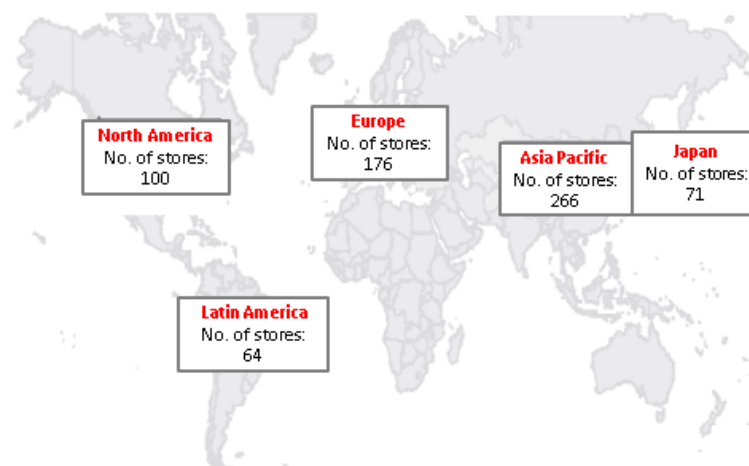


(In millions of Euro)	30 June 2018	31 December 2017	30 June 2017
Investments in tangible/intangible assets	31.8	88.4	28.7
Net working capital	317.8	270.5	331.2
Shareholders' equity	749.4	748.4	709.0
Net financial debt/(surplus)	(101.5)	(127.5)	(25.1)
Cash flow generated from operating activities*	75.8	278.9	129.1

*For a better explanation, as from 31 December 2017 the changes in derivatives – non hedge component (formerly shown in the cash flow from financing activities) have been included in the cash flow from operating activities, adjusting the comparative data relating to the first half of 2017 accordingly.

	30 June 2018	31 December 2017	30 June 2017
Staff as at the reporting date	4,152	4,183	4,102
Number of DOS	407	410	401
Number of TPOS	270	275	278

Geographical distribution of monobrand stores (30 June 2018)



677 Ferragamo monobrand stores

Disclaimer

This document contains forward-looking statements, in particular in the sections headed “Outlook” and “Significant events occurred after 30 June 2018” relating to future events and the operating, income and financial results of the Salvatore Ferragamo Group. These statements are based on the Group’s current expectations and forecasts regarding future events and, by their nature, involve risks and uncertainties, since they refer to events and depend on circumstances which may, or may not, happen or occur in the future. As such, they must not be unduly relied upon. The actual results could differ significantly from those contained in these statements due to a variety of factors, including the volatility and deterioration in the performance of securities and financial markets, changes in raw material prices, changes in macroeconomic conditions and in economic growth, and other changes in business conditions, in the legal and institutional framework (both in Italy and abroad), and many other factors, most of which are beyond the Group’s control.

Introduction

The half-year report as at 30 June 2018 has been prepared in accordance with the international accounting standard regarding interim reporting (IAS 34 – Interim Financial Reporting) and consists of:

- Consolidated statement of financial position
- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of cash flows
- Statement of changes in consolidated shareholders’ equity
- Explanatory notes to the condensed consolidated half-year report as at 30 June 2018.

The Interim Directors’ report on operations, in addition to the indicators required for financial statements, in compliance with International Financial Reporting Standards (IFRS), also includes some alternative performance measures used by management to monitor and assess the Group’s performance, as detailed in a specific section.

The Group’s activities

The Group is active in the creation, production and sale of luxury goods for men and women: footwear, leather goods, apparel, silk goods, jewels, other accessories and fragrances. The product range also includes eyewear and watches manufactured under license by third parties. The product range stands out for its uniqueness, which is the result of the combination of creative and innovative style with the quality and craftsmanship that are the hallmark of luxury goods made in Italy. The Salvatore Ferragamo Group carries out product sales mainly through a network of Salvatore Ferragamo monobrand stores, managed both directly (DOS) or by third parties, and, alongside this network, also through a significant and well-established presence in department stores and multibrand specialty stores.

As for the fragrances product category, which involves the creation, development and production (completely outsourced) of fragrances and related products under the Salvatore Ferragamo brand and, on license, the Ungaro brand, sales are managed by both the company Ferragamo Parfums S.p.A. and third party distributors which serve a network of selected mainly multibrand stores belonging to the specific fragrances channel. The Group is also active in the licensing of the Salvatore Ferragamo brand and in real estate management.

The distribution system

The organization of distribution and sales is one of the Group’s strengths, by virtue of its extensive and consolidated presence both in so-called traditional markets (Europe, United States and Japan) and in emerging markets (such as Asia Pacific and Latin America), as well as because it is extremely well positioned in terms of store locations.

The Group attributes great importance to monitoring distribution, which is done through:

- a network of directly operated Ferragamo brand stores (DOS), which as at 30 June 2018 numbered 407 (the so-called retail channel);
- a network of tailored single brand stores and/or stores-in-stores managed by third parties (TPOS), which as at 30 June 2018 numbered 270, as well as through a multibrand channel (taken as a whole the so-called wholesale channel).

Therefore, the total number of tailored Ferragamo monobrand stores (DOS and TPOS) as at 30 June 2018 was 677, distributed across the various geographic areas.

Through the retail channel, the Group directly markets all product lines to end customers. Directly operated stores (DOS) are spread across all the main markets served by the Group in exclusive and strategic locations, both from a reputational and commercial point of view.

Wholesale sales are targeted exclusively at retailers and, to a lesser extent, distributors. Wholesale customers consist of:

- department stores and luxury specialist retailers, in order to strengthen the presence in countries where the Group has its own network of directly operated stores; the business in the United States is of particular importance;
- franchisees, which ensure the presence in markets that are still not sufficiently large or developed to justify a direct retail presence, for example in some areas of the People's Republic of China;
- stores opened inside airports (travel retail/duty free).

Effect of exchange rate changes on operations

The Ferragamo Group has a strong presence in international markets, including through commercial companies located in countries with currencies other than the Euro, mainly the US dollar, the Chinese renminbi, the Japanese yen, the South Korean won and the Mexican peso. Therefore, the Group is exposed both to settlement and translation risk.

In the first six months of 2018, the euro reversed its trend relative to the US dollar. The upward momentum in the single currency, which started in 2017 and continued into the first four months of 2018, came to a halt in late April, marking the beginning of a new bear channel. After climbing to a three-year high of 1.25 in February, the EUR/USD pair began trading sideways within a range between 1.22 and 1.24, then fell to as low as 1.1508 in late May, and eventually stabilized between 1.16 and 1.18. This was driven by the improved US macroeconomic outlook as well as the tightening policy of the *Federal Reserve*, which raised interest rates from 1.75% to 2% and changed its forward guidance, expecting to hike rates four times rather than three in 2018. On the other hand, the depreciation in the euro was driven by the accommodating stance of the ECB, which confirmed that its *Quantitative Easing* will end in late 2018 and interest rates will remain unchanged until mid-2019; the political turmoil in Italy and Spain; and the US tariffs placed on several European imports. During the period, the Chinese renminbi gained against the single currency and the US dollar, but then reversed course in June because of the escalating trade war between Washington and Beijing. The EUR/CNY pair gradually rose up to 7.41 in late May, with the political uncertainty in Italy and the no-confidence vote against the Spanish government weighing on the euro. However, in June the Chinese renminbi gradually depreciated, reaching 7.94 against the single currency and 6.63 against the greenback, as the PBoC took steps to make the Chinese goods hit by US tariffs more affordable. The EUR/CNY pair has been trading within the 7.41-7.94 range, and the USD/CNY exchange rate between 6.27 and 6.63. Consistently with the slow rise in inflation, the *Bank of Japan* left its key interest rates on hold and confirmed its strongly expansionary monetary policy, aimed at weakening the yen. During the first six months of 2018, the USD/JPY exchange rate fluctuated between 104 and 113, and the EUR/JPY between 125 and 137. In June, the widespread instability in emerging markets, the declining exports of intermediate goods and the tensions over tariffs, the rising US interest rates, and the reduced geopolitical risk between the two Koreas caused the South Korean Won to depreciate sharply relative to both the greenback and the single currency. Since the start of the year, the EUR/KRW cross has been trading between 1250 and 1358, and the USD/KRW exchange rate between 1054 and 1124. After benefiting from the upward move in oil prices in the first three months of the year, the Mexican peso started gradually losing momentum in the second quarter because of the tensions ahead of the general election in July, the uncertainty over the NAFTA renegotiations, and the introduction of retaliatory tariffs against the US. The EUR/MXN pair has been trading between 22 and 24, and the USD/MXN exchange rate between 18 and 21. For an analysis of the main impacts caused by the above exchange rate movements, please refer to the subsequent comments in this Interim Directors' Report.

Operating performance

The results for the first half of 2018 confirmed the slowdown recorded in 2017. Sales volumes were still down compared to the prior-year period (-6.2%), partly due to lower stock clearance sales and partly due to the negative impact of exchange rates (depreciation of the main currencies in which the Group's revenues are generated against the Euro, -3.4% at constant exchange rates). Lower sales volumes and the unfavorable exchange rate trend led to a decline in the gross sales margin (-7.7%) and to a reduction in the ratio to revenues. The operating performance too was negatively affected by a decline compared to the results as at 30 June 2017. The Group's EBITDA amounted to 116.6 million Euro, down 14.5% compared to the first half of 2017, accounting for 17.3% of revenues. Net profit for the period totaled 58.6 million Euro, down 23.1% compared to the prior-year period, partly negatively affected by higher percentage direct tax expense in the first half of 2018 (tax rate of 26.4% in the first half of 2018 compared to 22.2% in the first half of 2017). In addition, Group net profit for the period fell by 26.7% from 78.4 million Euro to 57.5 million Euro. The net financial position increased by 76.3 million Euro compared to 30 June 2017, reaching a net financial position of 101.5 million Euro compared to a net financial position of 25.1 million Euro as at 30 June 2017.

The following table shows the main income statement data.

(In thousands of Euro)	Half-year period ended 30 June				
	2018	% of revenues	2017	% of revenues	% change
Revenues	673,689	100.0%	717,923	100.0%	(6.2%)
Gross profit	432,019	64.1%	468,232	65.2%	(7.7%)
Style, product development and logistics costs	(23,735)	(3.5%)	(22,101)	(3.1%)	7.4%
Sales & distribution costs	(221,982)	(33.0%)	(243,458)	(33.9%)	(8.8%)
Marketing & communication costs	(35,216)	(5.2%)	(34,644)	(4.8%)	1.7%
General and administrative costs	(61,948)	(9.2%)	(57,860)	(8.1%)	7.1%
Other operating costs	(8,486)	(1.3%)	(10,285)	(1.4%)	(17.5%)
Other income and revenues	4,823	0.7%	4,939	0.7%	(2.3%)
Total operating costs (net of other income)	(346,544)	(51.4%)	(363,409)	(50.6%)	(4.6%)
Operating profit	85,475	12.7%	104,823	14.6%	(18.5%)
Net financial income and charges	(5,875)	(0.9%)	(6,849)	(1.0%)	(14.2%)
Profit before taxes	79,600	11.8%	97,974	13.6%	(18.8%)
Income taxes	(20,987)	(3.1%)	(21,741)	(3.0%)	(3.5%)
Net profit/(loss) for the period	58,613	8.7%	76,233	10.6%	(23.1%)
Net profit/(loss) – Group	57,463	8.5%	78,410	10.9%	(26.7%)
Net profit/(loss) – minority interests	1,150	0.2%	(2,177)	(0.3%)	(152.8%)
Amortization, depreciation and write-downs of tangible/intangible assets	31,125	4.6%	31,508	4.4%	(1.2%)
EBITDA	116,600	17.3%	136,331	19.0%	(14.5%)

Revenues in the first half of 2018 totaled 673,689 thousand Euro compared to 717,923 thousand Euro in the first half of 2017, down by 6.2%. The three main currencies other than the Euro in which the Group generates most of its revenues, i.e. the US dollar, the Chinese Renminbi, and the Japanese Yen, performed as follows in the first half of 2018 compared to the same period last year: the US dollar depreciated by 11.8%⁽¹⁾, the Japanese Yen depreciated by 8.1%⁽²⁾ and the Chinese Renminbi depreciated by 3.5%⁽³⁾ against the Euro, the currency in which the figures in the consolidated financial statements are expressed.

Revenues slightly declined by 3.4% overall at constant exchange rates (applying to the revenues – not inclusive of the hedging effect – of the first half of 2017 the average exchange rate of the first half of 2018): they decreased by 6.3% in Europe, 1.4% in North America, 4.8% in Japan, and 2.7% in Asia Pacific, while they were mostly unchanged in Central and South America (+0.5%). As in the past, Asia Pacific contributed the most to Group revenues with 38.1%, followed by Europe (25.6%), North America (22.6%), Japan (8.7%), and Central and South America (5.0%). In the second quarter of 2018 revenues amounted to 369,778 thousand Euro, down 9.5% at current exchange rates and down 7.3% at constant exchange rates compared to the second quarter of 2017.

Gross profit for the period ended 30 June 2018 amounted to 432,019 thousand Euro (accounting for 64.1% of revenues), down 7.7% compared to the prior-year period, when it amounted to 468,232 thousand Euro (accounting for 65.2% of revenues). Margins were negatively affected by the adverse exchange rate trend. In the second quarter of 2018, gross profit was 242,578 thousand Euro, down by 10.7% compared to the prior-year period, accounting for 65.6% of revenues compared to 66.5% in the second quarter of 2017.

Total operating costs (net of other income) amounted to 346,544 thousand Euro for the first half of 2018 (accounting for 51.4% of revenues). They were down by 4.6% compared to the first half of 2017 (363,409 thousand Euro, accounting for 50.6% of revenues) due to the combined effect of the cost rationalization initiatives adopted by management in the first half of 2018 and the depreciation of the main currencies – other than the Euro – in which the Group incurs its operating costs compared to the first half of 2017. In the second quarter of 2018, total net operating costs were 174,169 thousand Euro, down by 5.3% compared to the second quarter of 2017 (when they amounted to 183,957 thousand Euro).

¹ With reference to the average Euro/US\$ exchange rate for the period – first half of: 2018: 1.210; 2017: 1.083

² With reference to the average Euro/Yen exchange rate for the period – first half of: 2018: 131.61; 2017: 121.78

³ With reference to the average Euro/Cny exchange rate for the period – first half of: 2018: 7.709; 2017: 7.445

EBITDA declined by 14.5% from the first half of 2017 to 116,600 thousand Euro, i.e. 17.3% as a proportion of revenues compared to 19.0% in the prior-year period, due to the reduction in gross profit, which was partially offset by lower operating costs. In the second quarter of 2018, EBITDA totaled 84,163 thousand Euro compared to 103,265 thousand Euro in the second quarter of 2017 (-18.5%), and the ratio to revenues decreased from 25.3% to 22.8%.

Operating profit amounted to 85,475 thousand Euro, down compared to the first half of 2017, when it amounted to 104,823 thousand Euro, with the ratio to revenues decreasing from 14.6% in the first half of 2017 to 12.7%. In the second quarter of 2018, operating profit totaled 68,409 thousand Euro compared to 87,809 thousand Euro in the second quarter of 2017 (-22.1%), and the ratio to revenues decreased from 21.5% to 18.5%.

Net financial income and charges amounted to a negative 5,875 thousand Euro, improving by 974 thousand Euro from the first half of 2017, mainly due to the reduction in net interest.

(In thousands of Euro)	Half-year period ended 30 June		
	2018	2017	% change
Net interest	(798)	(1,527)	(47.7%)
Other net income/(charges)	(995)	(1,095)	(9.1%)
Net gains/(losses) on exchange rate differences	1,621	(7,866)	(120.6%)
Net financial income/(charges) for fair value adjustment of derivatives	(5,703)	3,654	(256.1%)
Gains/(losses) on disposal of available-for-sale financial assets	-	(15)	(100.0%)
Total	(5,875)	(6,849)	(14.2%)

Net gains and losses on exchange rate differences mainly reflect the impact of commercial transactions in foreign currency and they should be correlated with the item “Net financial income/(charges) for fair value adjustment of derivatives”, which refers to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company and the changes in the fair value of non-hedging derivatives. In the second quarter of 2018, net financial income and charges totaled 3,373 thousand Euro in charges improving from charges of 5,218 thousand Euro in the second quarter of 2017.

Income taxes

(In thousands of Euro)	Half-year period ended 30 June		
	2018	2017	% change
Profit before taxes	79,600	97,974	(18.8%)
Income taxes	(20,987)	(21,741)	(3.5%)
Tax rate	26.4%	22.2%	

The estimated effective tax rate for the first half of 2018 (the best estimate of the annual tax rate expected for the whole year) was 26.4%, up from 22.2% in the prior-year period. This increase was mainly due to the reduced tax benefits for Salvatore Ferragamo S.p.A in relation to the so-called “Patent Box”, with an estimated income tax reduction in the first half of 2018 of approximately 6.6 million Euro compared to 9.5 million Euro in the first half of 2017, and to the reduction in the US federal income tax rate (from 35% to 21%) as from 1 January 2018, resulting in a sharp decrease in the deferred tax assets of the US entities in the first half of 2018 compared to the prior-year period. In addition, it was due to the impact of higher income taxes recognized for the period as a result of the tax audit of Ferragamo Korea Ltd. For further information, reference should be made to the paragraph “Tax and customs disputes and audits” in the section “Significant events occurred during the first half of 2018” of the Half-year report.

In the first half of 2018, the Group posted 58,613 thousand Euro in consolidated **net profit**, compared to 76,233 thousand Euro in the first half of 2017, down by 23.1%.

The Group’s share of net profit amounted to 57,463 thousand Euro compared to 78,410 thousand Euro in the prior-year period, down by 26.7%. With reference to the second quarter of 2018, net profit totaled 49,668 thousand Euro compared to 65,217 thousand Euro in the second quarter of 2017. The Group share of net profit amounted to 48,294 thousand Euro compared to 65,963 thousand Euro in the second quarter of 2017.

Revenues

The following table shows revenues by **geographic area** for the periods ended 30 June 2018 and 30 June 2017, and the relevant changes:

(In thousands of Euro)	Half-year period ended 30 June					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Europe	172,360	25.6%	184,351	25.7%	(6.5%)	(6.3%)
North America	152,263	22.6%	163,838	22.8%	(7.1%)	(1.4%)
Japan	58,874	8.7%	61,432	8.6%	(4.2%)	(4.8%)
Asia Pacific	256,403	38.1%	271,341	37.8%	(5.5%)	(2.7%)
Central and South America	33,789	5.0%	36,961	5.1%	(8.6%)	0.5%
Total	673,689	100.0%	717,923	100.0%	(6.2%)	(3.4%)

Europe saw a decrease in revenues of 6.5% at current exchange rates (-6.3% at constant exchange rates); it was negatively affected by the wholesale channel (-4.7% at current exchange rates) and by the retail channel (-8.5% at current exchange rates and -7.7% at constant exchange rates).

The North American market saw a decrease in revenues of 7.1% at current exchange rates (-1.4% at constant exchange rates); it was negatively impacted by the performance of the wholesale channel (-15.1% at current exchange rates, -10.0% at constant exchange rates), with the retail channel decreasing at current exchange rates (-2.2%) and improving at constant exchange rates (+3.6%).

In Japan, revenues were down 4.2% at current exchange rates and 4.8% at constant exchange rates despite the growth in the retail channel (+2.9% at current exchange rates and +2.1% at constant exchange rates), as wholesale revenues declined by 47.5% at constant exchange rates. This was attributable to the strategic restructuring of the channel in Japan, which had already begun in 2017.

Asia Pacific saw a decrease in revenues of 5.5% at current exchange rates (-2.7% at constant exchange rates). It was negatively affected by the retail channel (-8.0% at current exchange rates, -5.0% at constant exchange rates) while the wholesale channel recorded a positive performance (+3.2% at constant exchange rates). Asia Pacific contributed once again the most to Group revenues with 38.1% compared to 37.8% in the prior-year period.

The Central and South American market saw a decrease of 8.6% at current exchange rates (+0.5% at constant exchange rates), with the ratio to total revenues mostly unchanged compared to the previous year (5.0%).

The breakdown of revenues by **distribution channel** was as follows:

(In thousands of Euro)	Half-year period ended 30 June					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Retail	426,208	63.3%	449,695	62.7%	(5.2%)	(2.2%)
Wholesale	236,877	35.1%	256,308	35.7%	(7.6%)	(5.3%)
Licenses and services	4,651	0.7%	5,288	0.7%	(12.0%)	(12.0%)
Rental income investment properties	5,953	0.9%	6,632	0.9%	(10.2%)	0.3%
Total	673,689	100.0%	717,923	100.0%	(6.2%)	(3.4%)

In the first half of 2018 retail sales decreased by 5.2% at current exchange rates and by 2.2% at constant exchange rates, mainly due to the negative impact of Europe (-8.5% at current exchange rates) and Asia Pacific (-8.0% at current exchange rates). The impact of the retail channel on total revenues amounted to 63.3% in the first half of 2018, up from 62.7% in the first half of 2017.

During the first six months of 2018, the number of directly operated stores (DOS) decreased by 3 units compared to the situation as at 31 December 2017. Compared to 30 June 2017, there was a net increase of 6 units.

The wholesale channel was down 7.6% at current exchange rates and 5.3% at constant exchange rates. It should be noted that excluding the positive performance of Asia (+3.2% at constant exchange rates, +0.6% at current exchange rates), all other markets recorded a decline.

Revenues from licenses and services in the first half of 2018 decreased by 12.0% compared to the first half of 2017 (both at current and constant exchange rates); this item mainly consists of royalties for the licensing of the Salvatore Ferragamo brand in the eyewear and watch sectors.

Revenues from rental income investment properties refer solely to property located in the United States and leased/sub-leased to third parties; the item decreased by 10.2% at current exchange rates compared to the first half of 2017 and was mostly unchanged at constant exchange rates.

The following table shows the breakdown of revenues by **product category** in the six months ended 30 June 2018 and 2017, indicating the relevant percentage of total revenues:

(In thousands of Euro)	Half-year period ended 30 June					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Footwear	285,645	42.4%	312,692	43.6%	(8.6%)	(5.5%)
Leather goods	262,779	39.0%	265,267	36.9%	(0.9%)	1.6%
Apparel	37,542	5.6%	41,657	5.8%	(9.9%)	(7.9%)
Accessories	38,379	5.7%	42,829	6.0%	(10.4%)	(7.9%)
Fragrances	38,740	5.7%	43,558	6.1%	(11.1%)	(8.9%)
Licenses and services	4,651	0.7%	5,288	0.7%	(12.0%)	(12.0%)
Rental income investment properties	5,953	0.9%	6,632	0.9%	(10.2%)	0.3%
Total	673,689	100.0%	717,923	100.0%	(6.2%)	(3.4%)

Cost of goods sold and gross profit

(In thousands of Euro)	Half-year period ended 30 June				
	2018	% of revenues	2017	% of revenues	% change
Consumables	(125,336)	(18.6%)	(140,537)	(19.6%)	(10.8%)
Services	(111,670)	(16.6%)	(104,592)	(14.6%)	6.8%
Personnel	(4,209)	(0.6%)	(4,160)	(0.6%)	1.2%
Depreciation and amortization	(455)	(0.1%)	(402)	(0.1%)	13.2%
Cost of goods sold	(241,670)	(35.9%)	(249,691)	(34.8%)	(3.2%)
Gross profit	432,019	64.1%	468,232	65.2%	(7.7%)

The **cost of goods sold** in the first half of 2018 amounted to 241,670 thousand Euro, down 3.2% from the prior-year period. In the first half of 2018 **gross profit** as a percentage of sales stood at 64.1%, compared to 65.2% in the first half of 2017.

Statement of financial position and Investments

Here below is the statement of financial position as at 30 June 2018 reclassified by sources and uses, compared to the position as at 31 December 2017 and 30 June 2017:

(In thousands of Euro)	30 June	31 December	30 June	% change	% change
	2018	2017	2017	06.18 vs. 12.17	06.18 vs. 06.17
Property, plant and equipment, investment property, intangible assets with a finite useful life	302,394	299,332	277,154	1.0%	9.1%
Net working capital	317,816	270,486	331,156	17.5%	(4.0%)
Other non current assets/(liabilities), net	13,163	7,963	33,587	65.3%	(60.8%)
Other current assets/(liabilities), net	14,605	42,169	41,976	(65.4%)	(65.2%)
Assets/(liabilities) held for sale, net	-	990	-	(100.0%)	na
Net invested capital	647,978	620,940	683,873	4.4%	(5.2%)
Group shareholders' equity	723,522	722,250	681,879	0.2%	6.1%
Minority interests	25,908	26,181	27,119	(1.0%)	(4.5%)
Shareholders' equity (A)	749,430	748,431	708,998	0.1%	5.7%
Net financial debt/(surplus) (B)	(101,452)	(127,491)	(25,125)	(20.4%)	303.8%
Total sources of financing (A+B)	647,978	620,940	683,873	4.4%	(5.2%)
Net financial debt(surplus)/shareholders' equity	(13.5%)	(17.0%)	(3.5%)		

Investments in fixed assets

During the first half of 2018, the Salvatore Ferragamo Group made investments in tangible and intangible assets for a total amount of 31,831 thousand Euro, of which 27,409 thousand Euro in tangible assets and 4,422 thousand Euro in intangible assets, compared to a total of 28,700 thousand Euro in the first half of 2017.

The most important investments in tangible assets were made in the opening and refurbishment of stores (13 million Euro, approximately 46% of total investments in tangible assets in the first half of 2018) and the works carried out at the Osmannoro facility, which are part of the broader project undertaken by the Parent company to expand and renovate the whole industrial complex. The main investments in intangible assets refer to completion of the so-called “Old Replacement” project of the Parent company Salvatore Ferragamo S.p.A.: the aim was introducing a new SAP-based distribution system integrated with the logistic shipping and billing system, which has become operational from early 2018. In addition, these investments were aimed at developing the e-commerce platform and the purchase of software licenses (for a total amount of 2.16 million Euro, i.e. around 49% of investments in intangible assets incurred in the first half of 2018).

Investments in tangible assets under construction amounted to 50.3 million Euro and mainly concerned the investments made in the Osmannoro-Sesto Fiorentino facility for the construction of the new logistics center by the Parent company Salvatore Ferragamo S.p.A. (for a total amount of 47.3 million Euro as at 30 June 2018, of which 10.5 million Euro relating to the first half of 2018), and, to a minor extent, the refurbishment and opening of new stores which were not yet operational as at the reporting date.

Amortization and depreciation amounted to 31,125 thousand Euro in the first six months of 2018 and 31,508 thousand Euro in the prior-year period, down by 1.2%.

During the first half of 2018, the Group did not make any investments in financial assets.

Net working capital

Here below is the breakdown and change in net working capital as at 30 June 2018 compared with 31 December 2017 and 30 June 2017.

(In thousands of Euro)	30 June 2018	31 December 2017	30 June 2017	% change 06.18 vs. 12.17	% change 06.18 vs. 06.17
Inventories and Right of return assets	373,777	325,516	349,915	14.8%	6.8%
Trade receivables	147,481	148,583	163,765	(0.7%)	(9.9%)
Trade payables and Refund Liabilities	(203,442)	(203,613)	(182,524)	(0.1%)	11.5%
Total	317,816	270,486	331,156	17.5%	(4.0%)

Net working capital increased by 17.5% compared to 31 December 2017 while it decreased by 4.0% compared to 30 June 2017. The change compared to 31 December 2017 was mainly due to the increase in Inventories and Right of return assets (+14.8%) while the increase in the item Inventories and Right of return assets compared to 30 June 2017 (+6.8%) was offset by the decrease in Trade receivables (-9.9%) and the increase in Trade payables and Refund Liabilities (+11.5%). Specifically, inventories of finished products were up 40,244 thousand Euro from 31 December 2017 (14.8%) and 13,808 thousand Euro from 30 June 2017 (+4.6%). Raw materials for production were up 10.6% from 31 December 2017 and 14.9% from 30 June 2017.

Trade receivables, decreasing 0.7% from 31 December 2017 and 9.9% from 30 June 2017, largely referred to wholesale sales.

Trade payables are mainly due to purchases of production materials, finished products and costs relating to outsourced manufacturing, in addition to outstanding payables relating to the construction work at the new logistics hub at Osmannoro. The item “Trade payables and Refund Liabilities” (4,008 thousand Euro as at 30 June 2018) was mostly unchanged compared to 31 December 2017 (-0.1%) and increased compared to 30 June 2017 (+11.5%).

The items “Right of return assets” and “Refund Liabilities” are two new items which are strictly interconnected and arise from the coming into force of the new international accounting standard IFRS 15 “Revenue from Contracts with Customers” as from 1 January 2018 (see note 2 “Basis of presentation” in the Explanatory notes).

Other current and non current assets / (liabilities), net

Other non current assets/(liabilities), amounting to 13,163 thousand Euro in net assets, grew by 5,200 thousand Euro (+65.3%) compared to 31 December 2017. The increase was mainly attributable to the rise in deferred tax assets (2,474 thousand Euro), and to the decrease in deferred tax liabilities (1,897 thousand Euro).

Other current assets/(liabilities) decreased from 42,169 thousand Euro in net assets as at 31 December 2017 to 14,605 thousand Euro in net assets, mainly due to the decrease in other current assets (in particular the decrease of 11,769 thousand Euro in Other receivables for hedge derivatives and the decrease of 10,535 thousand Euro in receivables due from the Holding company Ferragamo Finanziaria S.p.A. relating to corporate income tax pursuant to the domestic fiscal unity) and, to a lesser extent, to the increase in other current liabilities.

Shareholders' equity

The changes in the Group's share of shareholders' equity are due to the combined effect of the following:

- the increase of 57,463 thousand Euro in the profit for the period;
- the decrease of 64,140 thousand Euro in dividends paid by the Parent Company;
- the decrease of 15,781 thousand Euro resulting from the valuation of hedging derivatives net of the relevant tax effect;
- the 635 thousand Euro increase arising from the recognition of the Stock Grant Reserve's effect for the period;
- the increase of 24,089 thousand Euro attributable to the translation into Euro of the subsidiaries' financial statements denominated in other currencies;
- the decrease of 728 thousand Euro arising from changes in the fair value of the put options assigned to pre-existing minority shareholders;
- 266 thousand Euro in other minor decreases.

The reconciliation statement between the Parent company's net profit/(loss) for the period and shareholders' equity, and the corresponding consolidated amounts, is provided below:

(In thousands of Euro)	Half-year period ended 30 June 2018	
	Shareholders' equity	Net profit/(loss) for the period
Salvatore Ferragamo S.p.A. data	601,815	65,313
Elimination of consolidated investments	255,500	(2,805)
Dividends distributed among Group companies		(9,263)
Elimination of write-downs / (restatement value) on consolidated investments		18
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(118,696)	(542)
Effect of IAS 39 – cash flow hedge reserve, net of the deferred tax effect		5,063
Other consolidation adjustments	10,811	829
Total shareholders' equity and net profit/(loss)	749,430	58,613
Minority interests – shareholders' equity and net profit/(loss)	25,908	1,150
Group – shareholders' equity and net profit/(loss)	723,522	57,463

Net financial debt

Net financial debt (calculated in accordance with CONSOB Communication no. DEM/6064293 and presented here in condensed form) as at 30 June 2018, 31 December 2017 and 30 June 2017 was as follows:

(In thousands of Euro)	30 June 2018	31 December 2017	30 June 2017	% change 06.18 vs. 12.17	% change 06.18 vs. 06.17
Cash and cash equivalents (A)	158,888	212,088	123,365	(25.1%)	28.8%
Other current financial assets (B)	419	341	514	22.9%	(18.5%)
Interest-bearing loans and borrowings (C)	54,289	81,343	95,264	(33.3%)	(43.0%)
Other financial liabilities (D)	3,566	3,595	3,490	(0.8%)	2.2%
Net financial debt/(surplus) (C + D – A – B)	(101,452)	(127,491)	(25,125)	(20.4%)	303.8%

As at 30 June 2018 **net financial position** amounted to 101,452 thousand Euro compared to a net financial position of 127,491 thousand Euro as at 31 December 2017. The change was largely attributable to the positive cash flows from operating activities (75,782 thousand Euro), net of the 66,881 thousand Euro dividend payout approved by the Parent company and other Group companies, and the investments in tangible and intangible assets in the first half of the year (33,751 thousand Euro). Compared to 30 June 2017, the net financial position increased by 76,327 thousand Euro, from a net financial position of 25,125 thousand Euro to a net financial position of 101,452 thousand Euro.

Income and financial indicators

The tables below set out the trend in the main income and financial indicators for the half-year periods ended 30 June 2018 and 30 June 2017.

These indicators are based on the data from the consolidated financial statements. To better understand them, they should be read in conjunction with the alternative performance measures and IFRS measures described in this document.

Profitability ratios	Half-year period ended 30 June	
	2018	2017
ROE (Group net profit for the period / average Group shareholders' equity)	7.9%	11.4%
ROI (Operating profit / Net average invested capital)	13.5%	14.8%
ROS (Operating profit / revenues)	12.7%	14.6%
Financial ratios	Half-year period ended 30 June	
	2018	2017
Coverage of shareholders' equity ratio (Shareholders' equity / non current assets)	184.9%	174.3%
Liquidity ratio (Current assets excluding inventories / current liabilities)	126.2%	114.7%
Turnover ratios expressed in days	Half-year period ended 30 June	
	2018	2017
Turnover of trade receivables (Average value of Trade receivables in the period / Revenues x days)	40	43
Turnover of Trade payables (Average value of Trade payables in the period / Purchases of goods and services x days)	81	70
Inventory turnover (Average value of Inventories in the period / Cost of goods sold x days)	260	261
Turnover of Average invested capital (Average value of Net invested capital / Revenues x days)	170	177

The above ratios are calculated on a half-yearly basis. Average value means the simple arithmetic average of the closing balances of the period and those as at 31 December of the prior year.

Information on corporate governance and ownership structure

Corporate Governance

Salvatore Ferragamo S.p.A. (the Company) is structured according to the traditional management and control model, with the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

The Bylaws in force were approved by the Extraordinary Shareholders' Meeting on 20 April 2018. The Bylaws establish the essential features of the Company and set the main rules for its management and operation, they provide a description of the membership of corporate bodies, their powers and their relationships. The Bylaws also include the description of shareholders' rights and how to exercise them.

The Company complies with the Corporate Governance Code issued by Borsa Italiana S.p.A. and its corporate governance structure complies with the recommendations contained therein, including the relevant updates.

The main corporate governance body is the Board of Directors, which has the primary responsibility for determining and pursuing the strategic objectives of the Company and the Group. The current Board was elected by the Shareholders' Meeting on 20 April 2018 according to the single list submitted by the majority shareholder Ferragamo Finanziaria S.p.A. Therefore, the Board of Directors currently consists of Ferruccio Ferragamo, Giacomo Ferragamo, Giovanna Ferragamo, Angelica Visconti, Leonardo Ferragamo, Francesco Caretti, Diego Paternò Castello di San Giuliano, Peter K.C. Woo, Raffaella Pedani, Chiara Ambrosetti (Independent director), Lidia Fiori (Independent director), Umberto Tombari (Independent director), and Marzio Alessandro Alberto Saà (Independent director).

This Board of Directors will serve until the date of the Shareholders' Meeting called to approve the separate financial statements as at 31 December 2020.

On 20 April 2018, the Shareholders' Meeting also confirmed, pursuant to article 17 of the Bylaws, Wanda Miletti Ferragamo as Honorary Chairman of the Company, recognizing her exceptional commitment to the Group over many years. The term of office of the Honorary Chairman is in line with that of the Board of Directors, and therefore ends with the approval of the Separate financial statements as at 31 December 2020.

On 20 April 2018, the newly elected Board of Directors held its first meeting, appointing Ferruccio Ferragamo as Chairman and Giacomo Ferragamo as Deputy Chairman of the Company.

It should be noted that on the same date, the Board of Directors also approved resolutions on corporate governance. Specifically, it resolved to:

- combine the functions of the Remuneration Committee and the Nomination Committee in a single committee, to be called the Nomination and Remuneration Committee, and appoint as members the Independent directors Umberto Tombari (Chairman), Lidia Fiori, and Marzio Alessandro Alberto Saà;
- confirm the appointment of a Risk and Control Committee, appointing as members the Independent directors Marzio Alessandro Alberto Saà (Chairman), Umberto Tombari, and Chiara Ambrosetti; the committee is also responsible for transactions with related parties as well as, following the amendments to the Corporate Governance Code for listed companies, supervising the sustainability of the Company's operations and the relationships with all stakeholders;
- confirm the appointment of the director Marzio Alessandro Alberto Saà as Lead Independent Director;
- confirm the establishment of a Product and Brand Strategy Committee, which provides advisory services and makes proposals to the Board of Directors; this Committee is also responsible for overseeing and monitoring the adoption of, and compliance with, the Ferragamo brand's codes as well as steering the Group's creative process—verifying the consistency between the identity, the mission, and strategic goals. The Committee consists of directors Ferruccio Ferragamo (Chairman of the Committee), Giacomo Ferragamo, Angelica Visconti and Diego Paternò Castello di San Giuliano.

As regards the internal control and risk management system, the Board of Directors also appointed the Chairman Ferruccio Ferragamo as Director responsible for the internal control and risk management system. The relevant duties and responsibilities are detailed in the Corporate Governance Code.

In addition, on 20 April 2018 the Board of Directors appointed Micaela Le Divelec Lemmi as General Manager.

The Board of Directors appointed Micaela Le Divelec Lemmi and Giacomo Ferragamo as Managers with strategic responsibilities, in addition to the CFO, Ugo Giorcelli.

Finally, on 20 April 2018, the Shareholders' Meeting appointed Paola Caramella as Acting Statutory Auditor by majority vote, pursuant to applicable law. Based on her statements, she meets all the independence, honesty and professional expertise requirements pursuant to the law, the Bylaws, and the Corporate Governance Code. The term of office of Ms. Caramella ends with the approval of the financial statements as at 31 December 2019; the same applies to the term of office of the current members of the Board of Statutory Auditors.

During the Shareholders' Meeting held on 20 April 2018, Antonietta Donato was appointed as Substitute Statutory Auditor; she will be in office until the Shareholders' Meeting called to approve the financial statements as at 31 December 2019.

Therefore, the members of the Company's Board of Statutory Auditors are: Andrea Balelli, elected from the minority slate submitted by a group of Italian and international asset management companies and financial intermediaries that own an interest in the Company, and subsequently appointed as Chairman of the Board; Fulvio Favini and Paola Caramella, Acting Statutory Auditors elected from the majority slate submitted by Ferragamo Finanziaria S.p.A.; Antonietta Donato and Roberto Coccia, Substitute Statutory Auditors elected from the majority and minority slates, respectively.

Main features of the systems of risk management and internal control

The internal control system of Salvatore Ferragamo S.p.A. is structured so as to guarantee, through a process aimed at identifying and managing the main risks, the achievement of corporate objectives, thus helping to ensure the efficiency and effectiveness of corporate activities, the reliability of financial information, and the compliance with the laws and regulations in force.

Salvatore Ferragamo S.p.A. establishes the general principles governing the Group's internal control system, in compliance with local laws and rules, implementing operational and organizational procedures that are suitable for the specific context. The following must be considered as integral parts of the overall internal control system:

- the Code of Ethics, intended to promote and maintain an appropriate level of fairness, transparency, and ethical conduct in the performance of the Group's operations;
- the risk management system in relation to the financial disclosure process adopted in compliance with the provisions of art. 154-bis of the Consolidated Law on Finance;
- the organization, management and control model adopted for the purposes of preventing the crimes as set out in Leg. Decree 231/2001.

During 2017, in order to strengthen the internal control system, the Group started a process to identify and prevent all potential incidents of corruption by adopting an Anti-Corruption Policy applicable to employees as well as anyone acting in the name and on behalf of the Group's Companies.

The following play a key role within the internal control and risk management system:

- the legal and compliance functions, which coordinate the prevention and management of the risk of non-compliance with applicable laws and regulations by providing guidance and support to the entire Group as well as monitoring it;
- the so-called whistleblowing system, allowing the employees of the entire Group to report any misconduct or potential violations of the Code of Ethics, internal procedures, as well as applicable laws and regulations. This system was introduced and is managed according to Italian and international best practices to provide a specific and confidential communication channel as well as ensure the anonymity of the whistleblower.

The Board of Directors as a whole is responsible for establishing the guidelines for the internal control system, assessing its adequacy and effectiveness.

Without prejudice to the responsibilities of Directors and managers, the internal control system also identifies specific positions with specific duties, as detailed below.

- Director responsible for the internal control and risk management system

He has the duty of overseeing the internal control and risk management system, identifying the main corporate risks, as well as designing, implementing and managing the internal control system in compliance with the Board of Directors' guidelines, continuously verifying their adequacy and effectiveness and implementing their adjustment over time.

- Control and Risk Committee

In its advisory and consultative role, it supports the Board of Directors on risk management and internal control issues and, among other duties, expresses its views on the design, implementation and management of the system, and, on a half-yearly basis, reports to the Board of Directors on the activities it has undertaken, as well as on the adequacy of the internal control system.

- ERM (*Enterprise Risk management*) Guidance Committee

It has the task of assisting the Chairman in taking the main decisions concerning the design, implementation and management of the ERM Model. Among other things, these concern the direct assessment of "strategic" risks, the confirmation of assessments concerning other risks, and the approval of high-priority measures and action plans.

- Chief Risk Officer

He coordinates the risk management process and systematically supports the ERM Guidance Committee and, generally, all the management staff involved. He reports directly to the Chairman, interacts with the Risk and Control Committee, and cooperates with the other functions, including the Internal Audit Department, the Manager charged with preparing Company's Financial Reports, and all the other parties that in various ways are involved in detecting, assessing, managing, and monitoring corporate risks. The Group's head of compliance reports to the Chief Risk Officer. The latter also coordinates Group Corporate Social Responsibility activities and he manages insurances at Group level.

- Internal audit manager

Reporting to the Board of Directors, the manager is responsible – through the relevant department – for verifying the adequacy and effectiveness of the risk management and internal control system, liaising with the Control and Risk Committee and the Board of Statutory Auditors regarding the system management procedures and its suitability in order to achieve an acceptable overall risk profile.

- Manager charged with preparing Company's Financial Reports (in accordance with art. 154-bis of the TUF)
He is responsible for defining, implementing and maintaining suitable and effective control procedures to manage risks entailed in financial reporting, i.e. the activities undertaken to identify and assess the actions or events, the occurrence or absence of which may hinder, in part or in whole, the achievement of the goals of trustworthiness, accuracy, reliability and timeliness of financial reporting.

- Supervisory Body pursuant to Leg. Decree no. 231/01.

It is responsible for checking the effectiveness, adequacy and compliance of the Organization, Management and Control Model pursuant to Leg. Decree no. 231/01 and ensuring it is constantly updated.

For further information on corporate governance and the main features of the risk management and internal control systems adopted, reference should be made to the Report on corporate governance and ownership structure published on the Company's website www.ferragamo.com, in the section Investor Relations/Governance/Corporate Governance Reports.

Other information

Financial reporting and Investor relations

Salvatore Ferragamo S.p.A., in order to maintain a constant dialogue with its Shareholders, potential investors and financial analysts, and in compliance with the recommendation of CONSOB, has set up the Investor Relator function, which ensures a continuous exchange of information between the Company and financial markets.

Financial data, corporate presentations, interim reports, official press releases, and real-time share price information are available on the Group's website <http://group.ferragamo.com>.

Stakes in Salvatore Ferragamo S.p.A.

As at 30 June 2018, Ferragamo Finanziaria S.p.A. held a majority stake in the share capital of Salvatore Ferragamo S.p.A., i.e. 54.276% as per the communication of Ferragamo Finanziaria S.p.A. pursuant to form 120/A in Attachment 4 to the CONSOB Issuers' Regulation. This majority stake decreased by 3.5% during the first half of 2018.

Treasury shares and shares or stakes in parent companies

On 20 April 2018, the Shareholders' Meeting of Salvatore Ferragamo S.p.A. authorized the Board of Directors (following withdrawal of the authorization already issued by the Shareholders' Meeting on 27 April 2017), in accordance with and pursuant to article 2357 of the Italian Civil Code, to buy, including in multiple rounds, ordinary shares in Salvatore Ferragamo S.p.A. with a par value of 0.10 Euro each, up to a maximum amount that, considering the ordinary shares in Salvatore Ferragamo S.p.A. held from time to time by the Company or its subsidiaries, shall not exceed 1% (i.e. 1,687,900 ordinary shares) of the Company's share capital in accordance with article 2357, paragraph 3 of the Italian Civil Code.

On 20 April 2018, the Meeting also authorized the Board of Directors, in accordance with article 2357-ter of the Italian Civil Code, to sell, including in multiple rounds, all or part of the ordinary shares bought under the above authorization or otherwise held by the Company.

The Company may buy back ordinary shares in one or multiple installments for a period of 18 months from 20 April 2018, i.e. the date of the resolution of the Shareholders' Meeting, whereas there is no time limit for selling ordinary shares.

On 7 May 2018 the Board of Directors of Salvatore Ferragamo S.p.A. approved the launch of the treasury share repurchase program as authorized by the Shareholders' Meeting of 20 April 2018.

It should be noted that as at 30 June 2018, the Company Salvatore Ferragamo S.p.A. does not hold its treasury shares and the same applies to its subsidiaries. The Group does not hold directly or indirectly treasury shares or shares in parent companies, and during the period it did not buy or sell treasury shares or shares in parent companies.

Transactions arising from atypical and/or unusual transactions

The Group did not undertake atypical and/or unusual transactions, i.e. those transactions which, due to their importance/size, the counterparties involved, the subject of the transaction, the means of determining the transfer price, and the timing of the event, may give rise to doubts about the fairness/completeness of the information

provided in the financial statements, conflicts of interest, the safeguarding of the company's equity, and the protection of minority interests.

Significant events occurred during the first half of 2018

Shareholders' Meeting

- Approval of the 2017 Separate Financial Statements

On 20 April 2018, the Shareholders' Meeting of the Parent company Salvatore Ferragamo S.p.A. approved the financial statements for the year ended 31 December 2017 and the distribution of a dividend of 0.38 Euro per share, as detailed in note 41 "Dividends" of the Explanatory notes.

- Appointment of Corporate boards

On the same date, the Shareholders' Meeting fixed the number of members of the Board of Directors at 13 and appointed the Board of Directors which shall remain in office for the 2018-2020 three-year period, until the Shareholders' Meeting convened to approve the financial statements as at 31 December 2020. It also confirmed Wanda Miletti Ferragamo as Honorary Chairman of the Company for the same period. In addition, an acting statutory auditor and a substitute statutory auditor were appointed to the Board of Statutory Auditors.

- Authorization to purchase and dispose of Treasury shares

On 20 April 2018, the Shareholders' Meeting authorized the Board of Directors to buy, including in multiple rounds, ordinary shares in Salvatore Ferragamo S.p.A. with a par value of 0.10 Euro each, up to a maximum amount that, considering the ordinary shares in Salvatore Ferragamo S.p.A. held from time to time by the Company or its subsidiaries, shall not exceed 1% (i.e. 1,687,900 ordinary shares) of the Company's share capital in accordance with article 2357, paragraph 3 of the Italian Civil Code and article 132 of the Consolidated Law on Finance (TUF), after withdrawing the resolution issued by the Shareholders' Meeting on 27 April 2017 and expiring on 27 October 2018. The Board of Directors may buy back shares in one or multiple installments for a period of 18 months from the date of the Meeting's resolution (i.e. until 20 October 2019).

In addition, the Meeting also authorized the Board of Directors, in accordance with article 2357-ter of the Italian Civil Code, to sell, including in multiple rounds, all or part of the ordinary shares bought under the above authorization or otherwise held by the Company. There is no time limit for selling ordinary shares.

- Consultation on the Remuneration Policy for the directors and managers with strategic responsibilities

On 20 April 2018, the Shareholders' Meeting voted in favor of the Company's policy concerning the remuneration of the members of the governing bodies, general managers, and managers with strategic responsibilities for 2018 as well as the procedures used to adopt and implement said policy, as described in Section I of the Remuneration Report in accordance with article 123-ter of the Consolidated Law on Finance (TUF) and article 84-quater as well as Annex 3A, Scheme 7-bis of CONSOB Regulation no. 11971/1999.

- Adjustment of fees due to independent auditors for the 2017-2019 period

On 20 April 2018, the Ordinary Shareholders' Meeting, upon proposal of the Board of Statutory Auditors pursuant to article 13, paragraph 1, of Legislative Decree No. 39 of 27 January 2010, resolved to adjust the total annual fees due to the independent auditors EY S.p.A. for each year of the 2017-2019 period increasing them by Euro 20,000.

- Amendments to the Bylaws

On 20 April 2018, the Extraordinary Shareholders' Meeting amended art. 6 of the Bylaws of Salvatore Ferragamo S.p.A. for the introduction of increased voting rights pursuant to art. 127-quinquies of the Consolidated Law on Finance (TUF) in order to support medium-long term investments and ensure a stable ownership structure, thus addressing the negative impact relating to the short-term outlook of financial investors.

Board of Directors

The Board of Directors of Salvatore Ferragamo S.p.A., which convened on 8 March 2018 for the approval of the draft separate financial statements as at 31 December 2017, approved with the favorable opinion of the Nomination and Remuneration Committee and the Board of Statutory Auditors, the agreement concerning the conclusion of the relationship with Mr. Eraldo Poletto, who resigned as Director and Managing Director of the Company and of all Group companies, effective as from 9 March 2018. At the same meeting, in order to fill the vacant seat, the Board of Directors co-opted, pursuant to art. 2386, paragraph 1 of the Italian Civil Code, Mr. Giacomo Ferragamo as new Director in office until the Shareholders' Meeting of 20 April 2018 and it named the Chairman Ferruccio Ferragamo as Interim Managing Director. In addition, during the same meeting the Board of Directors approved the allocation of a further 10,000 rights to receive shares of Salvatore Ferragamo S.p.A. as part of the 2016-2020 Stock Grant Plan, 2nd cycle; for further details, reference should be made to the Annual Report as at 31 December 2017 and to note 38 of the Explanatory Notes.

During the meeting held on 20 April 2018, the Board of Directors, which met after the Shareholders' Meeting appointing the same, confirmed Ferruccio Ferragamo as Chairman and appointed Giacomo Ferragamo as Deputy Chairman. The Board then confirmed the appointment of the Control and Risk Committee consisting of the independent directors Marzio Alessandro Alberto Saà (Chairman), Umberto Tombari and Chiara Ambrosetti, the appointment of the Nomination and Remuneration Committee consisting of the independent directors Umberto Tombari (Chairman), Marzio Alessandro Alberto Saà and Lidia Fiori and the appointment of the Product and Brand Strategy Committee consisting of Ferruccio Ferragamo (Chairman), Giacomo Ferragamo, Angelica Visconti and Diego Paternò Castello di San Giuliano. The Board of Directors confirmed the appointment of the Independent director Marzio Alessandro Alberto Saà as Lead Independent Director.

Finally, the Board of Directors appointed Micaela Le Divelec Lemmi as the new General Manager and selected the General Manager Micaela Le Divelec Lemmi and the Brand and Product Manager Giacomo Ferragamo as Managers with strategic responsibilities, in addition to Ugo Giorcelli, the Company's CFO.

Distribution in India

On 8 June 2018, the Extraordinary Shareholders' Meeting of the company Ferragamo Retail India Private Limited resolved to discontinue retail sale in India. Previously, on 15 May 2018, the Group's company based in India transferred to third parties (the local company GLF Lifestyle Brands Pvt. Ltd.) its main assets, i.e. inventories, equipment and store furniture and furnishings. In addition, GLF Lifestyle Brands Pvt. Ltd. entered into a franchising agreement concerning the retail and wholesale sale in the Republic of India with the Group's company in charge of distribution in the area, Ferragamo Hong Kong Limited, taking over direct management of Indian retail stores.

Tax and customs disputes and audits

Updates on ongoing audits

- The Holding Company Ferragamo Finanziaria S.p.A. was subject to a tax audit for the 2011 tax year. The process ended with a Tax assessment report notified on 15 July 2015 that included some findings concerning the tax liability of Salvatore Ferragamo S.p.A. with reference to the pass-through mechanism of taxation for Ferragamo Hong Kong Ltd. for the year 2011, partially rejecting the credit for taxes paid abroad. Ferragamo Finanziaria S.p.A. is a so-called 1st-level reporting agent as far as the income of the CFC is concerned. On 23 December 2016, the Regional Unit served an assessment notice on both companies, assessing an additional 633 thousand Euro corporate income tax liability plus interest and penalties on top of the penalties assessed against both firms as part of the proceeding concerning the year 2010. On 22 May 2017, the Company appealed against the assessment notice, after the unsuccessful outcome of the assessment with acceptance process. The assessment notice should be canceled pursuant to Resolution No. 112/E/2017, which was issued when the Regional Unit raised a query with the Regulatory Central Unit in relation to this case, which recognized the claims of the Company.
- On 31 August 2017, the Regional Unit of the Tuscany Inland Revenue Office asked Salvatore Ferragamo S.p.A. for information and documents on the pass-through mechanism for CFCs for the years 2012, 2013, and 2014. This topic was addressed in the previous paragraph. On 21 December 2017, the Regional Unit of the Tuscany Inland Revenue Office issued to the company an assessment notice for the year 2012, assessing an approximately 130 thousand Euro additional corporate income tax liability (IRES), of which 125 thousand Euro related to the rejection of the credit claimed for taxes paid abroad, plus interest and penalties. Once again, Salvatore Ferragamo S.p.A. denies any wrongdoing and it lodged an appeal with the competent court in accordance with the law. The Regional Unit of the Tuscany Inland Revenue Office is expected to continue the audit on the years 2013 and 2014.
- On 23 March 2017, the Regional Unit of the Tuscany Inland Revenue Office requested Salvatore Ferragamo S.p.A. to file documents concerning 4 separate export transactions that were canceled, and the company replied on 12 April 2017. The Regional Unit of the Tuscany Inland Revenue Office issued to

Salvatore Ferragamo S.p.A. an assessment notice concerning one of the transactions, assessing an additional 67 thousand Euro VAT liability for the year 2013 plus interest and penalties. The company previously received another assessment notice from the Regional Unit of the Tuscany Inland Revenue Office for a similar case dating back to 2006 and appealed against it. The first- and second-instance courts have sided with Salvatore Ferragamo S.p.A., and the case is currently pending with the Court of Cassation. Therefore, on 21 March 2018, the company also appealed against this assessment notice, making reference to the outcome of the previous dispute.

- On 27 November 2017, tax authorities started an audit of Ferragamo Japan K.K. concerning the company's income and consumption tax for the year 2016 as well as withholding taxes for the years between 2013 and 2017. The audit resulted in a JPY 7.3 million (approximately Euro 50 thousand) reduction in past losses, with no additional tax due, and the recognition of the right to an approximately JPY 2.7 million (nearly Euro 20 thousand) consumption tax refund.
- On 6 December 2017, tax authorities started an audit of Ferragamo Korea Ltd. concerning the company's income tax, withholding taxes, and VAT for the year 2015, which was subsequently extended to the years 2013, 2014, 2016 and 2017 in relation to intragroup transactions. The audit ended in June 2018 with the assessment of a KRW 9,216 million (approximately Euro 6.9 million) increase in taxable income, giving rise to KRW 2,696 million (nearly Euro 2.0 million) in additional income tax and penalties, due to the adjustment of the tax-deductible amount of the service fee Ferragamo Korea Ltd. paid in the years concerned to Ferragamo Hong Kong Ltd. Subsequently, Ferragamo Hong Kong Ltd. returned the disputed service fee, deducting it from the taxable income of the Hong Kong entities for the years 2015, 2016, and 2017, thus reducing the audit's impact on the Group by approximately Euro 700 thousand to nearly Euro 1.3 million in net additional tax and penalties.
- As for the still ongoing tax audit involving Ferragamo Deutschland GmbH, reference should be made to the Annual Report as at 31 December 2017, as there were no new developments during the first half of 2018. The next meeting with the auditors is scheduled for 17 September 2018.
- As for the tax audit carried out by the French tax authorities and involving Ferragamo France S.A.S., reference should be made to the Annual Report as at 31 December 2017, as there were no new developments during the first half of 2018.

Concerning these disputes, the Group believes that, at present, the risk of defeat is no more than possible.

New tax inspections in 2018

- On 14 March 2018, the Florence Economic-Financial Department of the Italian Tax Police started a tax audit of Ferragamo Parfums S.p.A., concerning direct income taxes, VAT and other taxes for the 2015 tax year and costs incurred with entities resident in blacklisted countries in 2013 and 2014. The audit was then expanded to include the years 2013, 2014, 2016, and 2017 as far as the assessment of the intellectual property rights over the "Salvatore Ferragamo" brand and the relevant tax implications are concerned, and, eventually, the years 2013, 2014, 2016, and 2017 concerning the assessment of the line item "Other intercompany consulting services" in the income statement. The auditors served the Company with a Tax assessment report on 30 July 2018, raising several objections: Ferragamo Parfums S.p.A. may even agree with some of them, involving only limited amounts, as part of a settlement agreement, but considers other claims to be completely baseless in fact and in law, as the relevant grounds are inconsistent with Ferragamo Parfums S.p.A.'s underlying business. Ferragamo Parfums S.p.A. will appear in front of the Inland Revenue Office's Florence Provincial Unit, which has jurisdiction over the case and shall decide whether to issue an assessment notice within 60 days.
- On 20 March 2018, the Regional Unit of the Tuscany Inland Revenue Office – Large Taxpayers Department, started a tax audit of Salvatore Ferragamo S.p.A., concerning direct income taxes, VAT, IRAP and withholding taxes for the 2015 tax year. This audit is part of ordinary checks carried out on large taxpayers, and is still underway.

Patent Box and Research and Development Tax Credit (update)

As for the tax benefits (Patent Box and R&D Tax Credit), reference should be made to the Annual Report as at 31 December 2017, as there were no new developments during the first half of 2018.

International standard ruling on transfer pricing (update)

As for the international standard ruling between Salvatore Ferragamo S.p.A. and the Inland Revenue Office – Central Assessment Department – International Ruling Office, concerning the determination of the transfer pricing policy Salvatore Ferragamo S.p.A. applies to its foreign subsidiaries that perform distribution operations, reference should be made to the Annual Report as at 31 December 2017, as there were no new developments during the first half of 2018.

Research and development

As part of its creative and production studies, the Group incurred costs for research and development for the study of new products and the use of new materials, which were wholly recognized through profit or loss. In the first half of 2018, this item totaled 14,800 thousand Euro compared to 13,337 thousand Euro in the same period last year.

Staff

Here below is the Salvatore Ferragamo Group's staff divided by category as at 30 June 2018, 31 December 2017 and 30 June 2017.

Staff	30 June 2018	31 December 2017	30 June 2017
Top managers, middle managers and store managers	776	762	769
White collars	3,069	3,143	3,063
Blue collars	307	278	270
Total	4,152	4,183	4,102

Transactions with related parties

Transactions with related parties – as listed in the financial statements and set out in detail in the specific note at the bottom of the comments to the income statement items, to which reference should be made – cannot be considered as atypical or unusual, since they form part of the Group companies' regular business and are regulated at market conditions.

As for the Procedure for Transactions with related Parties, reference should be made to the documentation on the corporate website www.ferragamo.com under Investor Relations, Governance, Corporate Governance, Procedure.

Significant events occurred after 30 June 2018

On 4 July 2018, Salvatore Ferragamo S.p.A., in accordance with the resolution of the Board of Directors dated 21 June 2018, acquired 49.0% of Ferragamo Retail India Private Limited from the local partner (Mr. Akshay Chudasama) for INR 114,294,369, equal to approximately Euro 1,442 thousand. The acquisition of the non-controlling interests in Ferragamo Retail India Private Limited is part of the process to sell the directly operated retail stores and streamline distribution operations in India (see the Directors' Report on Operations in the Annual Report as at 31 December 2017).

Outlook

2018 started with global economy performing well, favorable growth forecasts in all major areas worldwide. After remaining strong until April, the Euro subsequently declined, eventually stabilizing at 1.16/1.17 against the US Dollar. Financial market volatility is on the rise compared to the start of the year—mainly as a result of persistent trade tensions, with the imposition of tariffs between several global markets. Tourist flows remained strong, even showing slight growth. Overall, global demand for luxury goods remains robust, driven especially by the Chinese domestic market.

As regards the trend expected for the Salvatore Ferragamo Group in relation to sales, margins and results for the year 2018, the following factors continue to play a significant role: the negative impact of the current exchange rate trend, the continuing adverse impact of the retail channel mix and the quite difficult scenario for the wholesale channel. In this regard, the implementation of targeted investments for brand relaunch and process streamlining is still underway.

Florence, 31 July 2018

On behalf of the Board of Directors
The Chairman
Ferruccio Ferragamo

Salvatore Ferragamo Group

Consolidated Half-year Financial Statements as at 30 June 2018

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Financial statements

Consolidated statement of financial position – assets

(In thousands of Euro)	Notes	30 June 2018	of which with related parties	31 December 2017	of which with related parties	30 June 2017	of which with related parties
NON CURRENT ASSETS							
Property, plant and equipment	4	254,068		249,600		233,877	
Investment property	5	6,150		6,139		6,620	
Intangible assets with a finite useful life	6	42,176		43,593		36,657	
Other non current assets	7	4,171		4,963		5,883	
Other non current financial assets	8	16,622	4,948	15,981	4,716	17,021	1,533
Deferred tax assets	36	82,098		79,624		106,697	
TOTAL NON CURRENT ASSETS		405,285	4,948	399,900	4,716	406,755	1,533
CURRENT ASSETS							
Inventories	9	371,524		325,516		349,915	
Right of return assets	10	2,253		-		-	
Trade receivables	11	147,481	162	148,583	116	163,765	118
Tax receivables	12	23,059		27,654		27,977	
Other current assets	13	43,286	11,041	67,556	21,576	62,088	17,362
Other current financial assets	14	419		341		514	
Cash and cash equivalents	15	158,888		212,088		123,365	
TOTAL CURRENT ASSETS		746,910	11,203	781,738	21,692	727,624	17,480
Assets held for sale	16	-		990		-	
TOTAL ASSETS HELD FOR SALE		-		990		-	
TOTAL ASSETS		1,152,195	16,151	1,182,628	26,408	1,134,379	19,013

Consolidated statement of financial position – liabilities and shareholders' equity

(In thousands of Euro)	Notes	30 June 2018	of which with related parties	31 December 2017	of which with related parties	30 June 2017	of which with related parties
SHAREHOLDERS' EQUITY							
GROUP SHAREHOLDERS' EQUITY							
Share capital	17	16,879		16,879		16,879	
Reserves	17	649,180		586,730		586,590	
Net profit/(loss) – Group		57,463		118,641		78,410	
TOTAL GROUP SHAREHOLDERS' EQUITY		723,522		722,250		681,879	
MINORITY INTERESTS							
Share capital and reserves – minority interests		24,758		30,539		29,296	
Net profit/(loss) – minority interests		1,150		(4,358)		(2,177)	
TOTAL MINORITY INTERESTS		25,908		26,181		27,119	
TOTAL SHAREHOLDERS' EQUITY		749,430		748,431		708,998	
NON CURRENT LIABILITIES							
Non current interest-bearing loans & borrowings	24	15,499		14,814		-	
Provisions for risks and charges	18	12,556		13,794		14,433	
Employee benefit liabilities	19	11,678		11,509		11,679	
Other non current liabilities	20	59,156		59,067		59,548	
Other non current financial liabilities	21	28		93		-	
Deferred tax liabilities	36	6,338		8,235		10,354	
TOTAL NON CURRENT LIABILITIES		105,255	-	107,512	-	96,014	-
CURRENT LIABILITIES							
Trade payables	22	199,434	3,101	203,613	440	182,524	405
Refund Liabilities	23	4,008		-		-	
Interest-bearing loans & borrowings	24	38,790		66,529		95,264	
Tax payables	25	14,381		19,772		13,005	
Other current liabilities	26	37,359	1,403	33,269	1,527	35,084	5,150
Other current financial liabilities	27	3,538		3,502		3,490	
TOTAL CURRENT LIABILITIES		297,510	4,504	326,685	1,967	329,367	5,555
TOTAL LIABILITIES		402,765	4,504	434,197	1,967	425,381	5,555
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,152,195	4,504	1,182,628	1,967	1,134,379	5,555

Consolidated income statement

(In thousands of Euro)		Half-year period ended 30 June			
	Notes	2018	of which with related parties	2017	of which with related parties
Revenues from contracts with customers	30	667,736	269	711,291	127
Rental income investment properties	31	5,953		6,632	
Revenues		673,689		717,923	
Cost of goods sold	32-33	(241,670)		(249,691)	
Gross profit		432,019		468,232	
Style, product development and logistics costs	32-33	(23,735)	(380)	(22,101)	(529)
Sales & distribution costs	32-33	(221,982)	(11,751)	(243,458)	(12,498)
Marketing & communication costs	32-33	(35,216)	(21)	(34,644)	(31)
General and administrative costs	32-33	(61,948)	(5,675)	(57,860)	(4,887)
Other operating costs	32-33	(8,486)	(55)	(10,285)	(101)
Other income and revenues	34	4,823	17	4,939	9
Operating profit		85,475		104,823	
Financial charges	35	(26,423)		(28,502)	
Financial income	35	20,548	-	21,653	
Profit before taxes		79,600		97,974	
Income taxes	36	(20,987)		(21,741)	
Net profit/(loss) for the period		58,613		76,233	
Net profit/(loss) – Group		57,463		78,410	
Net profit/(loss) – minority interests		1,150		(2,177)	

(In Euro)		Half-year period ended 30 June	
	Notes	2018	2017
Basic earnings per share – ordinary shares	37	0.340	0.465
Diluted earnings per share – ordinary shares	37	0.340	0.464

Consolidated statement of comprehensive income

(In thousands of Euro)	Notes	Half-year period ended 30 June	
		2018	2017
Net profit/(loss) for the period (A)		58,613	76,233
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>			
- Currency translation differences of foreign operations	17	24,488	(31,013)
- Net gain/(loss) from cash flow hedge	28	(20,764)	24,833
- Income taxes		4,983	(5,960)
		(15,781)	18,873
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		8,707	(12,140)
<i>Other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period</i>			
- Net gain/(loss) from recognition of defined-benefit plans for employees	19	(33)	286
- Income taxes		1	(63)
		(32)	223
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		(32)	223
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		8,675	(11,917)
Total comprehensive income for the period, net of taxes (A+B)		67,288	64,316
Group		65,505	68,005
Minority interests		1,783	(3,689)

Consolidated statement of cash flows

(In thousands of Euro)		Half-year period ended 30 June			
	Notes	2018	of which with related parties	2017	of which with related parties
NET PROFIT / (LOSS) FOR THE PERIOD		58,613		76,233	
Adjustments to reconcile net profit (loss) to net cash from (used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	4-5-6	31,125		31,508	
Allocation / (use) of deferred taxes	36	1,272		(1,448)	
Provision for employee benefit plans	19	378		407	
Allocation to / (use of) the provision for obsolete inventory	9	2,422		2,189	
Losses and provision for bad debt	11	280		830	
Losses / (gains) on disposal of tangible/intangible assets		93		338	
Other non-monetary items		857		1,277	
Changes in operating assets and liabilities:					
Trade receivables	11	(3,721)	(46)	9,468	(49)
Inventories and Right of return assets	9-10	(25,507)		(3,322)	
Trade payables and Refund Liabilities	22-23	(640)	2,661	(516)	(108)
Tax receivables	12	4,745		3,201	
Tax payables	25	(5,464)		(8,146)	
Employee benefits payments	19	(333)		(522)	
Other assets and liabilities*		12,260	10,179	17,800	16,457
Other – net		(598)		(235)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES		75,782	12,794	129,062	16,300
Cash flow from investing activities:					
Purchase of tangible assets	4-5	(27,945)		(19,846)	
Purchase of intangible assets	6	(5,806)		(4,820)	
Net change in available-for-sale financial assets		-		5	
Proceeds from the sale of tangible and intangible assets		77		27	
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(33,674)	-	(24,634)	-
Cash flow from financing activities:					
Net change in financial payables*	24	(28,486)	-	(22,153)	-
Dividends paid to shareholders of the Parent company	41	(64,140)	(47,716)	(77,643)	(56,934)
Dividends paid to minority shareholders		(2,741)	(2,741)	-	
Purchase of minority interests in companies consolidated on a line-by-line basis		-		(804)	
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(95,367)	(50,457)	(100,600)	(56,934)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(53,259)		3,828	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		212,088		117,249	
Increase/(decrease) in cash and cash equivalents		(53,259)		3,828	
Effect of exchange rate translation differences		59		2,288	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	15	158,888		123,365	
ADDITIONAL INFORMATION					
Interest paid		1,105		1,834	
Income taxes paid		2,515		4,911	
Interest received		307		307	
Dividends received		-		-	

*For a better explanation, the changes in derivatives – non hedge component (formerly shown in the cash flow from financing activities) have been included in the cash flow from operating activities, adjusting the comparative data relating to the first half of 2017 by 828 thousand Euro accordingly.

Statement of changes in consolidated shareholders' equity

(In thousands of Euro) Note 17	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Net profit/(loss) for the period	Group shareholders' equity	Minority interests	Total shareholders' equity
As at 01.01.2018	16,879	2,995	4,188	429,505	14,140	(33,129)	155,626	16,395	(2,990)	118,641	722,250	26,181	748,431
Allocation of results	-	-	-	48,872	-	-	69,769	-	-	(118,641)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	57,463	57,463	1,150	58,613
Other comprehensive income/(loss)	-	-	-	-	(15,781)	24,089	(232)	-	(34)	-	8,042	633	8,675
Total comprehensive income (loss)	-	-	-	-	(15,781)	24,089	(232)	-	(34)	57,463	65,505	1,783	67,288
Distribution of dividends	-	-	-	-	-	-	(64,140)	-	-	-	(64,140)	(2,741)	(66,881)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	-	(728)	-	-	-	(728)	685	(43)
Stock Grant Reserve	-	-	-	-	-	-	-	635	-	-	635	-	635
As at 30.06.2018	16,879	2,995	4,188	478,377	(1,641)	(9,040)	160,295	17,030	(3,024)	57,463	723,522	25,908	749,430

(In thousands of Euro) Note 17	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Net profit/(loss) for the period	Group shareholders' equity	Minority interests	Total shareholders' equity
As at 01.01.2017	16,879	2,995	4,188	316,082	(6,884)	(4,035)	149,570	15,525	(3,166)	201,984	693,138	29,476	722,614
Allocation of results	-	-	-	113,423	-	-	88,561	-	-	(201,984)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	78,410	78,410	(2,177)	76,233
Other comprehensive income/(loss)	-	-	-	-	18,873	(29,500)	-	-	222	-	(10,405)	(1,512)	(11,917)
Total comprehensive income (loss)	-	-	-	-	18,873	(29,500)	-	-	222	78,410	68,005	(3,689)	64,316
Distribution of dividends	-	-	-	-	-	-	(77,643)	-	-	-	(77,643)	-	(77,643)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	-	(2,027)	-	-	-	(2,027)	1,332	(695)
Stock Grant Reserve	-	-	-	-	-	-	-	406	-	-	406	-	406
As at 30.06.2017	16,879	2,995	4,188	429,505	11,989	(33,535)	158,461	15,931	(2,944)	78,410	681,879	27,119	708,998

Explanatory Notes

1. Corporate information

The Parent company Salvatore Ferragamo S.p.A. is incorporated under Italian law and is listed on the Italian Stock Exchange (MTA segment).

The condensed consolidated half-year report as at 30 June 2018 of Salvatore Ferragamo S.p.A. has been approved by the Board of Directors during the meeting held on 31 July 2018.

The main Group activities are set out in the Interim Directors' report on operations.

Salvatore Ferragamo S.p.A. is subject to the management and coordination of Ferragamo Finanziaria S.p.A. pursuant to art. 2497 and following of the Italian Civil Code.

2. Basis of presentation

Contents and structure of the consolidated financial statements

This condensed consolidated half-year report has been prepared pursuant to art. 154-ter of Leg. Decree no. 58 of 24 February 1998 (TUF) as subsequently integrated and amended.

The condensed consolidated half-year report as at 30 June 2018 has been prepared in accordance with the international accounting standard regarding interim reporting (IAS 34 - Interim Financial Reporting) and it does not include all the information required in the consolidated annual report; therefore, it must be read together with the Consolidated Annual Report of the Salvatore Ferragamo Group for the year ended 31 December 2017, which is available on the corporate website www.ferragamo.com in the section Investor Relations, Financial Documents.

The procedures used for making estimates and assumptions are the same as those used in preparing the annual report.

For comparative purposes, the consolidated financial statements show the comparison with the consolidated statement of financial position as at 31 December 2017 and 30 June 2017 and the consolidated income statement as at 30 June 2017.

All amounts are expressed in Euro and are rounded to the nearest thousand Euro, unless otherwise indicated.

Accounting standards

The Group's accounting standards adopted in the preparation of the condensed consolidated half-year report as at 30 June 2018 are the same as those used in preparing the 2017 Consolidated Annual Report, to which reference should be made, except for the adoption of the new or revised standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), which have been endorsed by the European Union and applied as from 1 January 2018, as described below. The adoption of the new standards, amendments and interpretations had no significant impact on the Group's financial position or results.

Discretionary valuations and significant accounting estimates

The preparation of the Condensed Consolidated Half-Year Report has entailed the use of estimates and assumptions, both in determining some assets and liabilities, and in assessing contingent assets and liabilities, by using the best available information. Actual results might not fully correspond to estimates.

The main estimated data refer to:

- provisions for obsolete inventory of raw materials, accessories and finished products; since the Group's products are subject to market trends and changes in fashion trends, product inventories at the end of the season or, in the case of fragrances, at the end of the life cycle of the individual item, are subject to impairment. Specifically, the provision for obsolete inventory of finished products reflects management's estimate of the expected impairment losses on the products of the collections of previous seasons, considering the ability to sell them through the Group's various distribution channels. This assumption may vary across the different geographic areas in which the Group operates based on the knowledge of the individual market's characteristics concerning the local ability to absorb sales of products from previous seasons. Generally, impairment assumptions involve percentages of impairment that become greater the older the collections are, so as to reflect the decline in selling prices in secondary channels (mainly outlets) on the one hand, and on the other hand, the decrease in the probability of selling them as time goes by. This percentage is based on both a statistical analysis of the change in inventory age

and an assessment of the consistency in the use of percentages over time. In case of changes in available information, the percentages are reassessed and adjusted as needed. The provision for obsolete raw materials reflects management's estimates of the decline in the probability they will be used based on the calculation of slow-moving raw materials;

- provision for bad debt relating to wholesale sales, which is linked to the solvency and standing of customers with whom the company has well-established and consolidated relations. For more details on the analysis of credit risks, reference should be made to note 11;
- provisions for risks and charges, specifically the costs for the contractual commitment to renovate in the future leased properties and costs for ongoing or foreseeable disputes;
- rights of return to adjust revenue from contracts with customers estimated using a probability-weighted amount method in order to determine the expected return value;
- useful life of property, plant and equipment, intangible assets with a finite useful life and investment property, as well as ensuring that development costs meet the recognition and measurement requirements for intangible assets;
- employee benefits, whose amounts are valued on an actuarial basis;
- deferred tax assets, which are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences or any tax losses can be utilized. In this regard, the Group's management estimates the likely timing and amount of future taxable profit;
- fair value of financial instruments, in which derivatives are particularly important, and which the Group uses extensively to hedge exchange rate risks. For details about the assumptions underlying the measurement of fair value, reference should be made to note 28;
- fair value of share-based payments plans, settled in either cash or shares, that the Parent company uses to provide incentives to the Group's management; for details about the assumptions underlying the measurement of share-based payment plans at fair value, reference should be made to note 38.
- risk of defeat in the disputes involving the Group; the Group recognizes a liability when facing legal and tax disputes and lawsuits if it believes it is probable that they will require an outflow of financial resources and a reliable estimate can be made of the amount of the potential losses. Given the uncertainty surrounding the outcome of these proceedings, it is hard to reliably estimate the outflow of resources that will be required to settle them, therefore the amount of the provisions for legal and tax disputes may change as a result of future developments in the outstanding proceedings. The Group monitors the status of ongoing lawsuit and proceedings and consults with its legal advisors as well as legal and tax experts.

The Group entered into commercial lease contracts and determined, on the basis of the contractual terms and conditions (such as for example the fact that the contractual terms do not cover most of the economic life of the commercial property and the fair value of the asset), that all the significant risks and benefits typical of ownership of the assets remain with the lessor; therefore, these contracts are recognized as operating leases.

The estimates and the assumptions are made by directors with the assistance of company departments and, when appropriate, independent experts and are periodically reviewed, recognizing the impact of each change in the income statement in the period in which these estimates and assumptions should differ from actual circumstances.

- *Impairment/Restatement of Property, plant and equipment, Investment property, Intangible assets with a finite useful life, Investments*

The book value of Property, plant and equipment, Investment property, Intangible assets with a finite useful life, and Investments is subject to impairment testing (events or changed situations suggesting that the book value cannot be recovered) when there are indicators of impairment which require an immediate assessment of impairment, or when events have occurred which require the procedure to be repeated. Impairment exists when the book value of an asset or cash flow generating unit exceeds its recoverable value, which is the higher of its fair value less the costs of sale and its value in use.

The key assumptions used in estimating the recoverable amount are described in the Annual Report as at 31 December 2017, to which reference should be made.

As at 30 June 2018, no indicators of impairment emerged.

- *Taxes*

The tax burden relating to interim periods is determined using the tax rate which would be applicable to the forecast annual total profit, i.e. the best estimate of the annual average expected tax rate applied to the pre-tax profit of the interim period.

Changes in international accounting standards, interpretations and amendments

The Group has not adopted in advance any standard, interpretation or improvement that has been issued but which is not yet in force.

IFRS 9 Financial instruments

In July 2015 the IASB issued the final version of IFRS 9 “Financial instruments” which replaces IAS 39 “Financial Instruments: Recognition and measurement” and all the previous versions of IFRS 9. IFRS 9 brings together all three aspects of the project concerning the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. Excluding hedge accounting, the standard requires retrospective application of the standard, but presentation of comparative information is not compulsory. As for hedge accounting, generally the standard is effective prospectively, with some limited exceptions.

The Group has been adopting the new standard as from 1 January 2018 and it has not provided comparative information. In 2017, the Group ended the assessment of the main changes that IFRS 9 introduces, assessing the potential impacts deriving from application of all three aspects discussed in IFRS 9. As already pointed out in the Annual Report as at 31 December 2017, these aspects did not materially affect the Group’s statement of financial position and shareholders’ equity; as regards impairment, the amounts allocated did not significantly differ from those deriving from previous procedures. In addition, there were no changes in the classification of the Group’s financial instruments.

a) Classification and measurement

The application of the classification and measurement requirements of IFRS 9 did not materially affect the Group’s financial statements and shareholders’ equity, as the financial instruments held by the Group that can give rise to a difference when applying the new standard are only receivables, financial liabilities and derivative instruments, while the Group does not hold debt and equity instruments. The Group continues measuring at fair value all financial assets previously recognized at fair value.

Loans, as well as trade receivables, are held in order to collect contractual payments at maturity and generate cash flows that are solely payments of principal and interest. Having assessed the characteristics of the contractual cash flows of these instruments, the Group confirmed that they meet all the conditions for measurement at amortized cost in accordance with IFRS 9.

b) Impairment

IFRS 9 requires the Group to recognize all expected credit losses on its debt securities, loans, and trade receivables, either on an annual basis or based on their remaining life. The Group applies the simplified approach and recognizes expected losses on all trade receivables based on their remaining life, defining a provision matrix that is based on the historical experience of the Group’s individual entities as far as credit losses are concerned, adjusted for specific forward-looking factors related to borrowers and the economic environment. In 2017, the Group analyzed the historical default rate of its customer portfolio and supplemented this historical information with that already used as part of the existing impairment testing process. The Group had already been conducting a risk analysis for each category of receivables based on country risk, remaining life, and debt collection procedures used. Therefore, the Group already incorporated considerations on the current macroeconomic situation and the estimates of future recovery conditions, based on Top Management’s judgment, into the calculation of the provision for bad debt. Said analysis found that the forward-looking default rate, i.e. the loss rate (probability of default (PD) times loss-given default (LGD)) calculated by accounting for forward-looking factors, is similar to the percentages of impairment already used: previously, the impairment test was not limited to incurred credit losses, but rather incorporated an assessment of the expected losses on each individual receivable. Therefore, the requirements of IFRS 9 do not materially impact the shareholders’ equity of the Group.

c) Hedge accounting

The Group decided not to apply the hedge accounting requirements of IFRS 9 and will continue applying the relevant requirements of IAS 39.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). It applies to all revenue from contracts with customers, unless such contracts fall within the scope of other accounting standards. IFRS 15 requires an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The standard requires the Group to use judgment, considering all facts and circumstances relevant to the application of each stage of the model to the contracts with its customers; in addition, it specifies the accounting for the incremental costs of obtaining a contract and those directly associated with fulfilling a contract.

The standard is effective for annual periods beginning on or after 1 January 2018, with a full or modified retrospective application. Although early adoption was permitted, the Group adopted the new standard effective 1 January 2018, electing to apply the modified retrospective approach to all contracts at the date of initial application for the transition. Therefore, it did not restate the comparative data. During 2016 and 2017, the Group performed an assessment of the impact of IFRS 15 by simulating the application of the standard to contracts that are part of the main revenue streams identified at Group level. Considering the nature of its business, the impact on the Group was immaterial.

In applying IFRS 15, the Group considered the following:

(a) Sale of goods

The application of IFRS 15 to contracts with customers in which the sale of goods represents the only obligation did not have a significant impact on the Group. The Group recognizes revenue when control over the asset has been transferred to the customer, generally upon delivery as in the case of previously applicable standards. The application thus did not impact the timing for revenue recognition.

In accordance with IFRS 15, the Group estimates variable consideration at the contract date, considering it when control over the asset is transferred, and thus the right to receive the consideration arises, until the uncertainty is addressed. Given the limited amount and nature of variable consideration within the current portfolio of contracts with the main customers, the application of the new standard does not materially impact the Group.

Right of return: As part of the process to identify the different performance obligations and variable consideration, the Group eventually concluded that the right of return causes the following impact: when a contract with a customer includes a right of return, the Group measures variable consideration in accordance with IFRS 15, using an approach based on the weighted average probability of return. The Group has not identified any changes in the estimate of variable consideration compared to the estimate made under the previously applicable accounting standards. Effective 1 January 2018, in accordance with IFRS 15, the Group presents separately the line item “Refund Liabilities” under Current Liabilities and the line item “Right of return assets” under Current Assets in its Financial Statements.

(b) Advances from customers

The Group sometimes receives short-term advances from its customers. When adopting IFRS 15, the Group used the practical expedient available for short-term advances. Therefore, the Group did not adjust the amount of the promised consideration for the effect of the financing component in the contract, as it expects that, at the contract date, the length of time between when the customer pays for the asset and when the Group transfers the promised goods or services to the customer will be one year or less.

(c) Royalties

The Group accounts for revenues from royalties, including the minimum guarantee, by reference to the stage of completion of the licensee’s sales. In accordance with IFRS 15, they are allocated based on when the final service is rendered to the customer throughout the distribution chain, as it was already the case for previously applied accounting standards. Therefore, the Group was not affected by the application of IFRS 15.

(d) Presentation and disclosure requirements

The provisions in IFRS 15 concerning presentation and disclosure requirements, which are fundamentally new, are more detailed compared to previously applied standards. Considering that the analysis of the contracts and revenue streams showed that revenue from the sale of products is mainly recognized at a specific point in time, and based on the outcomes of the assessments performed (which resulted in no significant judgments), there were no significant implementation challenges concerning the inclusion of additional disclosures. In accordance with IFRS 15, the Group recognized the revenue from contracts with customers disaggregating them into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors.

(e) Other adjustments

In addition to the above, the Group assessed the alignment of other line items in the main financial statements with IFRS 15, finding no changes in the presentation of the data.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment, which address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted. The Group currently does not fall under the scope of the amendments and, therefore, these amendments did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendment states that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group has been adopting the amendments starting from their effective date. The Group currently does not fall under the scope of the amendments and, therefore, these amendments did not have any impact on the Group's consolidated financial statements.

Annual improvements cycle 2014-2016

These improvements include:

- **IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions.** The IASB deleted the short-term exemptions in paragraphs E3-E7 of IFRS1, because they have now served their intended purpose. The amendment is effective for annual periods beginning on or after 1 January 2018. This amendment is not applicable to the Group.
- **IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice.** The amendments clarify that:
 - An entity that is a venture capital organization, or other qualifying entity, may elect upon initial recognition and on an investment-by-investment basis to measure its investments in associates or joint ventures at fair value through profit or loss.
 - If an entity does not qualify as an investment entity and has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity (be it an associate or joint venture) to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each associate or joint venture qualifying as an investment entity at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent company.

The amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2018; early adoption is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments do not apply to the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation
- or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The interpretation is effective for annual periods beginning on or after 1 January 2018. Early application is permitted and must be disclosed. The Group has been applying this interpretation as from 1 January 2018 and, since its current accounting policy is aligned with the interpretation, there was no impact on its consolidated financial statements.

Standards issued but not yet in force

Updates to the information provided in the Annual Report as at 31 December 2017 are provided here below for those standards which have been issued but are not yet in force when preparing the condensed consolidated half-year financial statements and which may materially affect the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 was published in January 2016 and will replace IAS 17 Leasing, IFRIC 4, SIC-15, and SIC-27. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases (contracts conveying the right to use an asset) and requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g. personal computer, photocopiers, ...), and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make non-variable lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019.

The main impacts on the Group's consolidated financial statements, which are still being calculated, are expected to be material, considering the significant number of the Group's contracts that include right-of-use assets. Below is a summary of said impacts:

- financial position: increase in non-current assets due to the recognition of the “right-of-use asset” and a corresponding increase in financial payables;
- profit or loss in the separate financial statements: different nature, qualification and classification of expenses (depreciation of the “right-of-use asset” and “interest expense” relative to the “Costs for the use of third-party assets”, as per IAS 17), resulting in a positive impact on operating profit.
- classification of lease cash flows in the statement of cash flows;
- alternative performance measures: the mentioned change in the nature, qualification, and classification of expenses will affect EBITDA, net invested capital, Net Financial Debt, and the other measures of the Group's financial performance and financial position.

As for profit or loss in the consolidated financial statements, where expenses are presented by function, the Group does not expect a material impact in terms of reclassification between the different cost items, with the exception of financial charges. In addition, compared to IAS 17, the combination of straight-line depreciation of the “right-of-use asset” and the effective interest rate method applied to the lease liability result in a higher charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

The Group expects most of the estimated impact of IFRS 16 to derive from property lease agreements (DOS, warehouses, offices). In 2017, the Group had started collecting data and assessing all the Group's

companies to estimate the potential impact of the new accounting standard on all leases outstanding at 31 December 2017—as well as to determine which discount rate it should use to calculate the new liability arising from said leases. This process is still ongoing, and to date the Group cannot reasonably estimate the potential impact. Meanwhile, in 2018 the Group launched a project to implement the new reporting system for the new lease process, which will be completed by the end of 2018.

The most significant issue addressed emerged during the assessment was the identification of the lease term, since the form, regulations, and business practices related to property lease agreements vary significantly from one jurisdiction to another. Therefore, the Group believes it shall define a pragmatic accounting policy, reflecting the economic substance of the obligations arising from the underlying leases.

During the transition, the Group intends to adopt the “cumulative catch-up approach” at the date of initial application of the new standard (1 January 2019), measuring the lease liability as the future cash flows from existing leases, discounted using an incremental borrowing rate calculated at that date based on the remaining term of the leases. The Group is still evaluating whether to recognize the right-of-use asset retrospectively and, if so, for which leases. For all other leases, the right-of-use asset will be equal to the amount of the liability calculated as described above, less any deferred lease assets/liabilities relating to said leases, and recognized at the date of initial application of the standard.

The standard’s transition provisions permit certain reliefs, and the Group will probably take advantage of them.

Consolidation area

The following companies are included in consolidation as at 30 June 2018.

The following companies are included in consolidation as at 30 June 2018.

Company name	Location	Currency	Share capital	30 June 2018		Notes
				Controlling interest (%)		
				Direct	Indirect	
Salvatore Ferragamo S.p.A.	Florence, Italy	Euro	16,879,000	Parent company		
Ferragamo Retail Nederland B.V.	Amsterdam, Holland	Euro	500,000	100%		
Ferragamo France S.A.S.	Paris, France	Euro	4,334,094	100%		
Ferragamo Deutschland GmbH	Munich, Germany	Euro	3,300,000	100%		
Ferragamo Austria GmbH	Vienna, Austria	Euro	1,853,158	100%		
Ferragamo U.K. Limited	London, United Kingdom	Pound Sterling	7,672,735	100%		
Ferragamo (Suisse) SA	Mendrisio, Switzerland	Swiss Franc	1,000,000	100%		
Ferragamo Belgique SA	Brussels, Belgium	Euro	750,000	100%		
Ferragamo Monte-Carlo S.A.M.	Principality of Monaco	Euro	304,000	100%		
Ferragamo Espana S.L.	Madrid, Spain	Euro	4,600,000	100%		
Ferragamo Denmark ApS	Copenhagen, Denmark	Danish Krone	550,000	100%		
Ferragamo USA Inc.	New York, United States	US Dollar	74,011,969	100%		
Ferragamo Canada Inc.	Vancouver, Canada	Canadian Dollar	4,441,461		100%	(1)
S-Fer International Inc.	New York, United States	US Dollar	4,600,000		100%	(1)
Sator Realty Inc.	New York, United States	US Dollar	100,000		100%	(1)
Ferragamo Mexico S. de R.L. de C.V.	Mexico City, Mexico	Mexican Peso	4,592,700	99.73%	0.27%	(1)
Ferragamo Chile S.A.	Santiago, Chile	Chilean Peso	1,362,590,000	99%	1%	(1)
Ferragamo Argentina S.A.	Buenos Aires, Argentina	Argentine Peso	9,590,682	95%	5%	(1)
Ferragamo Brasil Roupas e Acessorios Ltda.	Sao Paulo, Brazil	Brazilian Real	55,615,000	99%	1%	(1)
Ferragamo Hong Kong Ltd.	Hong Kong, China	Hong Kong Dollar	10,000	100%		
Ferragamo Japan K.K.	Tokyo, Japan	Japanese Yen	305,700,000	71%		(5)
Ferragamo Australia Pty Ltd.	Sydney, Australia	Australian Dollar	13,637,003	100%		
Ferrimag Limited	Hong Kong, China	Hong Kong Dollar	109,200,000		75%	(2)
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Shanghai, China	US Dollar	200,000		75%	(3)
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, China	US Dollar	1,400,000	75%		
Ferragamo Retail HK Limited	Hong Kong, China	Hong Kong Dollar	39,000,000		75%	(3)
Ferragamo Retail Taiwan Limited	Taipei, Taiwan	New Taiwanese Dollar	136,250,000		75%	(3)
Ferragamo Retail Macau Limited	Macau, China	Macau Pataca	25,000	75.2%		
Ferragamo Retail India Private Limited	New Delhi, India	Indian Rupee	150,000,000	51%		(4)(6)
Ferragamo Korea Ltd.	Seoul, South Korea	South Korean Won	3,291,200,000	100%		
Ferragamo (Singapore) Pte. Ltd.	Singapore	Singapore Dollar	4,600,000	100%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	100%		
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	100%		
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc. 2 – Through Ferragamo Hong Kong Ltd. 3 – Through Ferrimag Ltd. 4 – The investment in Ferragamo Retail India Private Ltd. refers to the legal percentage of ownership. In light of the existence of a put & call option on the company's minority interests which transfers the benefits and risks to Salvatore Ferragamo S.p.A., all reference to the minority interest has been removed from consolidated shareholders' equity. 5 – The investment in Ferragamo Japan K.K. refers to the legal percentage of ownership. In light of a put option attributed to the company's minority shareholders, all reference to the minority interest has been removed from consolidated shareholders' equity. 6 – Non-operating company

The condensed consolidated half-year report provides information on the equity and financial position as well as the operating performance of the Parent company Salvatore Ferragamo S.p.A. and its Italian and foreign subsidiaries consolidated on a line-by-line basis, as at 30 June 2018. These are collectively identified as the Salvatore Ferragamo Group.

During the first half of 2018 the Group structure underwent no changes. It should be pointed out that as from 8 June 2018 the company Ferragamo Retail India Private Limited discontinued retail sale; on 15 May 2018 it transferred its main assets (inventories, equipment and store furniture and furnishings). Therefore, as at 30 June 2018 it is classified as a non-operating company. For further details reference should be made to the Directors' report on operations, section "Significant events occurred during the first half of 2018".

Translation of financial statements in currencies other than the Euro

The exchange rates used to determine the value in Euro of subsidiaries' financial statements expressed in foreign currency were (to 1 Euro) as follows:

	Average exchange rates		Exchange rates at the end of the reporting period		
	30 June	30 June	30 June	31 December	30 June
	2018	2017	2018	2017	2017
US Dollar	1.2103	1.0830	1.1658	1.1993	1.1412
Swiss Franc	1.16975	1.07664	1.1569	1.1702	1.0930
Japanese Yen	131.606	121.780	129.04	135.01	127.75
Pound Sterling	0.8798	0.8606	0.8861	0.8872	0.8793
Danish Krone	7.4476	7.4368	7.4525	7.4449	7.4366
Australian Dollar	1.5688	1.4364	1.5787	1.5346	1.4851
South Korean Won	1,302.37	1,236.32	1,296.71	1,279.61	1,304.56
Hong Kong Dollar	9.4863	8.4199	9.1468	9.3720	8.9068
Mexican Peso	23.085	21.044	22.8817	23.6612	20.5839
New Taiwanese Dollar	35.732	33.2047	35.4554	35.5658	34.6978
Singapore Dollar	1.6054	1.5208	1.5896	1.6024	1.5710
Thai Baht	38.4189	37.5902	38.5650	39.1210	38.7440
Malaysian Ringgit	4.7670	4.7511	4.7080	4.8536	4.8986
Indian Rupee	79.4903	71.1760	79.8130	76.6055	73.7445
Macau Pataca	9.755	8.665	9.3912	9.6220	9.1746
Chinese Renminbi	7.7086	7.4448	7.7170	7.8044	7.7385
Chilean Peso	740.01	714.86	756.45	736.513	758.21
Argentine Peso	26.080	17.013	33.375	22.624	18.949
Brazilian Real	4.1415	3.4431	4.4876	3.9729	3.7600
Canadian Dollar	1.5458	1.4453	1.5442	1.5039	1.4785

3. Seasonality

The market in which the Group operates is characterized by seasonal events that are typical of the retail and wholesale sales and which can cause an uneven monthly breakdown in the sales flow and in operating costs.

Therefore, it is important to remember that income statement results for the first half of the year cannot be considered as proportional to the year as a whole. The half-year figures are affected by seasonal events also in terms of equity and financial position.

Comments on the main statement of financial position items (assets, shareholders' equity and liabilities)

4. Property, plant and equipment

The following table shows the change in property, plant and equipment for the half-year period ended 30 June 2018.

(In thousands of Euro)	Value at 01.01.2018	Translation difference	Additions	Disposals	Depreciation	Reclass.	Value at 30.06.2018
Land	29,563	(5)	-	-	-	-	29,558
Buildings	33,709	147	455	-	(1,169)	-	33,142
Plant and equipment	6,717	10	870	-	(1,223)	-	6,374
Industrial and commercial equipment	32,641	400	5,702	(95)	(6,314)	38	32,372
Other assets	12,432	85	1,478	(27)	(3,073)	-	10,895
Leasehold improvements	94,221	1,532	8,979	(1)	(13,281)	(38)	91,412
Fixed assets in progress and payments on account	40,317	73	15,645	(5,720)	-	-	50,315
Total	249,600	2,242	33,129	(5,843)	(25,060)	-	254,068

The increase:

- in “Industrial and commercial equipment” mainly refers to the opening and renovation of stores (5,576 thousand Euro) and the purchase of equipment and molds (126 thousand Euro) for the fragrances product category;
- in “Other assets” mainly concerns furniture and furnishings (787 thousand Euro) and IT equipment (488 thousand Euro);
- in “Leasehold improvements” refers mainly to work carried out for the opening or refurbishment of stores.
- in “Fixed assets in progress and payments on account” refers largely to expenses incurred and payments on account made for the new logistics center the Parent company is building in Osmannoro and, to a lesser extent, for the opening or refurbishment of stores which are not yet operational as at 30 June 2018.

The decrease in Fixed assets in progress and payments on account concern the capitalization of works completed during the period within the various items of Property, plant and equipment (presented as an increase in commercial equipment). Said works largely refer to the opening of new stores and the renovation of existing ones.

5. Investment property

Investment property entirely refers to buildings located in the United States that are not used for operations but produce income through rental.

The following table shows the change in investment property for the half-year period ended 30 June 2018.

(In thousands of Euro)	Value at 01.01.2018	Translation difference	Additions	Depreciation	Value at 30.06.2018
Land	4,667	134	-	-	4,801
Buildings	1,472	36	-	(159)	1,349
Total	6,139	170	-	(159)	6,150

6. Intangible assets with a finite useful life

The following table shows the changes in intangible assets with a finite useful life for the period ended 30 June 2018.

(In thousands of Euro)	Value at 01.01.2018	Translation difference	Additions	Disposals	Amortization	Value at 30.06.2018
Industrial patents and use of intellectual property rights	4,708	21	1,069	-	(1,087)	4,711
Concessions, licenses and trademarks	1,685	-	173	-	(169)	1,689
Development costs	19,127	-	11,806	-	(4,023)	26,910
Others	5,904	45	408	-	(627)	5,730
Intangible assets with a finite useful life in progress	12,169	1	3,834	(12,868)	-	3,136
Total	43,593	67	17,290	(12,868)	(5,906)	42,176

Intangible assets with a finite useful life rose compared to 31 December 2017 mainly due to new investments in software application development costs (item “Development costs”), software license costs (item “Industrial patents and use of intellectual property rights”) and the key money paid for a store in Europe (item “Others”).

The item “Development costs” mainly includes the capitalization of software development costs incurred by the Parent company for the development of business software applications (SAP accounting system, ERP, reporting systems, development costs for the e-commerce platform, the “Old Replacement” project for the introduction of a new SAP-based distribution system).

The item “Others” refers mainly to the so-called key money, i.e. the sums paid to obtain the use of leased property by taking over existing contracts or by obtaining the withdrawal of the lessees in such a way as to be able to enter into new contracts with the lessors (net value of 4,596 thousand Euro as at 30 June 2018).

The decline in Intangible assets with a finite useful life in progress mainly concerns the capitalization of the set of software applications named Old Replacement, which became operational on 1 January 2018, within development costs.

7. Other non current assets

As at 30 June 2018, other non current assets totaled 4,171 thousand Euro, down compared to 31 December 2017 (4,963 thousand Euro), and refer for 1,788 thousand Euro to the impact relating to the straight line charging of rental income from investment property in the USA, as provided for by the relevant standards (straight lining).

The item also includes 2,000 thousand Euro, relating to the non current portion of advances of royalties paid by Ferragamo Parfums S.p.A. to the owner of the Ungaro fragrances brand, as provided for by the new license contract partially renegotiated in July 2017. These advances are recovered with the accrual of royalties.

8. Other non current financial assets

Other non current financial assets, totaling 16,622 thousand Euro as at 30 June 2018 (15,981 thousand Euro as at 31 December 2017), mainly refer to guarantee deposits for existing rental contracts, and are accounted for at amortized cost.

9. Inventories

Ending inventories refer to the following categories:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Gross value of raw materials, accessories and consumables	66,654	60,726	5,928
Provision for obsolete inventory	(6,652)	(6,488)	(164)
Raw materials, accessories and consumables	60,002	54,238	5,764
Gross value of finished products and goods for resale	357,171	312,141	45,030
Provision for obsolete inventory	(45,649)	(40,863)	(4,786)
Finished products and goods for resale	311,522	271,278	40,244
Total	371,524	325,516	46,008

The change in raw materials compared to 31 December 2017 depends on production volumes for the period; the provision reflects the obsolescence of raw materials (mainly leather and accessories) which are no longer suitable for production plans. The stocks of finished products increased by 40,244 thousand Euro (14.8%) compared to 31 December 2017.

(Uses of) and/or allocations to the provision for obsolete inventory were as follows:

(In thousands of Euro)	Half-year period ended 30 June		Change
	2018	2017	2018 vs. 2017
Raw materials	164	(517)	681
Finished products	2,258	2,706	(448)
Total	2,422	2,189	233

10. Right of return assets

Concerning the right of return as part of the measurement of variable consideration as per “Revenue from contracts with customers”, the line item “Contract assets” (totaling 2,253 thousand Euro at 30 June 2018) includes the estimated cost of the products expected to be returned, equal to the previous carrying amount of inventories (estimated cost of production) less potential future costs associated with their recovery.

11. Trade receivables

The breakdown of the item is set out in the following table:

(In thousands of Euro)	30 June	31 December	Change
	2018	2017	2018 vs. 2017
Trade receivables	153,072	154,044	(972)
Provision for bad debt	(5,591)	(5,461)	(130)
Total	147,481	148,583	(1,102)

Trade receivables, slightly down by 0.7% compared to 31 December 2017, mainly refer to wholesale sales and are due for around 16,514 thousand Euro to fragrances and, for the remainder, to other product categories. They are interest-free and are generally due in 90 days or less. The related provision for bad debt is considered adequate to meet any cases of insolvency. In addition, during the first half of the year the Group reported 33 thousand Euro in credit losses after writing off trade receivables classified as non-performing.

The change in the provision for bad debt in the half-year period ended 30 June 2018 was as follows:

(In thousands of Euro)	Value at	Translation difference	Allocations	Uses	Value at
	01.01.2018				30.06.2018
Provision for bad debt	5,461	17	247	(134)	5,591

12. Tax receivables

The breakdown of the item is set out in the following table:

(In thousands of Euro)	30 June	31 December	Change
	2018	2017	2018 vs. 2017
Due from tax authorities (value added tax and other taxes)	7,988	7,708	280
Due from tax authorities for direct taxes	15,061	19,935	(4,874)
Withholding taxes	10	11	(1)
Total	23,059	27,654	(4,595)

Tax receivables were down 4,595 thousand Euro, largely due to the impact of the estimated tax payments on the receivables due from tax authorities for income taxes associated with the reduction in the estimated tax expense for the first half of 2018.

13. Other current assets

The breakdown of other current assets is set out in the following table:

(In thousands of Euro)	30 June	31 December	Change
	2018	2017	2018 vs. 2017
Other receivables	23,761	38,741	(14,980)
Accrued income	35	59	(24)
Prepaid expenses	18,415	15,912	2,503
Other receivables for short-term hedge derivatives	1,075	12,844	(11,769)
Total	43,286	67,556	(24,270)

As at 30 June 2018, the item “Other receivables” mainly includes:

- receivables due from credit card management companies for retail sales amounting to 9,163 thousand Euro (12,596 thousand Euro as at 31 December 2017);
- receivables due from the Holding company Ferragamo Finanziaria S.p.A. for 11,041 thousand Euro (21,576 thousand Euro as at 31 December 2017), broken down as follows:
 - (i) 9,016 thousand Euro to the Parent company Salvatore Ferragamo S.p.A. and to Ferragamo Parfums S.p.A., referring to the domestic fiscal unity for the year 2018; in particular, the receivable of Salvatore Ferragamo S.p.A. arose in 2016 from the reduction in direct tax expense thanks to the tax benefit associated with the so-called “Patent box”. On 29 December 2016, the Parent company Salvatore Ferragamo S.p.A. entered into the relevant ruling, which is effective for annual periods between 2015 and 2019, with Italian tax authorities;
 - (ii) 2,025 thousand Euro to receivables concerning the income tax (IRES) refund claim (online request sent on 5 February 2013) regarding the failed deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, recognized in 2012.
- advances to suppliers amounting to 1,563 thousand Euro (1,687 thousand Euro as at 31 December 2017).

Prepaid expenses mainly include contributions to customers relating to the fit-out of tailored single brand stores and/or stores-in-stores for 6,129 thousand Euro, rents for 6,355 thousand Euro and insurance premiums for 1,613 thousand Euro.

Other receivables for hedge derivatives amounting to 1,075 thousand Euro (12,844 thousand Euro as at 31 December 2017) refer to the fair value measurement of outstanding derivative contracts (hedge component) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

14. Other current financial assets

Other current financial assets as at 30 June 2018 totaled 419 thousand Euro (341 thousand Euro as at 31 December 2017), and include the fair value measurement of derivatives for the non-hedge component.

15. Cash and cash equivalents

The breakdown of the item is set out in the following table:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Time deposits	9,829	26,028	(16,199)
Bank and post office sight deposits	147,880	184,151	(36,271)
Cash and values on hand	1,179	1,909	(730)
Total	158,888	212,088	(53,200)

Time deposits at banks expire in no more than 35 days. Bank and post office deposits refer to temporary cash holdings mainly to meet imminent payments.

During the first half of the year, the Group continued to use a significant part of its cash surpluses not in time-deposit investments, but to take out intercompany loans, regulated at current market conditions, so as to reduce its average bank debt.

As at 30 June 2018, the Group had unused credit lines for 688,607 thousand Euro. As at 31 December 2017, unused credit lines totaled 699,426 thousand Euro.

For the purposes of the consolidated statement of cash flows, the item “Cash and cash equivalents” as at 30 June 2018 and 30 June 2017 was broken down as follows:

(In thousands of Euro)	30 June 2018	30 June 2017	Change 2018 vs. 2017
Cash and bank sight deposits	149,059	114,910	34,149
Time deposits	9,829	8,455	1,374
Total	158,888	123,365	35,523

16. Assets held for sale

As at 31 December 2017, assets held for sale of 990 thousand Euro included the stocks of finished products (944 thousand Euro) and equipment and furniture and furnishings (46 thousand Euro) of Ferragamo Retail India Private

Limited pursuant to the requirements of IFRS 5 for the relevant recognition. During the first half of 2018 (on 15 May 2018) these assets were sold to a local company. For further details reference should be made to the Directors' report on operations of the Half-year report, section "Significant events occurred during the first half of 2018".

17. Share capital and reserves

Here below are the main changes occurred in the Group's share capital and reserves during the first half of 2018. The authorized **share capital** of the Parent Company as at 30 June 2018 totaled 16,939,000 Euro; the subscribed and paid up share capital amounted to 16,879,000 Euro and consisted of 168,790,000 ordinary shares with a nominal value of 0.10 Euro each.

The **extraordinary reserve** of 478,377 thousand Euro, which refers entirely to the Parent company, was set up with retained earnings; the change recorded in the period was due to an increase of 48,872 thousand Euro in profit for the year 2017 net of 64,140 thousand Euro in dividends paid out, which were approved in the first half of 2018.

The **cash flow hedge reserve** was negative for 1,641 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 30 June 2018, given the hedges of the Parent Company against exchange rate risk, and is shown net of the tax effect.

The **translation reserve**, negative for 9,040 thousand Euro, reflects value changes in the Group share of shareholders' equity of the consolidated companies, due to changes in the exchange rates of the companies' functional currencies against the Euro, the presentation currency of the consolidated financial statements.

Retained earnings amounting to 160,295 thousand Euro include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. The change in this reserve during the first half of 2018 was the result of several factors. On the one hand, it rose by 69,769 thousand Euro due to the capitalization of the net profit for 2017, net of the Parent company's profit which was allocated to the extraordinary reserve; on the other hand, the decrease in the reserve was mainly due to the dividends (64,140 thousand Euro) distributed by the Parent company during the first half of 2018, and to the effect in the period of the recognition of the put and call agreements on pre-existing minority interests for 728 thousand Euro and minor effects for 232 thousand Euro.

The items "**Other reserves**" and "**Effect IAS 19 equity**" (net total of 14,006 thousand Euro) include mainly the values recorded for the valuation differences required by IAS/IFRS compared to the local standards of Group companies. In addition, the item "Other reserves" includes:

- the specific reserve set up to service the future free share capital increase for a nominal amount of 60 thousand Euro for the shares which will be assigned by the 2016-2020 Stock Grant Plan (up to a maximum of 600,000 shares with a nominal value of 0.10 Euro each);
- 1,946 thousand Euro in the Stock Grant Reserve, referring to the fair value measurement at 30 June 2018 of the rights to receive shares in the Parent company: their impact on the period amounted to 635 thousand Euro.

The amounts are net of the tax effects where applicable.

18. Provision for risks and charges

The breakdown and changes in the item are provided in the following table:

(In thousands of Euro)	Value at 01.01.2018	Translation reserve	Additions	Uses	Reclassifications	Value at 30.06.2018
Legal disputes	2,294	1	153	(502)	-	1,946
Other	11,500	287	229	(193)	(1,213)	10,610
Total	13,794	288	382	(695)	(1,213)	12,556

Legal disputes mainly refer to allocations against likely future liabilities relating to legal proceedings against the Parent company and the subsidiaries, as well as labor disputes. Labor disputes refer both to litigations and to estimates of settlement amounts which the Group companies might pay for settlement in the pre-litigation stage. The use of the provision for legal disputes mainly refers to the settlement of a number of labor proceedings and/or disputes during the period, while allocations to the provision refer to labor and legal disputes that have arisen during the first half of the year.

The provision for other risks mainly includes allocations against likely contingent liabilities; the main allocation concerns expenses for the restoration of premises leased to third parties recognized pursuant to the relevant contractual obligations (10,354 thousand Euro); in addition, it includes the additional allowance set aside by Ferragamo Parfums S.p.A. for agents operating in Italy. The changes for the period largely concerned these items: specifically, 217 thousand Euro were set aside for the renovation costs incurred by some foreign subsidiaries.

The 1,213 thousand Euro reclassification within the provision for risks and charges refers to the improved presentation of marginal cases of products returned by customers in the Statement of Financial Position.

As regards contingent liabilities at Group level, for which no provisions have been made, reference should be made to the section "Significant events occurred during the first half of 2018 – Tax and customs disputes and audits".

19. Employee benefit liabilities

The following table shows the breakdown of employee benefits as at 30 June 2018 and 31 December 2017:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Employee defined benefit liabilities	11,449	11,312	137
Other employee benefit liabilities	229	197	32
Total	11,678	11,509	169

Employee defined benefit liabilities of the Group's Italian companies (the Parent company and Ferragamo Parfums S.p.A.) amounted to 8,565 thousand Euro, up by 126 thousand Euro compared to 31 December 2017. Employee defined benefit liabilities of the Group's non-Italian companies refer to Ferragamo Japan KK, Ferragamo Retail Taiwan Ltd., Ferragamo France SAS, Ferragamo Montecarlo SAM, Ferragamo Belgique SA, Ferragamo Mexico S.L.de C.V., Ferragamo Usa Inc., Ferragamo (Thailand) Limited and Ferragamo Retail India Private Ltd.. They amounted to 2,884 thousand Euro, up by 11 thousand Euro compared to 31 December 2017.

20. Other non current liabilities

The breakdown of the item is set out in the following table:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Payables for deferred rents	58,947	58,864	83
Other payables	209	203	6
Total	59,156	59,067	89

Payables for deferred rents mainly refer to the straight lining of rents over the contract period for the property leased in the United States (46,349 thousand Euro), including the building on Fifth Avenue, next to the building owned by the Company, where a significant part of the New York store is located, and in other countries in which the Group operates. As at 30 June 2018, the item "Other payables", equal to 209 thousand Euro, refers mainly to guarantee deposits received for lease contracts.

21. Other non current financial liabilities

The item “Other non current financial liabilities” amounts to 28 thousand Euro (93 thousand Euro as at 31 December 2017) and refers to the fair value measurement of the non current portion of outstanding derivatives (non-hedge component).

22. Trade payables

The breakdown of trade payables was as follows:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Trade payables	198,226	201,978	(3,752)
Advances from customers	1,208	1,635	(427)
Total	199,434	203,613	(4,179)

Trade payables do not bear interest and usually become due after 60/90 days.

This amount included the payables relating to the ordinary course of business of the Group’s companies, and specifically those relating to the purchase of raw materials, parts, and costs relating to manufacturing in outsourcing, as well as payables as at 30 June 2018 related to the construction work by the Parent company Salvatore Ferragamo S.p.A. on the new logistics hub at Osmannoro.

23. Refund Liabilities

Concerning the right of return as part of the measurement of variable consideration as per “Revenue from contracts with customers”, the line item “Refund Liabilities” (totaling 4,008 thousand Euro at 30 June 2018) refers to the liability to customers for the amount of the products expected to be returned.

24. Interest-bearing loans & borrowings

A breakdown of interest-bearing loans & borrowings is given below:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Medium/long-term financial payables to banks	15,499	14,814	685
Short-term financial payables to banks	38,790	66,529	(27,739)
Total	54,289	81,343	(27,054)

The Group’s financial requirements are covered by short-term payables relating to short- and medium/long-term bank credit lines. The Group’s loans and credit lines are at floating rates. The cost of debt is generally benchmarked to the market rate for the period (usually Euribor/Libor) increased by a spread which depends on the type of credit line used. The margins applied are in line with the best market standards.

During the first half of the year, the Group continued to use a significant part of its cash surpluses not in time-deposit investments, but to take out intercompany loans, regulated at current market conditions, so as to reduce its average bank debt.

In more detail, financial payables to banks and the related used credit lines were as follows:

(In thousands of Euro)	30 June 2018		31 December 2017	
	Agreed	Used	Agreed	Used
Committed credit lines	187,123	23,249	182,385	22,385
<i>Revolving credit lines</i>	171,624	7,750	160,000	-
<i>Term loans</i>	15,499	15,499	22,385	22,385
Uncommitted credit lines	555,773	31,040	598,384	58,958
Total	742,896	54,289	780,769	81,343

The following table provides the breakdown and changes in the net financial position as at 30 June 2018, 31 December 2017 and 30 June 2017, restated in accordance with the model included in CONSOB Communication no. DEM/6064293 of 28 July 2006.

(In thousands of Euro)	30 June	31 December	30 June	Change	Change
	2018	2017	2017	06.18 vs. 12.17	06.18 vs. 06.17
A. Cash	1,179	1,909	1,055	(730)	124
B. Other cash equivalents	157,709	210,179	122,310	(52,470)	35,399
C. Cash and cash equivalents (A)+(B)	158,888	212,088	123,365	(53,200)	35,523
Derivatives – non-hedging component	419	341	514	78	(95)
Other financial assets	-	-	-	-	-
D. Current financial receivables	419	341	514	78	(95)
E. Current bank payables	38,790	66,529	95,264	(27,739)	(56,474)
F. Derivatives – non-hedging component	130	226	136	(96)	(6)
G. Other current financial payables	3,408	3,276	3,354	132	54
H. Current financial debt (E)+(F)+(G)	42,328	70,031	98,754	(27,703)	(56,426)
I. Current financial debt, net (H)-(C)-(D)	(116,979)	(142,398)	(25,125)	25,419	(91,854)
J. Non current bank payables	15,499	14,814	-	685	15,499
K. Derivatives – non-hedging component	28	93	-	(65)	28
M. Other non current payables	-	-	-	-	-
N. Non current financial debt (J)+(K)+(M)	15,527	14,907	-	620	15,527
O. Net financial debt (I)+(N)	(101,452)	(127,491)	(25,125)	26,039	(76,327)

Limitations on the use of financial resources

In general, the Group's committed credit lines (both revolving credit lines and term loans) that are currently outstanding do not require compliance with financial covenants.

Financial covenants, generally assessed on an annual basis, are included only in some local loan contracts of some Asian companies, even though they are uncommitted credit lines.

25. Tax payables

As at 30 June 2018, tax payables amounted to 14,381 thousand Euro and concerned payables for income taxes pertaining to the period and other taxes due by Group companies. The 5,391 thousand Euro decrease in the first half of the year was largely attributable to the reduction in value-added tax (VAT) payables as well as payables for taxes withheld by the Group companies as withholding agents and due to tax authorities.

26. Other current liabilities

The breakdown of the item "Other current liabilities" is set out in the following table:

(In thousands of Euro)	30 June	31 December	Change
	2018	2017	2018 vs. 2017
Other payables	25,494	22,907	2,587
Payables to social security institutions	4,011	5,041	(1,030)
Accrued expenses	913	2,519	(1,606)
Deferred income	3,696	2,440	1,256
Other payables for hedge derivatives	3,245	362	2,883
Total	37,359	33,269	4,090

The item "Other payables" mainly includes the Group's payables to employees for amounts accrued but not yet paid at the reporting date; to a lesser extent, it also includes payables to suppliers and service providers that had not been invoiced at the reporting date. The 2,587 thousand Euro increase compared to 31 December 2017 was mainly attributable to payables due to employees.

The item "Payables to social security institutions" refers to payables to social security institutions paid in the month after the reporting period and relating to amounts due to employees.

The item "Other payables for hedging derivatives" shows the fair value measurement at the end of the period of outstanding derivatives (hedging component) entered into by the Parent company to manage exchange rate risk. For further details, reference should be made to note 28 below.

27. Other current financial liabilities

The breakdown of the item “Other current financial liabilities” is set out in the following table:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Short-term derivatives	130	226	(96)
Other current financial payables	3,408	3,276	132
Total	3,538	3,502	36

The item “Other current financial payables” as at 31 December 2018 includes:

- 1,293 thousand Euro for payables to the minority shareholders of Ferragamo Retail India Private Limited. As at 31 December 2017, this item amounted to 1,254 thousand Euro.
- the put option (2,115 thousand Euro) granted to the minority shareholders of Ferragamo Japan K.K. to sell to Salvatore Ferragamo S.p.A. their 29% investment in the Japanese company, which is valued in compliance with the conditions set out in the shareholders’ agreement signed by the parties. This put option was recognized under Group shareholders’ equity after eliminating minority interests. As at 31 December 2017, this item amounted to 2,022 thousand Euro.

The item “Short-term derivatives” mainly refers to the fair value of financial derivatives with a negative mark to market at the reporting date. For further details, reference should be made to note 28 below.

28. Financial instruments and fair value measurement

The classification of financial instruments under IFRS 9 involves various items. The following table sets out the book value of outstanding financial instruments, divided by category, compared to the corresponding fair values, as at 30 June 2018 and 31 December 2017.

Classification of financial instruments and presentation of their fair value.

FINANCIAL ASSETS	30 June 2018 Book value		Fair Value	31 December 2017 Book value		Fair Value
	Current portion	Non current portion		Current portion	Non current portion	
(In thousands of Euro)						
Financial assets at fair value through profit or loss						
Derivatives – non-hedging component	419	-	419	341	-	341
Receivables and loans						
Receivables from others (M/L term)	197	2,000	2,191	297	2,000	2,285
Receivables due from credit cards	9,163	-	9,163	12,596	-	12,596
Trade receivables	147,481	-	147,481	148,583	-	148,583
Guarantee deposits	-	16,622	16,622	-	15,981	15,981
Cash and cash equivalents	158,888	-	158,888	212,088	-	212,088
Derivatives – hedging component	1,075	-	1,075	12,844	-	12,844
Total	317,223	18,622	335,839	386,749	17,981	404,718
FINANCIAL LIABILITIES	30 June 2018 Book value		Fair Value	31 December 2017 Book value		Fair Value
	Current portion	Non current portion		Current portion	Non current portion	
(In thousands of Euro)						
Liabilities at amortized cost						
Trade payables and payments on account	199,434	-	199,434	203,613	-	203,613
Payables to banks and other financial payables	38,790	15,499	54,289	66,529	14,814	81,343
Other financial payables	3,408	-	3,408	3,276	-	3,276
Guarantee deposits	61	209	270	69	203	272
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	130	28	158	226	93	319
Derivatives – hedging component	3,245	-	3,245	362	-	362
Total	245,068	15,736	260,804	274,075	15,110	289,185

The table shows that most outstanding financial assets and liabilities refer to short-term financial items; taking into account their nature, the book value of most of these items is a reasonable approximation of their fair value.

In all other cases, fair value is measured according to methods which can be classified as Level 2 of the hierarchy of data significance levels used in fair value measurement as defined by IFRS 13.

The Group uses internal valuation models, which are generally used in finance, on the basis of prices provided by market participants or prices collected on active markets through leading info-providers.

To determine the fair value of derivatives, the Company uses a pricing model based on market interest rate values and exchange rates at the measurement date.

“Receivables from others (M/L term)” included receivables due to Ferragamo Parfums S.p.A. from Emanuel Ungaro Italia S.r.l. for advance payments under the licensing agreement for the production and distribution of Ungaro-branded fragrances, which was renegotiated in July 2017. The new agreement includes a 197 thousand Euro repayment in 2018 – which is reclassified as current – and a 2,000 thousand Euro payment based on a repayment plan with installments of equal amounts to be calculated in accordance with future royalties. Payments are expected to be made in annual installments starting from 2019 through 2022; the fair value was calculated by discounting the nominal amount using the market IRS rates quoted for the individual annual maturities and adjusted to take account of the half-year maturities, in accordance with the discounted cash flow method.

There have been no changes in the valuation methods used compared to the previous years or transfers from one Level to another in the hierarchy of assets or liabilities measured at fair value.

The Group calculates non-performance risk, i.e. the risk that one of the parties may not fulfill its contractual obligations due to a potential default before the derivative expires, both in reference to counterparty risk (Credit Value Adjustment: CVA), and to its own risk (Debt Risk Adjustment: DVA), applying it to the market value of the risk-free portfolio. Taking into account the type of derivatives in the portfolio (solely currency forward contracts), the related expiry dates (not over twelve months), and the ratings of the Group and the counterparties, these adjustments are immaterial.

In addition, it should be noted that, in compliance with the ISDA Master Agreements and the existing framework agreements relating to derivatives, it is generally possible to offset all the outstanding financial assets and liabilities arising from these derivatives.

The following table shows the changes in the cash flow hedge reserve for the six months ended 30 June 2018 and the year ended 31 December 2017:

Exchange rate risk	Cash flow hedge reserve	
	30 June 2018	31 December 2017
(In thousands of Euro)		
Opening balance	18,605	(9,058)
+ increases for recognition of new positive effectiveness	4,924	30,828
- decreases for recognition of new negative effectiveness	(10,199)	(2,483)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(15,912)	(10,071)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	423	9,389
Closing balance	(2,159)	18,605

The Reserve, which consists of the value changes in hedges for expected transactions in foreign currency, decreased by 20,764 thousand Euro overall during the first half of 2018, due to the general depreciation of the Euro against the currencies in which the Group carries out hedging transactions against exchange rate risk. The effect directly reclassified out of the Reserve to profit or loss under revenues from sales during the first half of 2018, when the underlying cash flows materialized, was positive and amounted to 15,489 thousand Euro.

During the first six months of 2018, no hedge was interrupted due to the cancellation of the expected underlying value. Hedges were one hundred percent effective for the whole duration of the underlying asset.

29. Management of financial risks

For the Management of financial risks, reference should be made to the Annual Report as at 31 December 2017.

Comments on the main income statement items

For a better understanding of the trend in income statement items, reference should also be made to the comments in the Interim Directors' report on operations relating to the comparison between the data for the first half of 2018 and 2017.

30. Revenues from contracts with customers

In the first half of 2018 and 2017, revenues from contracts with customers totaled 667,736 thousand Euro and 711,291 thousand Euro, respectively. The tables below provide the breakdown by channel and geographical area of the main categories of revenues from contracts with customers as at 30 June 2018 and 30 June 2017.

Half-year period ended 30 June 2018				
(In thousands of Euro)				
	Retail	Wholesale	Licenses and services	Total revenues from contracts with customers
Europe	72,868	95,378	4,114	172,360
North America	96,921	49,166	223	146,310
Japan	54,518	4,340	16	58,874
Asia Pacific	177,876	78,252	275	256,403
Central and South America	24,025	9,741	23	33,789
Total	426,208	236,877	4,651	667,736

Half-year period ended 30 June 2017				
(In thousands of Euro)				
	Retail	Wholesale	Licenses and services	Total revenues from contracts with customers
Europe	79,651	100,033	4,667	184,351
North America	99,080	57,887	239	157,206
Japan	52,975	8,440	17	61,432
Asia Pacific	193,292	77,769	280	271,341
Central and South America	24,697	12,179	85	36,961
Total	449,695	256,308	5,288	711,291

The Group discloses the disaggregation of revenue using a quali-quantitative approach.

The Group recognizes revenue from the sale of goods through both the retail and wholesale channels when control over the asset is transferred to the customer, generally upon delivery; in the case of licenses and services, revenue is recognized when the service is rendered to customers.

The item "Licenses and services" includes royalties deriving from the license contract with the Marchon Group for the production and distribution of glasses ("Salvatore Ferragamo" brand) and with the Timex Group for the production and distribution of watches ("Salvatore Ferragamo" brand). Revenues from royalties are accounted for based on the stage of completion of the licensee's sale.

31. Rental income investment properties

Rental income investment properties were wholly due to the Ferragamo USA Group for the lease of space in owned or leased and sub-leased properties. In the first half of 2018 they amounted to 5,953 thousand Euro, down 679 thousand Euro compared to the first half of 2017, when they amounted to 6,632 thousand Euro.

32. Cost of goods sold and operating costs

Cost of goods sold and operating costs in the first half of 2018 and 2017 were 593,037 thousand Euro and 618,039 thousand Euro, respectively, and were classified by function as follows:

(In thousands of Euro)	Half-year period ended 30 June		Change 2018 vs. 2017
	2018	2017	
Cost of goods sold	241,670	249,691	(8,021)
Style, product development and logistics costs	23,735	22,101	1,634
Sales & distribution costs	221,982	243,458	(21,476)
Marketing & communication costs	35,216	34,644	572
General and administrative costs	61,948	57,860	4,088
Other operating costs	8,486	10,285	(1,799)
Total	593,037	618,039	(25,002)

Costs decreased by 4.0% compared to the first half of 2017 due to the combined effect of the cost rationalization initiatives adopted by management and the depreciation against the Euro – in the first half of 2018 compared to the prior-year period – of the main currencies in which the Group incurs its operating costs.

33. Breakdown by nature of income statement cost items

The breakdown by nature of income statement cost items is set out in the following table:

(In thousands of Euro)	Half-year period ended 30 June		Change 2018 vs. 2017
	2018	2017	
Raw materials, finished products and consumables used	132,989	148,471	(15,482)
Costs for services	312,285	315,417	(3,132)
Personnel costs	108,152	112,358	(4,206)
Depreciation and amortization	31,125	31,508	(383)
Other charges	8,486	10,285	(1,799)
Total	593,037	618,039	(25,002)

34. Other income and revenues

Other income and revenues are broken down as follows:

(In thousands of Euro)	Half-year period ended 30 June		Change 2018 vs. 2017
	2018	2017	
Expense recovery	1,044	1,118	(74)
Rental income from operating properties	205	666	(461)
Advertising contributions	1,428	433	995
Other income and revenues	1,557	2,336	(779)
Gains on disposal of tangible/intangible assets	32	27	5
Windfall profit	557	359	198
Total	4,823	4,939	(116)

As at 30 June 2018, other income and revenues amounted to 4,823 thousand Euro, down by 116 thousand Euro compared to the first half of 2017, with the ratio to total revenues unchanged at 0.7%. The change was largely attributable to the decline in rental income from owner-occupied property and other income and revenues, net of the increase in income from advertising contributions.

35. Financial operations

Financial operations are broken down as follows:

(In thousands of Euro)	Half-year period ended 30 June		Change
	2018	2017	2018 vs. 2017
Financial charges			
Interest expense	1,105	1,834	(729)
Discount charges and other financial charges	1,016	1,142	(126)
Losses on disposal of available-for-sale assets	-	15	(15)
Losses on exchange rate differences	13,160	17,534	(4,374)
Financial charges for fair value adjustment of derivatives	11,142	7,977	3,165
Total	26,423	28,502	(2,079)

(In thousands of Euro)	Half-year period ended 30 June		Change
	2018	2017	2018 vs. 2017
Financial income			
Interest income	307	307	-
Other financial income	21	47	(26)
Gains on exchange rate differences	14,781	9,668	5,113
Financial income for fair value adjustment of derivatives	5,439	11,631	(6,192)
Total	20,548	21,653	(1,105)

Interest expense decreased mainly because the Group took out more intercompany loans on arm's length terms, thus reducing its average bank borrowings. As a matter of fact, interest expense derives mainly from short-term bank loans and, to a lesser extent, from bank loans granted at medium and long-term.

The item Discount charges and other financial charges refers mainly to bank charges and, to a lesser extent, to financial charges on employee benefits, in relation to the valuation of defined-benefit plans pursuant to IAS 19, and discount charges.

Gains and losses on exchange rate differences arise from the Group's foreign sales, both intercompany and to third parties, in currencies other than the Euro. During the first half of 2018, net exchange rate gains amounted to 1,621 thousand Euro compared to net exchange rate losses of 7,866 thousand Euro in the first half of 2017.

Financial income/(charges) for fair value adjustment of derivatives refer to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company and the changes in the fair value of non-hedge derivatives and are closely related to net gains and losses on exchange rate differences. During the first half of 2018, net exchange rate losses amounted to 5,703 thousand Euro compared to net exchange rate gains of 3,654 thousand Euro in the first half of 2017.

36. Income taxes

The taxes recorded in the income statement were as follows:

(In thousands of Euro)	Half-year period ended 30 June		Change
	2018	2017	2018 vs. 2017
Current taxes	(19,715)	(23,189)	3,474
Deferred taxes	(1,272)	1,448	(2,720)
Total	(20,987)	(21,741)	754
Tax rate	26.4%	22.2%	

Taxes were calculated using the best possible estimate of the annual average expected tax rate at the reporting date. The tax rate increase was mainly due to the reduced tax benefits for Salvatore Ferragamo S.p.A in relation to the so-called "Patent Box", with an estimated income tax reduction in the first half of 2018 of approximately 6,628 thousand Euro compared to 9,482 thousand Euro in the first half of 2017, and to the reduction in the US federal income tax rate (from 35% to 21%) as from 1 January 2018, resulting in a sharp decrease in the deferred tax assets of the US entities in the first half of 2018 compared to the prior-year period. In addition, it was due to the impact of higher income taxes recognized for the period as a result of the tax audit of Ferragamo Korea Ltd. For further information, reference should be made to the paragraph "Tax and customs disputes and audits" in the section "Significant events occurred during the first half of 2018" of the Half-year report.

Deferred tax assets and liabilities

The following table provides a breakdown by nature of the assets and liabilities for deferred taxes as at 30 June 2018 and 31 December 2017:

(In thousands of Euro)	30 June 2018	31 December 2017	Change 2018 vs. 2017
Statement of financial position			
Deferred tax assets			
- on employee benefits	1,305	1,306	(1)
- on tangible assets	4,730	4,535	195
- on intangible assets	1,038	1,197	(159)
- on the cash flow hedge reserve	1,034	-	1,034
- on the valuation of inventories	11,451	10,397	1,054
- on the elimination of the profit unrealized in inventories	37,218	37,167	51
- on tax losses	8,091	5,672	2,419
- on taxed provisions	2,608	2,890	(282)
- for other temporary differences	14,623	16,460	(1,837)
Deferred tax assets	82,098	79,624	2,474
Deferred tax liabilities			
- on employee benefits	(41)	(39)	(2)
- on tangible assets	(503)	(462)	(41)
- on the cash flow hedge reserve	-	(2,351)	2,351
- on the valuation of inventories	(3,305)	(2,981)	(324)
- for other temporary differences	(2,489)	(2,402)	(87)
Deferred tax liabilities	(6,338)	(8,235)	1,897

Deferred taxes reflect the net tax effect of temporary differences between the book value and the taxable amount of assets and liabilities.

The accounting of assets for deferred taxes was duly adjusted to take account of their effective possibility to be realized.

37. Earnings per share

As required by IAS 33, information is provided on the data used to calculate the basic and diluted earnings per share. The basic earnings per share is calculated by dividing the profit and/or loss for the period attributable to the shareholders of the Parent company by the weighted average number of outstanding shares during the period. For the purposes of calculating the diluted earnings per share, the weighted average number of shares was increased in order to take into account the dilution effects of the 2016-2020 Stock Grant Plan (1st and 2nd cycle). For further details, reference should be made to note 38.

Here below are the amounts used to calculate the basic and diluted earnings per share.

	Half-year period ended 30 June	
	2018	2017
Net profit (loss) – shareholders of the Parent company (Euro)	57,463,026	78,410,144
Average number of ordinary shares	168,790,000	168,790,000
Basic earnings per share – ordinary shares (Euro)	0.340	0.465
Average number of ordinary shares	168,790,000	168,790,000
Dilution effect: number of shares which could have been issued (Stock Grant Plan)	120,462	56,102
Diluted average number of ordinary shares	168,910,462	168,846,102
Diluted earnings per share – ordinary shares (Euro)	0.340	0.464

Other information

38. Share-based payments

Stock Grant Plan

(a) Plan Description

In order to adopt a medium/long-term incentive system based on the financial instruments of Salvatore Ferragamo S.p.A. for the top management of the Salvatore Ferragamo Group, at the proposal of the Nomination and Remuneration Committee, during 2016 the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan). For more details on the plan's objectives, scope, and term as well as the method for measuring fair value, please refer to the consolidated financial statements at 31 December 2017 (note 37).

As briefly detailed below, the Plan is divided into two Cycles:

- 1st cycle: Performance Period 2016/2017/2018;
- 2nd cycle: Performance Period 2017/2018/2019.

The Plan involves the following:

- granting Beneficiaries the Options to subscribe for up to a maximum of 600,000 ordinary shares in the Parent company Salvatore Ferragamo S.p.A. over the two cycles;
- a three-year Performance Period for each cycle (1st cycle: 2016/2018 three-year period – 2nd cycle: 2017/2019 three-year period);
- granting the Shares contingent on a review by the Board of Directors of the Performance Targets achieved in each three-year cycle (2016/2018 - 2017/2019);
- that, at the date of the grant, there must be a Relationship between the beneficiary and the Company or one of its subsidiaries (i.e. an employment and/or partnership and/or administrative relationship).

The Board of Directors set the performance targets for the 1st Cycle in 2016 (resolution of 30 June 2016) and for the 2nd Cycle in 2017 (resolution of 22 June 2017).

Here below is how the shares will be granted in both Cycles based on the performance targets met, with each one of them accounting separately for 50% of the options:

A. Total Shareholder Return (TSR)	Percentage of vesting options
TSR_SF lower than MEDIAN	0%
TSR_SF = MEDIAN	50%
TSR_SF = THIRD QUARTILE	100%
TSR_SF higher than THIRD QUARTILE	100%

B. Consolidated gross profit (before taxes) versus 2016 - 2017- 2018 Budget (1st Cycle) and versus 2017-2018 and 2019 Budget (2nd Cycle)	Percentage of vesting options
Gross Profit Performance Measure lower than 90%	0%
Gross Profit Performance Measure = 90%	50%
Gross Profit Performance Measure = 100%	100%
Gross Profit Performance Measure higher than 100%	100%

Changes in the period of the number of rights assigned to receive shares*

(i) outstanding at the start of the year	270,000
(ii) assigned in the period	10,000
(iii) cancelled in the period	20,000
(iv) exercised in the period	-
(v) expired in the period	-
(vi) outstanding at the end of the period	260,000
(vii) exercisable at the end of the period	-

* The average price for the period has not been indicated since it is a plan with free assignment of shares.

On 8 March 2018, the Board of Directors approved the allocation of a further 10,000 rights to receive shares of Salvatore Ferragamo S.p.A. to a beneficiary belonging to a foreign subsidiary of the Salvatore Ferragamo Group as part of the 2016-2020 Stock Grant Plan, 2nd cycle.

(b) Changes to the Stock Grant Reserve in the period

	30 June 2018		31 December 2017	
	Number	Fair Value (In thousands of Euro)	Number	Fair Value (In thousands of Euro)
<u>Rights to receive shares assigned to the top managers of Salvatore Ferragamo S.p.A.</u>				
- at the start of the year	180,000	867	155,000	318
- assigned in the year	-	-	270,000	1,005
- cancelled in the period	20,000	111	245,000	685
- transferred in the period*	20,000	-	-	-
- at the end of the period	180,000	1,249	180,000	867
<u>Rights to receive shares assigned to the subsidiaries' top managers</u>				
- at the start of the year	90,000	444	60,000	123
- assigned in the period	10,000	18	55,000	227
- cancelled in the period	-	-	25,000	51
- transferred in the period*	(20,000)	-	-	-
- at the end of the period	80,000	697	90,000	444
<u>Total rights to receive shares assigned to Ferragamo Group's top managers</u>				
- at the start of the year	270,000	1,311	215,000	441
- assigned in the period	10,000	18	325,000	1,232
- cancelled in the period	20,000	111	270,000	736
- at the end of the period	260,000	1,946	270,000	1,311

* they refer to rights originally assigned to a subsidiary's employee who, during 2018, was hired by the Parent company Salvatore Ferragamo S.p.A.

The balance of outstanding rights to receive shares at the end of period was as follows: 115,000 rights granted as part of the **1st cycle** and 145,000 rights granted as part of the **2nd cycle**

(c) Fair value measurement

Considering the assignment mechanism, it was necessary for two fair value assessments to be made:

- Assessment A which considers the market condition (TSR). In this case, the fair value of the shares at the beginning of the vesting period of the rights was calculated using a Monte Carlo simulation model;
- Assessment B, which considers the non-market condition (Consolidated gross profit before taxes).

Here below are the main assumptions used in the assessments made for the three start dates of the **1st Cycle's** vesting period:

Start date of the vesting period of the rights of	4 July 2016		2 August 2016		14 March 2017	
	Assessment A (TSR)	Assessment B (CGP before Taxes)	Assessment A (TSR)	Assessment B (CGP before Taxes)	Assessment A (TSR)	Assessment B (CGP before Taxes)
Share price at the vesting period start date (in Euro)	18.56	18.56	20.57	20.57	28.20	28.20
- Expected volatility*	33%	-	33%	-	32%	-
- Expected volatility of the share price of similar companies	20% <X<39%	-	20% <X<39%	-	20% <X<38%	-
- Correlation of the share price between Ferragamo and similar companies	33%	-	33%	-	30%	-
- Expected dividends	1.96%	1.96%	2.02%	2.02%	2.13%	2.13%
- Risk-free interest rate**	(0.61%)	-	(0.58%)	-	(0.75%)	-
Fair Value per share at the vesting period start date (in Euro)	7.189	17.686	9.255	19.6	17.506	27.15

*Expected volatility is based on the historic share price volatility in a period equal to the whole vesting period.

**The risk-free interest rate has been identified at each grant date as the yield on Euro Area government bonds at the start date of the vesting period for a period equal to the remaining term of the plan.

Here below are the main assumptions used in the assessments made for the two start dates of the **2nd Cycle's** vesting period:

Start date of the vesting period of the rights of	22 June 2017		8 March 2018	
	<u>Assessment A</u> (TSR)	<u>Assessment B</u> (CGP before Taxes)	<u>Assessment A</u> (TSR)	<u>Assessment B</u> (CGP before Taxes)
Share price at the vesting period start date (in Euro)	25.46	25.46	21.70	21.70
- Expected volatility*	33%	-	31%	-
- Expected volatility of the share price of similar companies	20% <X<38%	-	18% <X<40%	-
- Correlation of the share price between Ferragamo and similar companies	30%	-	32%	-
- Expected dividends	1.98%	1.98%	1.91%	1.91%
- Risk-free interest rate**	(0.56%)	-	(0.56%)	-
Fair Value per share at the vesting period start date (in Euro)	13.8455	24.2311	5.64	20.97

*Expected volatility is based on the historic share price volatility in a period equal to the whole vesting period.

**The risk-free interest rate has been identified at each grant date as the yield on Euro Area government bonds at the start date of the vesting period for a period equal to the remaining term of the plan.

39. Segment reporting

IFRS 8 requires that detailed information is provided for each operating segment, understood as a component of an entity whose operating results are regularly reviewed by the entity's top management to make decisions about resources to be allocated to the segment and assess its performance. At management level, the organization of the Salvatore Ferragamo Group is based on a matrix structure, divided by distribution channel, geographic area and product category, therefore operating segments cannot be identified, and the top management reviews financial performance across the Group as a whole. Therefore, the Group's activity has been represented as a single reportable segment pursuant to IFRS 8.

(In thousands of Euro)	Half-year period ended 30 June	
	2018	2017
Retail revenues	426,208	449,695
Wholesale revenues	236,877	256,308
Licenses and services	4,651	5,288
Rental income investment properties	5,953	6,632
Revenues	673,689	717,923
Gross profit	432,019	468,232
Gross profit %	64.1%	65.2%
Personnel costs	(101,070)	(105,495)
Rental costs	(99,616)	(108,859)
Amortization, depreciation and write-downs of non current assets	(30,614)	(31,036)
Communication costs	(31,634)	(30,906)
Other costs (net of other income)	(83,610)	(87,113)
Operating profit	85,475	104,823
Net financial (charges)/income	(5,875)	(6,849)
Profit before taxes	79,600	97,974
Income taxes	(20,987)	(21,741)
Net profit/(loss)	58,613	76,233
EBITDA*	116,600	136,331

* As regards the definition of EBITDA, reference should be made to the specific paragraph in the Interim Directors' report on operations on alternative performance measures.

(In thousands of Euro)	30 June 2018	31 December 2017
Inventories and Right of return assets	373,777	325,516
Trade receivables	147,481	148,583
Tangible assets and investment property	260,218	255,739
Intangible assets with a finite useful life	42,176	43,593
Other assets	169,236	195,778
Assets held for sale	-	990
Total assets gross of cash and cash equivalents and current financial receivables	992,888	970,199
Net financial debt	(101,452)	(127,491)
Trade payables and Refund Liabilities	203,442	203,613
Other liabilities	141,468	145,646
Shareholders' equity	749,430	748,431
Total liabilities and shareholders' equity (net of cash and cash equivalents and current financial receivables)	992,888	970,199

As regards the information required by IFRS 8, reference should be made to the Interim Directors' report on operations for details and the relevant comments on revenues, broken down by geographical area, distribution channel and product category.

Below is the information relating to non-current assets (other than financial instruments and deferred tax assets) broken down by geographical area.

(In thousands of Euro)	Europe	North America	Japan	Asia Pacific	Central and South America	Consolidated
30 June 2018	174,897	54,899	18,818	67,297	7,276	323,187
31 December 2017	165,806	58,365	18,970	70,810	6,325	320,276

40. Transactions with related parties

The following tables show the overall values of transactions with related parties in the first half of 2018 and 2017:

(In thousands of Euro)	Half-year period ended 30 June 2018			30 June 2018		
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A. (company which exercises management and coordination on Salvatore Ferragamo S.p.A.)	-	(72)	-	11,041	(10)	-
Related companies						
Palazzo Feroni Finanziaria S.p.A.	10	(3,499)	15	70	(1,924)	-
Lungarno Alberghi S.r.l.	85	(1,063)	71	-	(7)	-
Fondazione Ferragamo	2	(55)	-	-	(55)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	14	(9)	17	-	(4)	-
Bacco S.r.l.	-	(1)	-	-	-	-
Baia di Scarlino S.r.l.	3	-	4	-	-	-
Castiglion del Bosco Hotel S.r.l.	6	-	4	-	-	-
Il Borro S.r.l. Società agricola	4	(6)	5	-	(7)	-
The European House Ambrosetti S.p.A.	-	(6)	-	-	-	-
Nautor Holding S.r.l.	-	-	1	-	-	-
Osteria del Borro S.r.l.	-	(2)	-	-	(2)	-
Prisma Property Investment Management S.r.l.	1	-	2	-	-	-
Harbour City Estates Limited	-	(4,718)	-	2,669	(882)	-
Imaginex Management Co. Ltd.	-	(97)	-	-	-	-
Times Square Ltd.	-	(1,423)	-	-	(190)	-
Harriman Property Management Limited	-	(10)	-	742	(8)	-
Lane Crawford (Hong Kong) Limited	-	(2)	-	-	-	-
Long Jin Complex Development (Chengdu) Co. Ltd.	-	(1,051)	-	604	-	-
Dalian Times Square Commercial Co. Ltd.	-	(493)	-	301	-	-
Pedder Group Limited	144	-	42	-	-	-
OIS Realty Limited	-	(105)	-	-	(12)	-
Shanghai Wheelock square Development Co. Ltd.	-	(277)	-	151	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(129)	-	378	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(36)	-	19	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(44)	-	6	-	-
Changsha Times Outlet Commerce Limited	-	(19)	-	4	-	-
Chengdu Times Outlets Commerce Co. Ltd.	-	(90)	-	4	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletto Ferragamo	-	(40)	1	-	-	-
Massimo Ferragamo	-	(62)	-	-	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities*						
Directors, Statutory Auditors and Managers with strategic responsibilities*	-	(4,556)	-	-	-	(1,403)
Total	269	(17,865)	162	15,989	(3,101)	(1,403)
Group total	673,689	(346,544)	147,481	59,908	(199,434)	(37,359)
% ratio	0.0%	5.2%	0.1%	26.7%	1.6%	3.8%

* Transactions occurred in the first half of 2018 with Giacomo Ferragamo and Angelica Visconti due to their appointment on 20 April 2018 as Directors of Salvatore Ferragamo S.p.A. are detailed in the section "Directors, Statutory Auditors and Managers with strategic responsibilities" and not in the section "Other related parties connected to members of the Board of Directors".

(In thousands of Euro)	Half-year period ended 30 June 2017		30 June 2017			
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	-	-	-	17,362	-	(1,974)
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	12	(3,590)	22	70	(291)	-
Lungarno Alberghi S.r.l.	70	(971)	65	-	(29)	-
Fondazione Ferragamo	2	(140)	-	-	(50)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	9	(10)	11	-	(2)	-
Bacco S.r.l.	-	(1)	-	-	-	-
Baia di Scarlino S.r.l.	4	-	3	-	-	-
Castiglion del Bosco Hotel S.r.l.	6	-	5	-	-	-
Il Borro S.r.l.	5	-	-	-	(5)	-
Marchesi Antinori S.p.A.	12	-	7	-	-	-
The European House Ambrosetti S.p.A.	4	(13)	2	-	(16)	-
Nautor Holding S.r.l.	1	-	-	-	-	-
Osteria del Borro S.r.l.	-	(4)	-	-	(4)	-
Imaginex Management Co. Ltd.	-	(269)	-	-	(8)	(32)
Wharf T&T Ltd.	-	(11)	-	-	-	(1)
Times Square Ltd.	-	(1,498)	-	-	-	-
Wharf Realty Ltd.	-	(5,468)	-	-	-	-
Long Jin Complex Development (Chengdu) Co. Ltd.	-	(1,002)	-	602	-	-
Dalian Times Square Commercial Co. Ltd.	-	(548)	-	300	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(287)	-	152	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(124)	-	377	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(37)	-	18	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(44)	-	6	-	-
Changsha Times Outlet Commerce Limited	-	(20)	-	4	-	-
Chengdu Times Outlets Commerce Co. Ltd.	-	(91)	-	4	-	-
Chengdu Harriman Property Management Co. Ltd.	-	(34)	-	-	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletta Ferragamo	-	(40)	1	-	-	-
Massimo Ferragamo	-	(69)	-	-	-	-
Giacomo Ferragamo	-	(352)	-	-	-	(85)
Maria Sole Ferragamo	2	(1)	2	-	-	-
Angelica Visconti	-	(119)	-	-	-	(30)
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(3,294)	-	-	-	(3,028)
Total	127	(18,037)	118	18,895	(405)	(5,150)
Group total	717,923	(363,409)	163,765	79,109	(182,524)	(35,084)
% ratio	0.0%	5.0%	0.1%	23.9%	0.2%	14.7%

Sales and purchases between related parties are carried out at normal market prices. The outstanding balances at the end of the period are not backed by guarantees, do not generate interest, and are settled in cash. Bank guarantees were issued in favor of Palazzo Feroni Finanziaria S.p.A. (1,329 thousand Euro), in favor of Lungarno Alberghi S.r.l. (488 thousand Euro) and in favor of Ferragamo Finanziaria S.p.A. (23 thousand Euro): they concerned the

leasing of properties owned by said companies. There are no other guarantees, given or received, relating to receivables and payables with related parties. The Group has not set aside any provision for bad debt in relation to amounts due from related parties.

Specifically:

Holding company

Ferragamo Finanziaria S.p.A.

Under the domestic fiscal unity in which the Parent company Salvatore Ferragamo S.p.A. participates together with Ferragamo Finanziaria S.p.A. (consolidating entity) and Ferragamo Parfums S.p.A., Other current assets included 9,016 thousand Euro in IRES tax receivables of both companies. Specifically, Salvatore Ferragamo S.p.A.'s benefit resulted from the agreement with the Italian Inland Revenue Office for the tax benefit related to the so-called "Patent box" signed in December 2016, which significantly reduced the Parent company's tax expense starting from the fiscal year 2015. For more details, see "Significant events occurred during the year" in the Annual Report as at 31 December 2017. As for the rest of Other assets, these included 2,025 thousand Euro referring to the IRES refund claimed for the failure to deduct the IRAP in relation to personnel costs from 2007 to 2011 as per Legislative Decree no. 201 of 6 December 2011, which was recognized in 2012.

Related companies

These transactions mainly refer to trade transactions that affected revenues, operating costs, and trade receivables and payables. They include mainly:

- sale of products
- property rental costs
- rendering of services

In particular, the following transactions should be noted:

Palazzo Feroni Finanziaria S.p.A.

Revenues and the relevant receivables refer to IT and administrative services. Payables and costs refer mainly to rents for the premises of the headquarters in Florence and for some stores of the Italian chain. Other assets refer to guarantee deposits.

Lungarno Alberghi S.r.l.

Revenues (and the relevant receivables) refer to product sales; the costs (and the relevant payables) refer largely to rents for the premises used as stores in the Italian chain.

Fondazione Ferragamo

55 thousand Euro in costs, and the relevant debit balance, refer to services rendered for the management of Salvatore Ferragamo's historical archive.

Companies connected to members of the Board of Directors

These transactions mainly refer to trade transactions that affected revenues, operating costs, trade receivables and payables, and other assets and liabilities. They include mainly:

- sale of products
- property rental costs
- rendering of services

In particular, the following transactions should be noted:

Harbour City Estates Limited

Costs (and the relevant payables) mainly refer to rents for premises in Hong Kong whereas other assets refer to the related guarantee deposit.

Times Square Ltd. and Harriman Property Management Limited

As regards Times Square Ltd., costs (and the relevant payables) mainly refer to rents for premises for a store in Hong Kong, while as regards Harriman Property Management Limited, they refer to the guarantee deposit for the same store in Hong Kong.

Long Jin Complex Development (Chengdu) Co. Ltd.

Costs refer to rents for premises for a store of Ferragamo Moda (Shanghai) Limited. Other assets refer to the relevant guarantee deposit.

Dalian Times Square Commercial Co. Ltd.

Costs refer to rents for premises for a Ferragamo Moda (Shanghai) Limited store and other assets refer to the related guarantee deposit.

Shanghai Wheelock square Development Co. Ltd.

Costs refer to rents for premises for offices of Ferragamo Fashion Trading (Shanghai) Co. Limited and Ferragamo Moda Shanghai Limited, while other assets refer to the related guarantee deposits.

Shanghai Longxing Property Development Co. Ltd.

Costs refer to rents for premises for a store of Ferragamo Moda Shanghai Limited, while other assets refer to the related guarantee deposit.

Other related parties connected to members of the Board of Directors

Wanda Miletti Ferragamo

Costs refer to the rent of a store owned by Wanda Miletti Ferragamo.

Massimo Ferragamo

Costs refer to a consultancy agreement between Massimo Ferragamo and Ferragamo USA Inc.

Directors, Statutory Auditors and Managers with strategic responsibilities

The Managers with strategic responsibilities are indicated in the following table:

Full name	Role
Giacomo Ferragamo*	Brand and Product Manager
Micaela Le Divelec Lemmi*	General Manager
Eraldo Poletto**	Managing Director
Ugo Giorcelli	Manager of Administration, Finance and Control

* Giacomo Ferragamo and Micaela Le Divelec Lemmi were appointed as Managers with strategic responsibilities on 20 April 2018

** Eraldo Poletto has held this position until 8 March 2018

The costs associated with the managers with strategic responsibilities as well as the relevant payables (excluding the fees and payables related to Eraldo Poletto in his capacity as Managing Director and Giacomo Ferragamo in his capacity as Director, as detailed in the section Directors) referred to the cost incurred by the Group as part of the employment relationship, including variable bonuses, and included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles. These amounted to 589 thousand Euro in the first half of 2018 (712 thousand Euro in the prior-year period) and included 119 thousand Euro in costs associated with the 2016-2020 Stock Grant Plan. The managers with strategic responsibilities receive non-monetary benefits such as cars, mobile phones, insurance policies, and accommodation.

The **remuneration** of the **Directors** of Salvatore Ferragamo S.p.A. includes the estimated variable bonus due to the Chairman, committee meeting fees and, as regards Giacomo Ferragamo and Angelica Visconti, the cost incurred as part of the employment relationship, including variable bonuses, and included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles; in the first half of 2018 remuneration amounted to 3,870 thousand Euro (2,484 thousand Euro in the first half of 2017), of which 104 thousand Euro refer to the 2016-2020 Stock Grant Plan.

The remuneration of the Board of Statutory Auditors of Salvatore Ferragamo S.p.A. (also for the auditors' role as members of the Supervisory Body) amounted to 97 thousand Euro (98 thousand Euro in the first half of 2017).

41. Dividends

Pursuant to the resolution of the Shareholders' Meeting of 20 April 2018, the Parent company Salvatore Ferragamo S.p.A. paid Shareholders a single dividend of 0.38 Euro per share, relating to the profit for 2017, for a total amount of 64,140,200 Euro, with coupon detachment on 21 May 2018 and payment of the dividend as from 23 May 2018. Other Group companies, during the first half of 2018, paid third-party shareholders dividends amounting to 2,741 thousand Euro.

42. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	30 June 2018	31 December 2017
Sureties provided by third parties in the interests of Group companies	9,273	8,012
Guarantees provided by third parties in the interests of Group companies	3,463	3,817
Guarantees provided by Group companies in the interests of third parties	159,631	53,941
Total	172,367	65,770

Sureties provided by third parties in the interests of Group companies mainly consist of sureties issued in favor of third parties on lease contracts entered into by Group companies.

Guarantees provided by third parties in the interests of Group companies mainly relate to lease contracts.

Guarantees provided by Group companies refer to a guarantee for 6 million US dollars (equal to 5,147 thousand Euro) relating to a lease contract of the Ferragamo USA Group, and the remainder is mainly in favor of banks to guarantee credit lines which may be used locally.

For information on the minimum future payments relating to operating leases as at 31 December 2017 (640,741 thousand Euro), reference should be made to note 42 of the Consolidated financial statements as at 31 December 2017.

43. Significant events occurred after 30 June 2018

On 4 July 2018, Salvatore Ferragamo S.p.A., in accordance with the resolution of the Board of Directors dated 21 June 2018, acquired 49.0% of Ferragamo Retail India Private Limited from the local partner (Mr. Akshay Chudasama) for INR 114,294,369, equal to approximately Euro 1,442 thousand. The acquisition of the non-controlling interests in Ferragamo Retail India Private Limited is part of the process to sell the directly operated retail stores and streamline distribution operations in India (see the Directors' Report on Operations in the Annual Report as at 31 December 2017).

44. Significant non-recurring events and transactions

During the first half of 2018, the Salvatore Ferragamo Group did not carry out significant non-recurring transactions.

45. Transactions arising from atypical and/or unusual transactions

The Group did not undertake atypical and/or unusual transactions, i.e. those transactions which, due to their importance/size, the counterparties involved, the subject of the transaction, the means of determining the transfer price, and the timing of the event, may give rise to doubts about the fairness/completeness of the information provided in the financial statements, conflicts of interest, the safeguarding of the company's equity, and the protection of minority interests.

Florence, 31 July 2018

On behalf of the Board of Directors
The Chairman
Ferruccio Ferragamo

Statement pursuant to article 154 bis of Leg. Decree no. 58/98 (Consolidated Law on Finance)

1. The undersigned Ferruccio Ferragamo in his capacity as “Chairman of the Board of Directors” and Ugo Giorcelli in his capacity as “Manager charged with preparing Company’s Financial Reports” of Salvatore Ferragamo S.p.A. certify, having also taken account of the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the company’s structure and
- the effective application of the administrative and accounting procedures for the preparation of the condensed consolidate half-year financial statements for the first half of 2018.

2. The adequacy of the administrative and accounting procedures for the preparation of the condensed consolidated half-year financial statements as at 30 June 2018 has been assessed on the basis of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission which is the generally accepted model internationally.

3. It is also certified that

3.1 The condensed consolidated half-year financial statements as at 30 June 2018:

- a. have been prepared in accordance with the applicable International Accounting Standards as endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002, and in particular IAS 34 – Interim Financial Reporting;
- b. correspond with accounting books and records;
- c. are suitable to provide a true and fair representation of the equity, income and financial position of the Parent company and of the group of companies included in the consolidation area.

3.2 The Interim Directors’ report on operations includes a reliable analysis of the significant events occurred during the first six months of the year and of their impact on the condensed consolidated half-year financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Directors’ report on operations also includes a reliable analysis of the information on significant transactions with related parties.

Florence, 31 July 2018

Chairman of the Board of Directors
Ferruccio Ferragamo

Manager charged with preparing Company’s Financial Reports
Ugo Giorcelli

Review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Salvatore Ferragamo S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position, the statements of income, the statement of comprehensive income, the statement of changes in equity and cash flows and the related explanatory notes of Salvatore Ferragamo S.p.A. and its subsidiaries (the "Salvatore Ferragamo Group") as of 30 June 2018. The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of 31 July 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Salvatore Ferragamo Group as of June 30, 2018 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Florence, July 31, 2018

EY S.p.A.
Signed by: Dante Valobra, Partner

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