



Salvatore Ferragamo Group
Annual Report as at 31 December 2017

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

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

Legal information

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

Salvatore Ferragamo Group

Board of Directors' report on operations as at 31 December 2017

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Corporate boards

Board of

Directors (1)

Ferruccio Ferragamo (4)	Chairman
Eraldo Poletto (4)(8)	Managing Director
Giovanna Ferragamo (5)	Deputy Chairman
Fulvia Ferragamo (5)	
Leonardo Ferragamo (5)	
Francesco Caretti (5)	
Diego Paternò Castello di San Giuliano (5)	
Peter Woo Kwong Ching (5)	
Piero Antinori (5)	
Umberto Tombari (5)(6)	
Marzio Saà (5)(6)	
Chiara Ambrosetti (5)(6)	
Lidia Fiori (5)(6)	

Control and Risk Committee

Marzio Saà	Chairman
Umberto Tombari	
Chiara Ambrosetti	

Nomination and Remuneration Committee

Umberto Tombari	Chairman
Marzio Saà	
Lidia Fiori	

Product and Brand Strategy Committee

Ferruccio Ferragamo	Chairman
Eraldo Poletto	
Fulvia Ferragamo	
Leonardo Ferragamo	

Board of Statutory Auditors (2)

Andrea Balelli	Chairman
Fulvio Favini	Acting Statutory Auditor
Alessandra Daccò (9)	Acting Statutory Auditor
Paola Caramella (10)	Acting Statutory Auditor
Roberto Coccia	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 24 April 2015 and serving for the 2015-2017 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 article 147-ter, paragraph 4 and article 148, paragraph 3 of Italian Legislative Decree no. 58 of 24 February 1998 ("Testo Unico della Finanza" or "T.U.F.", Consolidated Law on Finance) and article 3 of the Corporate Governance Code

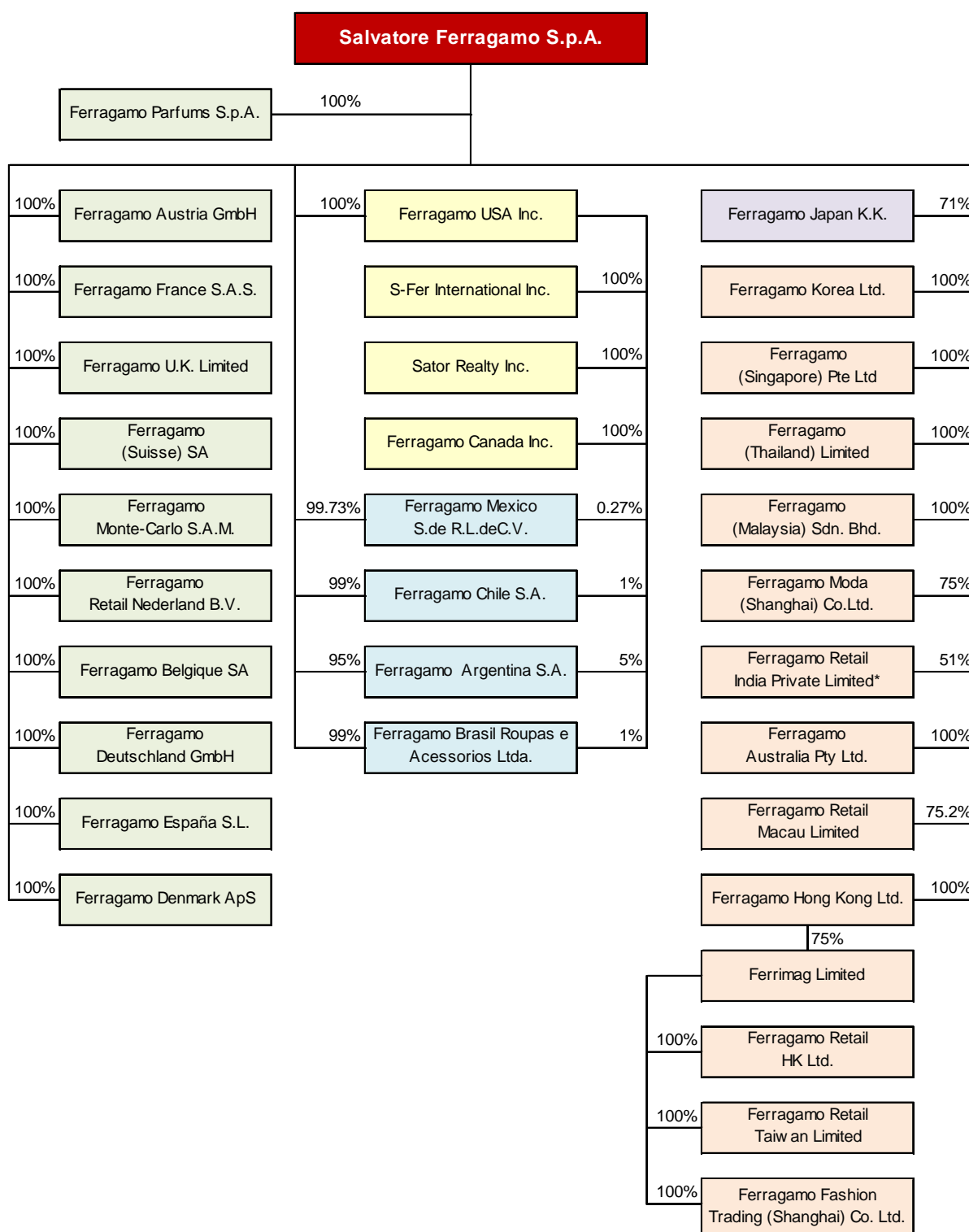
(7) Appointed by the Board of Directors on 14 March 2017

(8) Appointed as Director by the Shareholders' Meeting on 27 April 2017 and appointed as Managing Director by the Board of Directors on the same date. In office until the Board of Directors' Meeting approving the 2017 draft financial statements

(9) Resigning Acting Statutory Auditor, effective as from 11 October 2017

(10) Substitute Statutory Auditor up to 10 October 2017 and Acting Statutory Auditor effective 11 October 2017 until the approval of the Separate financial statements as at 31 December 2017

Group structure



Notes

- European companies
- North America companies
- Centre and South America companies
- Asia Pacific companies
- Japanese companies

Group description

As at 31 December 2017, 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 (*)

It manages directly operated stores (DOS) in India

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) and the wholesale channel 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

(*) Companies whose main assets are held for sale

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

Official price as at 29 December 2017 in Euro	22.1666
Minimum price as at 15 December 2017 in Euro (1)	20.42
Maximum price as at 10 May 2017 in Euro (1)	29.88
Stock Market capitalization as at 31 December 2017 in Euro	3,741,500,414
Number of shares making up the share capital as at 31 December 2017	168,790,000
Number of outstanding shares (free float)	43,221,440

Here below is the trend in Salvatore Ferragamo's share price during 2017.



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 Annual 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 Annual 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 calculated as *Inventories plus Trade receivables, net of Trade payables*.

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).

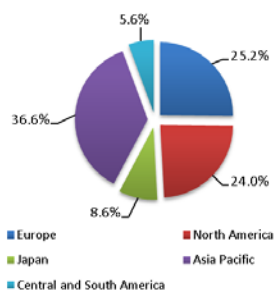
(1) Minimum and maximum prices recorded during the day's trading session and, therefore, not coinciding with official and reference prices on the same date.

1. The Group's main income and financial results for the year 2017

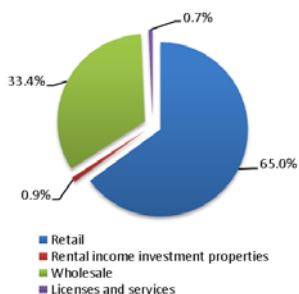
(In millions of Euro)

	2017	2016	2015	% change 2017 vs 2016	% change 2016 vs 2015
Revenues	1,393.5	1,437.9	1,430.0	(3.1%)	0.6%
Gross profit	898.7	965.1	948.1	(6.9%)	1.8%
Gross profit %	64.5%	67.1%	66.3%		
EBITDA	248.5	323.8	324.3	(23.3%)	(0.2%)
EBITDA %	17.8%	22.5%	22.7%		
Operating profit	186.1	260.7	264.6	(28.6%)	(1.5%)
Operating profit %	13.4%	18.1%	18.5%		
Net profit/(loss) for the period	114.3	198.4	174.5	(42.4%)	13.7%
Net profit/(loss) – Group	118.6	202.0	172.7	(41.3%)	16.9%
Net profit/(loss) – minority interests	(4.4)	(3.6)	1.7		

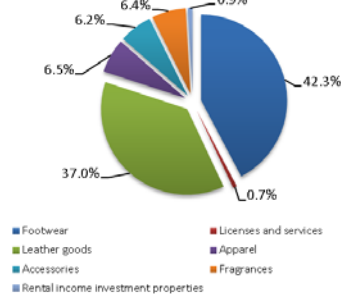
Revenues by geographic area
as at 31 December 2017



Revenues by distribution channel
as at 31 December 2017



Revenues by product category
as at 31 December 2017



(In millions of Euro)

	31 December 2017	31 December 2016	31 December 2015
Investments in tangible/intangible assets	88.4	74.4	80.0
Net working capital	270.5	374.1	316.9
Shareholders' equity	748.4	722.6	608.7
Net financial debt/(surplus)	(127.5)	8.0	9.8
Cash flow generated from operating activities*	278.9	161.9	198.1

*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 comparative data relating to 2016 and 2015 accordingly.

	31 December 2017	31 December 2016	31 December 2015
Staff as at the reporting date	4,183	4,104	4,033
Number of DOS	410	402	391
Number of TPOS	275	281	271

Geographical distribution of monobrand stores (31 December 2017)



685 Ferragamo monobrand stores

Disclaimer

This document contains forward-looking statements, in particular in the sections headed "Macroeconomic situation and outlook" and "Significant events occurred after 31 December 2017" 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.

2. Introduction

The Parent company Salvatore Ferragamo S.p.A. is a legal entity set up under Italian law and, pursuant to art. 40, paragraph 2 bis, of Italian Legislative Decree 127/91, it prepares the Directors' report on operations of both the Separate Financial Statements and the Consolidated Financial Statements in a single document.

The 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.

3. The Salvatore Ferragamo 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 is present in over 90 countries worldwide and sells its products mainly through:

1. a network of single Salvatore Ferragamo brand stores, managed both directly (DOS) and by third parties (TPOS);
2. 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 handled 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.

Distinctive features of the Parent company and the Group

The main factors which have enabled the development and consolidation of the Group's competitive positioning can be summarized as follows:

Brand heritage as a synonym of glamour, elegance, craftsmanship, creativity and innovation

- the legendary status of the founder Salvatore Ferragamo which is inseparably linked to the world of luxury footwear;
- over 80 years' history associated with high quality, classic luxury products which have always been known for their "Made in Italy" excellence;
- continuous product innovation with a high level of customization and use of rare and high quality materials, often incorporating particular and unusual details;
- abundant archive of designs and models to draw on as inspiration for new collections;
- use of Ferragamo products by leading personalities from the world of cinema, theatre and entertainment.

Global brand awareness

- high and consolidated level of brand awareness;
- worldwide distribution of products and presence, through tailored single brand stores, in the key shopping streets and prestigious locations for the luxury sector;
- significant and consolidated presence in Europe, America and Asia.

Ongoing search for quality applied to the whole product range

- “Made in Italy” production process realized through a number of expert and carefully selected manufacturers which have been working with the Group for several years;
- particular attention to quality control, both in choosing and processing materials, and on the finished product;
- introduction of new product categories (with particular attention to the development of those with high growth and profit potential), while maintaining the integrity and identity of the brand over time;
- RTW products and accessories (especially in silk) made with sophisticated and prestigious materials in order to enhance the footwear and leather product ranges;
- granting of a limited number of licenses solely to highly qualified and prestigious companies.

Consolidated, extended distribution network that is diversified across different channels

Consolidated, extended distribution network that is diversified across different channels (DOS-TPOS-multibrand channel):

- consolidated presence of Ferragamo single brand stores in the main luxury sector locations around the world;
- presence in the digital channel (Internet) with a website (www.ferragamo.com) in seven languages (Italian, French, Spanish, English, Chinese, Korean and Japanese) and e-commerce functions (directly managed by the Group) for various European countries (Eurozone and United Kingdom), United States, South Korea, Japan, Mexico, People's Republic of China and Australia;
- significant presence in the travel retail channel with Ferragamo single brand stores in the main airports around the globe.

Geographically balanced distribution with a significant historic presence both in developed and developing markets thanks to the Group's pioneering attitude which has driven it to enter new markets timely:

- significant and consolidated presence in markets with high growth rates, such as, in particular, Asia (China and Asia Pacific) and Latin America.

Strategy

The Group's strategy aims to enhance its competitive position among the leaders in the global luxury market, by leveraging its creativity, glamour, Italian craftsmanship, and standing in the footwear and accessories sector, in order to create value for shareholders through sustainable and profitable growth. The main guidelines can be summarized as follows:

Consolidation of its position in the luxury market, enhancing its classical elegance and glamour with a contemporary style that keeps pace with the times

The Group aims to maintain its position in the high-end luxury segment at global level, by emphasizing the specific and central role played in its product range by the excellent quality of Italian products, also thanks to the adequate support of marketing and communication activities.

Expansion of the distribution network in emerging markets and optimization of retail and wholesale performance at global level

The Group intends to leverage its distribution network, which is strategically well balanced in terms of channels and geographic areas, in order to take advantage of the opportunities offered by high growth countries and to improve the effectiveness of each distribution channel, through:

- further expansion of its commercial presence in emerging countries, above all in Asia Pacific;
- improvement in the performance of the retail channel, which is to be achieved through more effective management of product categories in stores, the renovation of stores improving their layout, the opening of stores dedicated exclusively to men or women's products as well as, above all in historic luxury markets, renewal of the stores' image;
- constant control of the wholesale channel, consolidating its presence in the most prestigious department stores in historic luxury markets and continuing to exploit this channel to penetrate emerging countries; particular importance is also attached to the travel retail segment;
- development of the e-commerce channel.

Optimization of the product range and the collection structure

The Group believes that it can increase revenues and operating profits also by making changes to the product range and the collection structure:

- by supplementing the collections so as not only to satisfy new purchasing opportunities, also with a specific focus on younger customers and the needs of specific geographic areas/markets, but also to optimize the price structure and profits from the collection;
- by increasing the focus on the Group's core product categories (men and women's footwear and leather goods) and which, at the same time, are among those with the highest profits and forecast growth.

Ongoing modernization of the supply chain and the organizational structure to allow Salvatore Ferragamo S.p.A. and the Group to achieve its operational performance objectives

The Group intends to continue to leverage the Italian spirit of the brand and the flexibility of its production structure, based on integration with the external manufacturing workshops with which it maintains consolidated and long-standing relations.

In order to achieve the strategic objectives, the Group intends to focus even more on the development of its human resources who have always been one of the company's main assets, through a series of initiatives to train and develop in-house staff, as well as on the ability to recruit new, expert professionals.

The Group intends to strengthen its IT and logistics infrastructure.

The strategic/organizational model

The success of the Salvatore Ferragamo Group is based on pursuing a coherent strategy over time, centered on constant monitoring of the value chain through the adoption of a shared Group organizational model for the various product categories. In particular, the Salvatore Ferragamo Group has always operated with the aim of offering its customers products that are characterized by a high quality level, based on a solid tradition of craftsmanship, exclusive design and a style aimed at preserving the brand's strong identity. This approach has been applied in the choice of materials, in the design phase, in production processes and in the design and architecture of stores.

The production system

The organizational model adopted by the Group entrusts the production process entirely to expert staff in external workshops, although keeping in-house the management and organization of the most important stages in the value chain.

The Group's operating model ensures flexibility and efficiency in the production and logistics cycle through the use of a broad network of selected and expert Italian manufacturers which have been working with the Group for many years. This strong integration between the Parent company Salvatore Ferragamo S.p.A. (the only manufacturing company in the Group) and the network of suppliers has enabled broad control to be maintained over the critical stages of the value chain in the production process.

With reference to production, the Group directly manages the product development and industrialization stage and usually undertakes quality controls, both during the production process and on 100% of the finished products.

The distribution system

The organization of distribution and sales is one of the Group's strengths, thanks to 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 thanks to its store locations.

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

- a network of directly operated Ferragamo single brand stores (DOS), which as at 31 December 2017 numbered 410 (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 31 December 2017 numbered 275, as well as through a multibrand channel (taken as a whole the so-called wholesale channel).

Therefore, the total number of tailored Ferragamo single brand stores (DOS and TPOS) as at 31 December 2017 was 685.

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;
- travel retail/duty free stores opened inside airports.

Stores are selected on the basis of their coherence with the positioning of the "Salvatore Ferragamo" brand, their location, and the visibility which they can guarantee the brand.

Changes to the Group structure

During 2017 the Group structure underwent no changes.

It should be noted that the main assets of Ferragamo Retail India Private Limited have been classified as held for sale, in line with the requirements outlined in IFRS 5. For further details reference should be made to the section "Significant events occurred during the year".

Effect of exchange rate changes on operations

2017 saw significant volatility in the foreign exchange market: the political developments in the US and the election cycle in Europe, the monetary policy measures taken by central banks, and macroeconomic fundamentals were the variables that influenced exchange rates the most. In 2018, the central banks of the world's largest economies are expected to start normalizing their monetary policy: America's Federal Reserve will keep on gradually raising interest rates, while the European Central Bank will likely start tapering its Quantitative Easing program; in Japan, there is a discussion going on about whether maintaining excessively loose monetary conditions for too long could distort the business cycle; finally, it is hard to tell what the Bank of England will do in the face of Brexit negotiations.

At the end of 2016, the US Dollar had made significant gains in nominal terms on expectations that the election of Donald Trump as President of the United States would have meant significantly expansionary fiscal policies, stronger growth, and interest rates rising at a faster pace; conversely, in early 2017 the US Dollar declined as these expectations faded and the focus shifted back to economic fundamentals. In the summer, the greenback continued sliding because of a series of political and economic factors: the doubts as to the ability of the Trump administration of actually following through on previously announced reforms, the heightening of international tensions – first in the Middle East and then over North Korea – and the slowdown in inflation, which curbed expectations for rate hikes by the FED. In the last three months of the year, the US Dollar recovered slightly thanks to the progress on tax reform and the announcement of a third rate increase in December, following the ones in March and June – as well as the prospect of an additional three rate rises in 2018. However, the positive impact on the exchange rate was offset by the expectations for monetary policy normalization by the other central banks.

The Euro made significant gains during the year, as EUR/USD rose from a low of 1.03 in early January to 1.11 in June, and then peaked at 1.20 in August. After falling steadily in 2014 and trending sideways during 2015 and 2016, the exchange rate started climbing back up with the defeat of Eurosceptic parties in the French elections, gained additional momentum when the data confirmed that the recovery is firming up also in the Eurozone and is stronger than expected, and then took off when Governor Draghi announced that, thanks to the improved economic and political outlook, the ECB could start winding down QE as soon as in late 2018. EUR/USD was back to around 1.15 in November and then ended the year slightly below 1.20. In 2018, the pair vaulted past this psychological threshold and rose above 1.25, hitting a three-year high.

Japan has adopted a strongly expansionary monetary and fiscal policy, which caused the Yen to depreciate sharply. At the start of 2017, USD/JPY appreciated from 118 to 110, largely because of external factors rather than domestic ones; in the summer, the Japanese currency maintained its upward momentum, as USD/JPY reached 107 in September amid mounting tensions over North Korea; then, it reversed course as US Dollar rates rose, returning to around 114. For at least the entire year of 2018, the Bank of Japan will diverge not only from the FED, but also from virtually all other central banks of the world's advanced economies. The underlying trends in the exchange rate between the Yen and the Euro are amplified by the movements in the EUR/USD pair. After starting 2017 at around 122, EUR/JPY rose to 115 in April, and then ended the year at around 135.

The progress on Brexit negotiations, which have been driving the Pound Sterling's exchange rate, should contribute to making the latter once again more dependent on macroeconomic fundamentals. After starting the year at 0.85, EUR/GBP hit a low of 0.83 in April and a high of 0.92 in August before ending the year at around

0.88. Meanwhile, the Swiss Franc fell against the Euro, with EUR/CHF fluctuating between a low of 1.06 and a high of 1.17 as investors became less risk averse.

CNY/USD hit a high of 6.96 in early January; subsequently, capital controls, rising yields, and the overall depreciation of the US Dollar propped up the exchange rate, which stabilized at around 6.90 and then peaked at 6.79 in June before pulling back to around 6.60. The measures adopted by the PBoC have made the Chinese currency less reactive to the greenback's fluctuations. The Yuan's exchange rate appears to be increasingly driven by the market, albeit within a controlled floating-rate system. EUR/CNY fluctuated between a low of around 7.24 in February and a high of approximately 7.98 in August before ending the year at 7.80.

While the Euro appreciated also relative to all emerging market currencies, these proved to be more resilient against the US Dollar: in Asia, the Indian Rupee, the Indonesian Rupee, the Thai Baht, and the Singaporean Dollar gained on the greenback during the year; the South Korean Won was held back by the tensions with North Korea, but rose steadily towards the end of 2017. In Latin America, the Mexican Peso, after falling steeply because of the frictions with the new US administration, climbed up halfway through the year thanks to the measures taken by the Central Bank to support the currency, and then slid again in late 2017; meanwhile, low inflation is weighing down the Brazilian Real. In Europe, the Russian Ruble has benefited from the rebound in oil prices.

4. The Group's operating performance

In 2017, both sales (-3.1%) and, in particular, operating profit decreased compared with the previous year. The decline in revenues is largely attributable to the wholesale channel, the negative impact of the strong tensions in South Korea, adverse foreign exchange movements (the Euro appreciated against all the main currencies in which the Group operates: the US Dollar, the Chinese Renminbi, and the Japanese Yen), and the strategic restructuring of distribution in Japan. Along with the plan to sell products from previous collections through the Group's outlets as well as other specific initiatives aimed at disposing of excess inventories (already implemented during the first half of 2017), this caused the gross sales margin to decline (-6.9%). All the above, together with the rise in operating costs (+1.2%), attributable to the actions taken by the new management to relaunch the Salvatore Ferragamo Group, caused the financial performance to deteriorate compared to the prior-year period. As a percentage of revenues, the Group's EBITDA was down 23.3% to 17.8% from 22.5% as at 31 December 2016. Operating profit fell by 28.6% to 13.4% as a proportion of revenues, compared to 18.1% in 2016. Net profit for the period totaled 114.3 million Euro, down by 42.4% compared with the previous year. In addition, Group net profit for the period fell by 41.3% from 202.0 million Euro to 118.6 million Euro.

The Group bolstered its financial position and net financial debt improved by a significant 135.5 million Euro from negative 8.0 million Euro as at 31 December 2016 to a positive net financial position of 127.5 million Euro as at 31 December 2017, mainly due to 278.9 million Euro in significant cash flows from operating activities.

The following table shows the main income statement data.

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Revenues	1,393,472	100.0%	1,437,923	100.0%	(3.1%)
Gross profit	898,717	64.5%	965,115	67.1%	(6.9%)
Style, product development and logistics costs	(44,151)	(3.2%)	(44,167)	(3.1%)	(0.0%)
Sales & distribution costs	(474,674)	(34.1%)	(469,191)	(32.6%)	1.2%
Marketing & communication costs	(70,708)	(5.1%)	(71,217)	(5.0%)	(0.7%)
General and administrative costs	(115,682)	(8.3%)	(113,663)	(7.9%)	1.8%
Other operating costs	(19,183)	(1.4%)	(20,098)	(1.4%)	(4.6%)
Other income and revenues	11,735	0.8%	13,949	1.0%	(15.9%)
Total operating costs (net of other income)	(712,663)	(51.1%)	(704,387)	(49.0%)	1.2%
Operating profit	186,054	13.4%	260,728	18.1%	(28.6%)
Net financial income and charges	(12,709)	(0.9%)	(15,055)	(1.0%)	(15.6%)
Profit before taxes	173,345	12.4%	245,673	17.1%	(29.4%)
Income taxes	(59,062)	(4.2%)	(47,315)	(3.3%)	24.8%
Net profit/(loss) for the period	114,283	8.2%	198,358	13.8%	(42.4%)
Net profit/(loss) – Group	118,641	8.5%	201,984	14.0%	(41.3%)
Net profit/(loss) – minority interests	(4,358)	(0.3%)	(3,626)	(0.3%)	20.2%
Amortization, depreciation and write-downs of tangible/intangible assets	62,454	4.5%	63,101	4.4%	(1.0%)
EBITDA	248,508	17.8%	323,829	22.5%	(23.3%)

In 2017 **revenues** reached 1,393,472 thousand Euro compared to 1,437,923 thousand Euro in 2016, down by 3.1%. 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 2017 compared to the previous year: the US dollar depreciated by 2.1% ⁽²⁾, the Chinese Renminbi depreciated by 3.8% ⁽³⁾ and the Japanese Yen depreciated by 5.4% ⁽⁴⁾ against the Euro, the currency in which the figures in the consolidated financial statements are expressed. Revenues recorded a decrease of 1.4% at constant exchange rates (applying to revenues for 2016 – net of the hedging impact – the average exchange rate of 2017). With reference to the fourth quarter of 2017 only, revenues amounted to 388,575 thousand Euro, down by 8.4% compared to the prior year quarter (-5.1% at constant exchange rates). Currency hedges resulted in a positive 682 thousand Euro adjustment to revenues in 2017, compared to a negative 235 thousand Euro adjustment in 2016.

² With reference to the average Euro/Usd exchange rate in 2017: 1.1297; 2016: 1.107

³ With reference to the average Euro/Cny exchange rate in 2017: 7.629; 2016: 7.352

⁴ With reference to the average Euro/Yen exchange rate in 2017: 126.7112; 2016: 120.20

In 2017 **gross profit** was 898,717 thousand Euro compared to 965,115 thousand Euro in the prior year, down by 6.9%. Gross profit amounted to 64.5% as a percentage of revenues, down from 67.1% in 2016 largely because of the plan to sell products from previous collections through the Group's outlets and other commercial initiatives such as the extension of special and invitation-only offers. In the fourth quarter of 2017, gross profit was 253,615 thousand Euro (accounting for 65.3% of revenues) compared to 285,639 thousand Euro (accounting for 67.4% of revenues) in the fourth quarter of 2016.

Total **operating costs** (net of other income) in 2017 amounted to 712,663 thousand Euro, up by 1.2% compared to 2016 and their ratio to revenues increased from 49.0% in 2016 to 51.1%; this was due to the enhancement of the distribution network and, in part, to the costs associated with the change in the Group's management and the actions undertaken in the second half of 2016 and carried out throughout 2017 aimed at relaunching the Salvatore Ferragamo Group. In the fourth quarter of 2017, total net operating costs decreased from 194,923 thousand Euro to 182,807 thousand Euro, down by 6.2% compared to the fourth quarter of 2016, also thanks to the effect of exchange rate changes, and their ratio to revenues increased from 46.0% in 2016 to 47.0% in 2017.

EBITDA decreased from 323,829 thousand Euro in 2016 to 248,508 thousand Euro (-23.3%), with a ratio to revenues of 17.8% compared to 22.5% in 2016. In the fourth quarter of 2017, EBITDA totaled 86,717 thousand Euro compared to the fourth quarter of 2016 (107,761 thousand Euro), accounting for 22.3% of revenues compared to 25.4% the same period last year.

In 2017 **operating profit** totaled 186,054 thousand Euro compared to 260,728 thousand Euro in 2016, down by 28.6%. Operating profit as a percentage of revenues decreased from 18.1% in 2016 to 13.4% in 2017. In the fourth quarter of 2017, operating profit totaled 70,808 thousand Euro compared to 90,716 thousand Euro in the fourth quarter of 2016 (-21.9%), accounting for 18.2% of revenues compared to 21.4% the same period last year.

Net financial income and charges decreased from a negative 15,055 thousand Euro in 2016 to a negative 12,709 thousand Euro in 2017, largely because of the decline in interest expense as the Group took out more intercompany loans on arm's length terms, thus reducing its average bank borrowings. In the fourth quarter of 2017, net financial income and charges totaled 3,860 thousand Euro in charges compared to charges of 2,923 thousand Euro in the fourth quarter of 2016.

The **income tax** rate for 2017 was 34.1%, compared to 19.3% in the prior year. On the one hand, the direct tax expense of the Parent company Salvatore Ferragamo S.p.A. declined thanks to the benefit known as "Patent box" – resulting in a 9.8 million Euro impact in 2017, and the ruling will remain in effect until 2019. On the other hand, the reduction in the US tax rate, effective as from fiscal year 2018, affected the calculation of deferred tax assets. Normalizing for these two factors, the 2017 tax rate would have been 32.0%, compared to a normalized 32.3% in 2016, adjusted for the cumulative impact of the "Patent Box" for 2015 and 2016. Normalizing only for the reduction in US federal income taxes, the tax rate would have stood at 26.4% in 2017, compared to a normalized 24.8% in 2016 (excluding only the 2015 Patent Box impact).

In 2017, the Group posted 114,283 thousand Euro in consolidated **net profit**, compared to 198,358 thousand Euro in 2016, down by 42.4%. The Group share of consolidated net profit amounted to 118,641 thousand Euro compared to 201,984 thousand Euro in the prior-year period, down by 41.3%. In the fourth quarter of 2017, net profit totaled 35,358 thousand Euro compared to 88,274 thousand Euro in the fourth quarter of 2016; Group net profit amounted to 36,308 thousand Euro compared to 89,527 thousand Euro in the fourth quarter of 2016.

The Group ended 2017 with a **positive net financial position** of 127,491 thousand Euro, sharply up from 7,998 thousand Euro in net financial debt as at 31 December 2016, largely because of 278.9 million Euro in cash flows from operating activities. Working capital declined steadily: for more details, see the analysis in the section "Statement of financial position and Investments", paragraph Net working capital. In the fourth quarter of 2017 net financial position increased from 100,374 thousand Euro as at 30 September 2017 to 127,491 thousand Euro as at 31 December 2017, improving by 27,117 thousand Euro thanks to cash flows from operating activities for the period amounting to 59.6 million Euro net of cash flows used for investments in the fourth quarter amounting to 28.9 million Euro.

Revenues

The following table shows revenues by **geographic area** and the change on the previous year:

(In thousands of Euro)

	2017	% of revenues	2016	% of revenues	% change	at constant exchange rates % change
Europe	351,259	25.2%	364,292	25.3%	(3.6%)	(3.0%)
North America	333,673	24.0%	348,347	24.2%	(4.2%)	(2.2%)
Japan	119,546	8.6%	126,689	8.8%	(5.6%)	(3.1%)
Asia Pacific	510,620	36.6%	521,743	36.3%	(2.1%)	(0.4%)
Central and South America	78,374	5.6%	76,852	5.4%	2.0%	6.5%
Total	1,393,472	100.0%	1,437,923	100.0%	(3.1%)	(1.4%)

Europe saw revenues fall by 3.6% at current exchange rates (-3.0% at constant exchange rates) mainly due to the decline in the wholesale channel (-7.5% at current exchange rates, -7.3% at constant exchange rates), despite the good performance of the retail channel at both current and constant exchange rates (+0.9% and +2.1%, respectively).

The North American market saw a decrease in revenues of 4.2% at current exchange rates (-2.2% at constant exchange rates), which was mainly affected by the downward trend in the wholesale channel (-9.3% at current exchange rates, -7.4% at constant exchange rates).

Japan saw a decrease in revenues of 5.6% at current exchange rates (-3.1% at constant exchange rates), which was negatively affected by the strategic restructuring of the wholesale channel (-36.7% at current exchange rates, -34.4% at constant exchange rates). The retail channel recorded a positive performance: +0.7% at current exchange rates and +3.2% at constant exchange rates.

Asia Pacific contributed once again the most to Group revenues with 36.6%; it saw a decrease in revenues of 2.1% at current exchange rates (unchanged at constant exchange rates) and, in particular, it was negatively affected by the slowdown on the Hong Kong market and tensions in South Korea.

In 2017 the Central and South American market saw a sharp increase in revenues (2.0% at current exchange rates and 6.5% at constant exchange rates), mainly thanks to the good performance of the Mexican market, and accounted for 5.6% of total revenues, recording a further increase compared to the previous year.

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

(In thousands of Euro)

	2017	% of revenues	2016	% of revenues	% change	at constant exchange rates % change
<i>Retail</i>	905,334	65.0%	912,361	63.4%	(0.8%)	1.3%
<i>Wholesale</i>	465,295	33.4%	502,648	35.0%	(7.4%)	(6.2%)
Licenses and services	10,150	0.7%	9,960	0.7%	1.9%	1.9%
Rental income investment properties	12,693	0.9%	12,954	0.9%	(2.0%)	(0.0%)
Total	1,393,472	100.0%	1,437,923	100.0%	(3.1%)	(1.4%)

In 2017, retail sales were down 0.8% at current exchange rates and up 1.3% at constant exchange rates, hampered by market conditions in the Asia Pacific region (-2.1% at current exchange rates and -0.3% at constant exchange rates) as well as North America (-1.5% at current exchange rates and +0.6% at constant exchange rates), and rose slightly across all other markets – especially in Central and South America (+3.6% and +8.8% at current and constant exchange rates, respectively). The ratio to total revenues increased from 63.4% in 2016 to 65.0% in 2017.

Compared to the situation as at 31 December 2016 the number of directly operated stores (DOS) increased by 8 units.

In the wholesale channel, sales declined by 7.4% at current exchange rates and 6.2% at constant exchange rates across all reference markets as a result of the actions taken to dispose of finished products from previous collections (-7.5% in Europe, -9.3% at current exchange rates and -7.4% at constant exchange rates in North America) as well as the tensions in South Korea (the Asia Pacific market was down 2.2% at current exchange rates and 0.7% at constant exchange rates) and the strategic restructuring of the Japanese market, which strongly affected wholesale distribution operations (-36.7% at current exchange rates and -34.4% at constant exchange rates).

Revenues from licenses and services in 2017 increased by 1.9% (at both current and constant exchange rates) compared to 2016; 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 2.0% at current exchange rates (unchanged at constant exchange rates).

The following table shows revenues by **product category** and the change on the previous year:

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change	at constant exchange rates % change
Footwear	589,229	42.3%	611,151	42.5%	(3.6%)	(1.7%)
Leather goods	516,026	37.0%	528,952	36.8%	(2.4%)	(0.8%)
Apparel	89,859	6.5%	93,550	6.5%	(3.9%)	(2.2%)
Accessories	86,363	6.2%	93,259	6.5%	(7.4%)	(5.5%)
Fragrances	89,152	6.4%	88,097	6.1%	1.2%	2.2%
Licenses and services	10,150	0.7%	9,960	0.7%	1.9%	1.9%
Rental income investment properties	12,693	0.9%	12,954	0.9%	(2.0%)	(0.0%)
Total	1,393,472	100.0%	1,437,923	100.0%	(3.1%)	(1.4%)

Fragrances recorded an increase (+1.2% at current exchange rates and +2.2% at constant exchange rates), while footwear and leather goods decreased by 3.6% and 2.4% at current exchange rates, respectively (-1.7% and -0.8% at constant exchange rates, respectively).

Cost of goods sold and gross profit

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Consumables	(287,080)	(20.6%)	(247,530)	(17.2%)	16.0%
Services	(198,964)	(14.3%)	(216,831)	(15.1%)	(8.2%)
Personnel	(7,886)	(0.6%)	(7,680)	(0.5%)	2.7%
Amortization and depreciation	(825)	(0.1%)	(767)	(0.1%)	7.6%
Cost of goods sold	(494,755)	(35.5%)	(472,808)	(32.9%)	4.6%
Gross profit	898,717	64.5%	965,115	67.1%	(6.9%)

In 2017 the **cost of goods sold** amounted to 494,755 thousand Euro, up by 4.6% compared to 2016. **Gross profit** as a percentage of sales stood at 64.5% compared to 67.1% in 2016. The increase in the cost of goods sold and the decline in gross profit are largely attributable to the year-on-year percentage increase in sales through the secondary channel (outlets) relative to those of the primary channel – a trend closely associated with the program to dispose of inventories from previous collections.

Style, product development and logistics costs

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Purchases	(5,028)	(0.4%)	(4,299)	(0.3%)	17.0%
Services	(19,383)	(1.4%)	(19,115)	(1.3%)	1.4%
Personnel	(19,191)	(1.4%)	(20,187)	(1.4%)	(4.9%)
Amortization and depreciation	(549)	(0.0%)	(566)	(0.0%)	(3.0%)
Total	(44,151)	(3.2%)	(44,167)	(3.1%)	(0.0%)

These costs, which include the expenses of the creative departments and for the freight to deliver the products to their sales markets, were unchanged compared to 2016.

Sales & distribution costs

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Retail	(418,400)	(30.0%)	(411,718)	(28.6%)	1.6%
Wholesale	(46,658)	(3.3%)	(47,498)	(3.3%)	(1.8%)
Distribution logistics	(9,616)	(0.7%)	(9,975)	(0.7%)	(3.6%)
Total	(474,674)	(34.1%)	(469,191)	(32.6%)	1.2%

The costs relating to the network of directly operated stores (DOS) increased from 411,718 thousand Euro to 418,400 thousand Euro, up by 1.6%. The impact of these costs on total sales & distribution costs increased from 87.8% in 2016 to 88.1% in 2017. Meanwhile, wholesale distribution costs declined 1.8% compared to 2016.

Here below is a breakdown by nature of sales and distribution costs:

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Purchases	(5,809)	(0.4%)	(6,031)	(0.4%)	(3.7%)
Services	(283,169)	(20.3%)	(278,303)	(19.4%)	1.7%
Personnel	(142,431)	(10.2%)	(139,628)	(9.7%)	2.0%
Amortization and depreciation	(42,763)	(3.1%)	(44,532)	(3.1%)	(4.0%)
Write-downs of tangible/intangible assets	(502)	(0.0%)	(697)	(0.0%)	(28.0%)
Total	(474,674)	(34.1%)	(469,191)	(32.6%)	1.2%

Marketing & communication costs

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Purchases	(2,723)	(0.2%)	(2,801)	(0.2%)	(2.8%)
Services	(57,989)	(4.2%)	(57,629)	(4.0%)	0.6%
Personnel	(9,836)	(0.7%)	(10,613)	(0.7%)	(7.3%)
Amortization and depreciation	(160)	(0.0%)	(174)	(0.0%)	(8.0%)
Total	(70,708)	(5.1%)	(71,217)	(5.0%)	(0.7%)

Total marketing & communication costs were in line with 2016 (-0.7%), slightly decreasing from 71,217 thousand Euro to 70,708 thousand Euro, and were virtually unchanged as a proportion of revenues (5.1%). The marketing and communication highlights for 2017 include the event held in Hong Kong in July to celebrate the reopening of the flagship store in Canton Road following its overhaul.

General and administrative costs

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Purchases	(2,289)	(0.2%)	(2,218)	(0.2%)	3.2%
Services	(56,658)	(4.1%)	(58,276)	(4.1%)	(2.8%)
Personnel	(39,080)	(2.8%)	(36,804)	(2.6%)	6.2%
Amortization and depreciation	(17,444)	(1.3%)	(16,365)	(1.1%)	6.6%
Write-downs of tangible/intangible assets	(211)	(0.0%)	-	-	na
Total	(115,682)	(8.3%)	(113,663)	(7.9%)	1.8%

General and administrative costs rose by 1.8% and their ratio to revenues slightly increased from 7.9% in 2016 to 8.3% in 2017. Costs for services include, among others, the fees paid to the Board of Directors as well as other amounts accrued by the Managing Director and Chairman.

Other operating costs

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Losses on disposal of tangible and intangible assets	(1,110)	(0.1%)	(664)	(0.0%)	67.2%
Windfall losses	(402)	(0.0%)	(234)	(0.0%)	71.8%
Provisions for risks and charges	(1,032)	(0.1%)	(1,380)	(0.1%)	(25.2%)
Write-down of current assets	(466)	(0.0%)	(2,494)	(0.2%)	(81.3%)
Other operating costs	(16,173)	(1.2%)	(15,326)	(1.1%)	5.5%
Total	(19,183)	(1.4%)	(20,098)	(1.4%)	(4.6%)

Other operating costs decreased by 4.6% (915 thousand Euro), with the ratio to revenues amounting to 1.4%, unchanged compared to the previous year. 2016 saw an increase in write-downs of current assets. They referred to the recognition of losses on receivables due from wholesale customers as well as to the provision for losses on trade receivables. Other operating costs included 12,754 thousand Euro in Other non-income taxes, largely related to the real estate tax on the Ferragamo Usa Group's properties. Provisions for risks and charges decreased by 348 thousand Euro year-on-year and they mainly refer to labor and legal disputes referring to both ongoing legal proceedings and the estimated potential outflows from the Group companies required to reach a pre-litigation settlement.

Other income and revenues

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Other income and revenues	10,929	0.8%	12,394	0.9%	(11.8%)
Gains on disposal of tangible/intangible assets	33	0.0%	45	0.0%	(26.7%)
Windfall profit	773	0.1%	1,510	0.1%	(48.8%)
Total	11,735	0.8%	13,949	1.0%	(15.9%)

Other income and revenues fell by 15.9% or 2,214 thousand Euro compared to 2016 with the ratio to total revenues amounting to 0.8% compared to 1.0% in 2016. The change registered in 2017 mainly stemmed from the decline in rental income from subleases of operating properties in the United States as well as in insurance refunds. In addition, "Other income and revenues" included the Research and Development Tax Credit (art. 3 of Italian Law Decree no. 145 of 23 December 2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014 – 2015 Budget Law) in favor of the Parent company: this amounted to 2,387 thousand Euro in 2016 (cumulative credit for the years 2015 and 2016) and 2,700 thousand Euro in 2017.

For further details reference should be made to the section "Significant events occurred during the year".

Net financial income and charges

For ease of reference, financial income and charges are shown net; reference should be made to the Explanatory notes to the consolidated financial statements for separate and detailed information on charges and income.

(In thousands of Euro)	2017	2016	% change
Net interest	(2,603)	(4,273)	(39.1%)
Other net income/(charges)	(2,167)	(2,273)	(4.7%)
Net gains/(losses) on exchange rate differences	(14,139)	88	na
Net financial income/(charges) for fair value adjustment of derivatives	6,215	(8,597)	(172.3%)
Gains/(losses) on disposal of available-for-sale financial assets	(15)	-	na
Total	(12,709)	(15,055)	(15.6%)

Total net financial income and charges were negative 12,709 thousand Euro, up 2,346 thousand Euro from 2016, specifically thanks to the decline in interest expense as the Group took out more intercompany loans on arm's length terms during 2017, to reduce its average net bank borrowings.

Net gains and losses on exchange rate differences mainly reflect the impact of commercial transactions in foreign currency. Net 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.

Income taxes

The change in income taxes was as follows:

(In thousands of Euro)	2017	2016	% change
Profit before taxes	173,345	245,673	(29.4%)
Income taxes	(59,062)	(47,315)	24.8%
Tax rate	34.1%	19.3%	

The tax rate for 2017 was 34.1% compared to 19.3% in the prior period. The significant increase in taxes as a proportion of pre-tax profit was attributable to two key factors: (i) the decline in the tax benefit known as “Patent Box” (Art. 1 Italian Law no. 190 of 23 December 2014 – 2015 Budget Law and Decree of the Ministry of Economic Development dated 30 July 2015) in favor of the Parent company for the year 2017 compared to the previous year, when the Group recognized the cumulative benefit for 2015 and 2016; (ii) the reduction in the US federal income tax rate from 35% to 21%, resulting in a sharp decrease in the deferred tax assets of the American entities (Ferragamo USA Group) as well as the deferred tax assets calculated based on the elimination of unrealized gains on intragroup transactions concerning inventories. Normalizing for these two factors, the 2017 tax rate would have been 32.0%, compared to a normalized 32.3% in 2016, adjusted for the cumulative impact of the “Patent Box” for 2015 and 2016. Normalizing only for the reduction in US federal income taxes, the tax rate would have stood at 26.4% in 2017, compared to a normalized 24.8% in 2016 (excluding only the 2015 Patent Box impact).

For further details reference should be made to the section “Significant events occurred during the year”.

Net profit/(loss), minority interests and Group net profit/(loss)

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Net profit/(loss) for the period	114,283	8.2%	198,358	13.8%	(42.4%)
Net profit/(loss) – Group	118,641	8.5%	201,984	14.0%	(41.3%)
Net profit/(loss) – minority interests	(4,358)	(0.3%)	(3,626)	(0.3%)	20.2%

Net profit for the period was down 42.4%, i.e. 84,075 thousand Euro, and the Group reported 118,641 thousand Euro in net profit compared to 201,984 in 2016.

Statement of financial position and Investments

Here below is the statement of financial position as at 31 December 2017 reclassified by sources and uses, compared to the position as at 31 December 2016:

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Property, plant and equipment, investment property, intangible assets with a finite useful life	299,332	288,618	3.7%
Net working capital	270,486	374,132	(27.7%)
Other non current assets/(liabilities), net	7,963	41,042	(80.6%)
Other current assets/(liabilities), net	42,169	26,820	57.2%
Assets/(liabilities) held for sale, net	990	-	na
Net invested capital	620,940	730,612	(15.0%)
Group shareholders' equity	722,250	693,138	4.2%
Minority interests	26,181	29,476	(11.2%)
Shareholders' equity (A)	748,431	722,614	3.6%
Net financial debt/(surplus) (B)	(127,491)	7,998	(1694.0%)
Total sources of financing (A+B)	620,940	730,612	(15.0%)
Net financial debt/shareholders' equity	(17.0%)	1.1%	

Property, plant and equipment, investment property and intangible assets with a finite useful life

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Property, plant and equipment	249,600	243,692	2.4%
Investment property	6,139	7,350	(16.5%)
Intangible assets with a finite useful life	43,593	37,576	16.0%
Total	299,332	288,618	3.7%

The item "Property, plant and equipment" as at 31 December 2017 consists of:

- the Sesto Fiorentino industrial complex, as well as adjacent plots of land and building rights acquired during 2015 for the construction of the new logistics center, the portions of the American properties used in operating activities and the property owned in Seoul for a total net value of 63,272 thousand Euro;
- furnishings and renovation work for the chain of directly operated stores as well as the molds for the fragrances product category, for 126,862 thousand Euro;
- other assets, mainly for IT equipment, plant and equipment and tangible assets in progress for 59,466 thousand Euro.

Investment property represents the part of the American properties which is not used for operations and producing income through rental.

Intangible assets with a finite useful life mainly consist of capitalized costs for the development of business software applications (SAP, ERP, reporting systems, shipping system, e-commerce platform) and costs incurred to acquire the right to enter into shop rental contracts (the so-called key money for a net residual value of 4,703 thousand Euro as at 31 December 2017). The remainder refers to registration expenses for trademarks, industrial patents and intellectual property rights (software licenses) and intangible assets with a finite useful life in progress.

Investments in fixed assets

During 2017, the Group made investments in tangible and intangible assets for a total amount of 88,425 thousand Euro, of which 70,531 thousand Euro in tangible assets and 17,894 thousand Euro in intangible assets, compared to a total of 74,357 thousand Euro in the previous year.

The most important investments in tangible assets were made in the opening and refurbishment of stores (26.0 million Euro, 36.8% of total investments in tangible assets) and the ongoing works for the new logistics center, which are part of the project undertaken by the Parent company to expand and renovate the whole industrial complex at Osmannoro.

Investments in intangible assets mainly refer to the so-called "Marlin Project", aimed at standardizing the Group's retail information systems relying on SAP, developing the e-commerce platform (for a total amount of 5.4 million Euro, 30.0% of total investments in intangible assets) and purchasing software licenses for 1.8 million Euro, in addition to investments under construction mainly undertaken by the Parent company.

Investments in tangible assets under construction amounted to 40.3 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 36.8 million Euro as at 31 December 2017, of which 27.5 million Euro relating to the increase in the 2017 period), and, to a minor extent, the refurbishment and opening of new stores which were not yet operational as at the reporting date. Investments in intangible assets under construction amounted to 12.2 million Euro and were represented by the "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.

During 2017, the Group did not make any investments in financial assets.

Amortization and depreciation totaled 61,741 thousand Euro as at 31 December 2017 and 62,404 thousand Euro at 31 December 2016, mostly unchanged compared to 2016 (-1.1%).

Net working capital

Here below is the breakdown and change in net working capital as at 31 December 2017 compared with the figure as at 31 December 2016.

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Inventories	325,516	374,710	(13.1%)
Trade receivables	148,583	179,678	(17.3%)
Trade payables	(203,613)	(180,256)	13.0%
Total	270,486	374,132	(27.7%)

Net working capital decreased by 27.7% compared to 31 December 2016, mainly due to the decrease in trade receivables (-17.3%) and inventories (-13.1%). Specifically, inventories of finished products were down 57,721 thousand Euro from 31 December 2016, largely because of the plan to sell products from previous collections through the Group's outlets and other commercial initiatives such as the extension of special and invitation-only offers. Raw materials for production were up 18.7%, increasing by 8,527 thousand Euro compared to 31 December 2016 and depend on production volumes for the period.

Trade receivables largely referred to the wholesale channel's sales and were down year-on-year, essentially because of the decline in sales to wholesale customers in late 2017.

Trade payables rose by 13.0% compared to 2016 and mainly referred to purchases of production materials (raw materials and accessories) and finished products, outsourcing costs, and the payables outstanding at the end of 2017 related to the construction work on the new logistics hub at Osmannoro.

Other non current assets/(liabilities), net

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Available-for-sale financial assets	-	20	(100.0%)
Other non current assets	4,963	7,395	(32.9%)
Other non current financial assets	15,981	17,278	(7.5%)
Deferred tax assets	79,624	110,277	(27.8%)
Total other non current assets	100,568	134,970	(25.5%)
Provisions for risks and charges	(13,794)	(14,328)	(3.7%)
Employee benefit liabilities	(11,509)	(12,283)	(6.3%)
Other non current liabilities	(59,067)	(60,756)	(2.8%)
Deferred tax liabilities	(8,235)	(6,561)	25.5%
Total other non current liabilities	(92,605)	(93,928)	(1.4%)
Other non current assets/(liabilities), net	7,963	41,042	(80.6%)

“Other non current assets” mainly consist of:

- the straight lining of rental income from the American real estate business for 2,577 thousand Euro (4,636 thousand Euro in 2016);
- the portion of receivables due after more than 12 months relating to the advance on fees for Ungaro fragrances amounting to 2 million Euro paid at the time of the sale of the Ungaro brand and the partial renewal of the license contract in July 2017.

“Other non current financial assets” mainly consist of guarantee deposits relating to existing lease contracts.

“Deferred tax assets” mainly consist of taxes calculated on the reversal of the unrealized profit in inventories and those on temporary differences between the profit/(loss) pertaining to the period and the taxable income of the Group companies. The sharp decline was largely attributable to the utilization of part of the deferred tax assets in 2017 as a result of the reduction in the inventories of finished products as well as in the US federal income tax rate – from 35% to 21%.

“Other non current liabilities” mainly refer to the straight lining of rental expense amounting to 58,864 thousand Euro (60,499 thousand Euro in 2016).

Other current assets/(liabilities), net

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Tax receivables	27,654	31,854	(13.2%)
Other current assets	67,556	67,898	(0.5%)
Total other current assets	95,210	99,752	(4.6%)
Tax payables	(19,772)	(21,615)	(8.5%)
Other current liabilities	(33,269)	(51,317)	(35.2%)
Total other current liabilities	(53,041)	(72,932)	(27.3%)
Other current assets/(liabilities), net	42,169	26,820	57.2%

“Other current assets” mainly consist of:

- receivables due from credit card management companies for retail sales (12,596 thousand Euro), accrued income and prepaid expenses (15,971 thousand Euro) and advances to suppliers (1,687 thousand Euro).
- the 21,576 thousand Euro receivable due from the Holding company Ferragamo Finanziaria S.p.A. of Salvatore Ferragamo S.p.A and Ferragamo Parfums S.p.A., including:
 - (i) 19,551 thousand Euro resulting from the domestic fiscal unity for the current period. This amount referred to excess payments on account made during the previous year for the liability accrued in the period.
 - (ii) 2,025 thousand Euro associated with the refund of the corporate income tax claimed by the Italian companies participating in the domestic fiscal unity for the failure to deduct the regional manufacturing tax in relation to personnel costs from 2007 to 2011 as per Italian Law Decree no. 201 of 6 December 2011.
- the fair value assessment of hedge derivative contracts for 12,844 thousand Euro (2,575 thousand Euro in 2016) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

“Other current liabilities” mainly consist of:

- the fair value assessment of hedge derivative contracts for 362 thousand Euro (12,766 thousand Euro in 2016) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro;
- payables to employees for amounts accrued but not yet paid, payables to social security institutions for contributions to be paid immediately after the reporting date, provisions at the end of the reporting period for other payables to suppliers, accrued expenses and deferred income;

Net assets/(liabilities) held for sale totaled 990 thousand Euro and included inventories of finished products as well as the equipment and furniture of Ferragamo Retail India Private Limited, which are measured at the lower of the book value and the estimated realizable value as can be inferred from the current status of negotiations, which, according to management's decisions (see the section “Significant events occurred during the year”), meet the requirements outlined in IFRS 5 to be included within this line item.

Shareholders' equity

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Group shareholders' equity	722,250	693,138	4.2%
Minority interests	26,181	29,476	(11.2%)
Total	748,431	722,614	3.6%

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

- the increase of 118,641 thousand Euro in the profit for the period;
- the decrease of 29,094 thousand Euro attributable to the translation into Euro of the subsidiaries' financial statements denominated in other currencies;
- the decrease of 77,643 thousand Euro in dividends paid by the Parent company;
- the 3,720 thousand Euro decline arising from the fair value changes in the put options granted to pre-existing minority shareholders (2,916 thousand Euro) as well as from the recognition of the price adjustment

Salvatore Ferragamo S.p.A. paid for the acquisition of the non-controlling interests in the companies based in South-East Asia and South Korea, which was completed in December 2016 (804 thousand Euro);

- the increase of 21,024 thousand Euro resulting from the valuation of hedging derivatives net of the relevant tax effect;
- the increase in the Stock Grant Reserve for 870 thousand Euro;
- in addition to minor negative effects for 966 thousand Euro.

Net financial debt

Net financial debt (calculated in accordance with CONSOB Communication no. DEM/6064293 and presented here in condensed form) as at 31 December 2017 and 31 December 2016 was as follows:

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Cash and cash equivalents (A)	212,088	117,249	80.9%
Other current financial assets (B)	341	264	29.2%
Interest-bearing loans and borrowings (C)	81,343	121,251	(32.9%)
Other financial liabilities (D)	3,595	4,260	(15.6%)
Net financial debt/(surplus) (C + D – A – B)	(127,491)	7,998	(1694.0%)

The Group ended 2017 with a 127,491 thousand Euro positive net financial position, up 135,489 thousand Euro from the previous year thanks to 278,886 thousand Euro in cash flows from operating activities net of 77,643 thousand Euro in total dividends paid during 2017 and 76,656 thousand Euro in cash flows used for the purposes of investing in tangible and intangible assets during 2017.

Income and financial indicators

The tables below set out the trend in the main income and financial indicators for the years ended 31 December 2017 and 2016.

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	2017	2016
ROE	16.8%	32.1%
(Group net profit for the period / average Group shareholders' equity)		
ROI	27.5%	38.7%
(Operating profit / Net average invested capital)		
ROS	13.4%	18.1%
(Operating profit / revenues)		
Financial ratios	2017	2016
Coverage of shareholders' equity ratio	187.2%	170.6%
(Shareholders' equity / non current assets)		
Liquidity ratio	139.7%	104.9%
(Current assets excluding inventories / current liabilities)		
Turnover ratios expressed in days	2017	2016
Turnover of trade receivables	43	44
(Average value of Trade receivables in the period / Revenues x days)		
Turnover of Trade payables	76	78
(Average value of Trade payables in the period / Purchases of goods and services x days)		
Inventory turnover	258	280
(Average value of Inventories in the period / Cost of goods sold x days)		
Turnover of Average invested capital	177	171
(Average value of Net invested capital / Revenues x days)		

Average value means the simple arithmetic average of the closing balances of the period and of the previous period.

5. Operating performance of the Parent company Salvatore Ferragamo S.p.A.

The tables set out below and the relevant comments have been prepared on the basis of the separate financial statements as at 31 December 2017 to which reference should be made. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Union, as well as in compliance with the provisions issued in implementation of art. 9 of Leg. Decree no. 38/2005.

The following table shows the main income statement indicators.

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Revenues from sales (wholesale, retail, e-commerce)	738,663	96.9%	801,950	97.4%	(7.9%)
Revenues from royalties	8,637	1.1%	8,539	1.0%	1.1%
Other income and services	15,080	2.0%	13,137	1.6%	14.8%
Revenues from sales and services	762,380	100.0%	823,626	100.0%	(7.4%)
Change in inventories of finished products	(7,717)	(1.0%)	6,339	0.8%	(221.7%)
Costs for raw materials, goods and consumables	(210,696)	(27.6%)	(221,798)	(26.9%)	(5.0%)
Costs for services	(288,016)	(37.8%)	(306,686)	(37.2%)	(6.1%)
Personnel costs	(63,540)	(8.3%)	(63,246)	(7.7%)	0.5%
Amortization, depreciation and write-downs	(16,570)	(2.2%)	(15,455)	(1.9%)	7.2%
Other operating costs	(50,328)	(6.6%)	(8,514)	(1.0%)	491.1%
Other income and revenues	11,906	1.6%	9,333	1.1%	27.6%
Total costs (net of other income)	(624,961)	(82.0%)	(600,027)	(72.9%)	4.2%
Operating profit	137,419	18.0%	223,599	27.1%	(38.5%)
Financial income (charges)	1,578	0.2%	1,339	0.2%	17.8%
Profit before taxes	138,997	18.2%	224,938	27.3%	(38.2%)
Income taxes	(25,984)	(3.4%)	(33,872)	(4.1%)	(23.3%)
<i>Tax rate</i>	<i>18.7%</i>		<i>15.1%</i>		<i>24.1%</i>
Net profit/(loss) for the period	113,013	14.8%	191,066	23.2%	(40.9%)
EBITDA	153,989	20.2%	239,054	29.0%	(35.6%)

In 2017, the Company generated 762,380 thousand Euro in **revenues from sales and services**, down 7.4% from the prior year (823,626 thousand Euro). The decline in revenues is largely attributable to the wholesale channel (-8.7%), which was negatively affected by the strong geopolitical tensions in South Korea, adverse foreign exchange movements (the Euro appreciated against all the main currencies in which the Group operates: the US Dollar, the Chinese Renminbi, and the Japanese Yen), the strategic restructuring of distribution in Japan, and other specific initiatives aimed at disposing of excess inventories at the Group's Companies.

Operating profit decreased from 223,599 thousand Euro to 137,419 thousand Euro (-38.5%), and it was negatively affected by the increase in total costs (net of other income), with the ratio to revenues increasing from 72.9% to 82.0%.

Specifically, the increase in costs (net of other income and revenues) was largely the result of the rise in other operating costs from 8,514 thousand Euro to 50,328 thousand Euro. This was almost entirely attributable to the first-year impact of the International standard ruling on transfer pricing signed on 28 July 2017 with the Italian Inland Revenue Office – Central Assessment Department – International Ruling Office, requiring to make EBIT Adjustments in order to ensure the profitability of the foreign subsidiaries covered by the agreement – calculated as the ratio of EBIT to revenue from sales – is within the free competition range set out in the ruling for each geographic area. The EBIT Adjustments totaled 41,801 thousand Euro in costs and 2,493 thousand Euro in income included within Other income and revenues.

In 2017, **EBITDA** fell from 239,054 thousand Euro to 153,989 thousand Euro, and from 29.0% to 20.2% as a proportion of revenues (-35.6%), compared to the previous year.

Total net **Financial income (charges)** increased from 1,339 thousand Euro to 1,578 thousand Euro.

The following table shows net financial income and charges and the change on the previous year. For ease of reference, financial income and charges are shown net; reference should be made to the Explanatory notes to the separate financial statements for separate and detailed information on charges and income.

(In thousands of Euro)	2017	2016	% change
Dividends from investments	23,143	5,652	309.5%
Net financial income/(charges) for fair value adjustment of derivatives	6,583	(10,381)	163.4%
Restatement value/(write-downs) of investments	(10,159)	3,266	(411.1%)
Net gains/(losses) on exchange rate differences	(17,647)	3,447	(612.0%)
Other net income/(charges)	(761)	(931)	(18.3%)
Gains/(losses) on disposal of available-for-sale financial assets	(15)	-	na
Net interest	434	286	51.7%
Total	1,578	1,339	17.8%

Net profit for the period totaled 113,013 thousand Euro compared to 191,066 thousand Euro in 2016.

The tax rate for 2017 was 18.7% compared to 15.1% in the prior period. The higher tax rate was essentially attributable to the decline in the tax benefit known as “Patent Box” (Art. 1 Italian Law no. 190 of 23 December 2014 – 2015 Budget Law and Decree of the Ministry of Economic Development dated 30 July 2015) for the year 2017 compared to the previous year, when the Group recognized the cumulative benefit for 2015 and 2016.

For further details reference should be made to the section “Significant events occurred during the year”.

Revenues

The following table shows revenues from sales and services by **distribution channel** and the change on the previous year:

(In thousands of Euro)	2017	% of revenues	2016	% of revenues	% change
Wholesale	666,141	87.4%	729,381	88.6%	(8.7%)
Retail+E-commerce	72,522	9.5%	72,569	8.8%	(0.1%)
Revenues from sales	738,663	96.9%	801,950	97.4%	(7.9%)
Revenues from royalties	8,637	1.1%	8,539	1.0%	1.1%
Other income and services	15,080	2.0%	13,137	1.6%	14.8%
Revenues from sales and services	762,380	100.0%	823,626	100.0%	(7.4%)

Wholesale revenues refer mainly to sales to Group companies and, to a lesser extent, to sales to retailers.

Retail + E-commerce sales refer to the revenues generated from directly operated stores (DOS) in Italy and sales generated by e-commerce in Europe.

Revenues from royalties refer mainly to revenues from the licensing of the Salvatore Ferragamo brand with reference to the eyewear, watches and fragrances product categories.

The item “Other income and services” mainly includes other revenues from Group companies and the recovery of freight and packaging costs.

The following table shows the revenues from sales by **geographic area** and the change on the previous year.

(In thousands of Euro)	2017	% of revenues from sales	2016	% of revenues from sales	% change
Italy	138,563	18.8%	146,947	18.3%	(5.7%)
Europe (excluding Italy)	119,950	16.2%	128,592	16.0%	(6.7%)
North America	156,604	21.2%	184,599	23.0%	(15.2%)
Asia Pacific	229,028	31.0%	242,289	30.2%	(5.5%)
Japan	49,110	6.7%	56,241	7.0%	(12.7%)
Central and South America	45,408	6.1%	43,282	5.4%	4.9%
Revenues from sales	738,663	100.0%	801,950	100.0%	(7.9%)

In 2017, the Italian and European markets saw revenues decline by 5.7% and 6.7%, respectively, as the retail and e-commerce channels were essentially in line with the previous year and the wholesale business contracted by 8.4%.

The North American market reported a 15.2% decrease in revenues, weighed down by the performance of sales at department stores.

Asia Pacific contributed once again the most to the Company's revenues with 31%; it saw a decrease in revenues of 5.5% and it was negatively affected by the continued slowdown in the Hong Kong market and weak sales in South Korea, due to geopolitical tensions and, in part, to the decline in tourism.

Japan saw revenues fall by 12.7%, mainly due to the strategic restructuring of the wholesale channel.

In 2017 the Central and South American market saw an increase in revenues (4.9%), despite the earthquake of last September in Mexico.

The following table shows the revenues from sales by **product category** and the change on the previous year.

(In thousands of Euro)	2017	% of revenues from sales	2016	% of revenues from sales	% change
Footwear	331,359	44.9%	359,945	44.9%	(7.9%)
Leather goods	303,128	41.0%	328,525	41.0%	(7.7%)
Apparel	57,382	7.8%	61,714	7.7%	(7.0%)
Accessories and other products	46,794	6.3%	51,766	6.5%	(9.6%)
Revenues from sales	738,663	100.0%	801,950	100.0%	(7.9%)

All product categories were down year-on-year; footwear remained the largest one, accounting for 44.9% of revenues.

Statement of financial position and Investments

Here below is the statement of financial position as at 31 December 2017 reclassified by sources and uses, compared to the position as at 31 December 2016.

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Property, plant and equipment and intangible assets with a finite useful life	134,910	97,947	37.7%
Net working capital	104,402	153,947	(32.2%)
Other non current assets/(liabilities), net	178,262	188,597	(5.5%)
Other current assets/(liabilities), net	36,185	27,586	31.2%
Net invested capital	453,759	468,077	(3.1%)
Shareholders' equity (A)	610,806	563,162	8.5%
Net financial debt/(surplus) (B)	(157,047)	(95,085)	65.2%
Total sources of financing (A+B)	453,759	468,077	(3.1%)

Investments in fixed assets

During 2017, the Company made investments in tangible and intangible assets for a total amount of 53,533 thousand Euro, of which 36,958 thousand Euro in tangible assets and 16,575 thousand Euro in intangible assets, compared to a total of 25,498 thousand Euro in the previous year.

The most substantial investments in tangible assets refer to construction work in progress on the new logistics center (27,498 thousand Euro) which is part of the broader project to expand and renovate the whole industrial complex in Osmannoro (totaling 36,825 thousand Euro as at 31 December 2017).

Investments in intangible assets mainly refer to the so-called "Marlin Project", aimed at standardizing the Group's retail information systems relying on SAP, developing the e-commerce platform and purchasing software licenses.

The largest investment in intangible assets under construction was represented by the "Old Replacement" project: the aim is introducing a new SAP-based distribution system integrated with the logistic shipping and billing system, which has become operational from early 2018.

Amortization and depreciation totaled 16,144 thousand Euro as at 31 December 2017 and 15,427 thousand Euro as at 31 December 2016.

During 2017, the Company did not make any investments in financial assets.

Net working capital

Here below is the breakdown and change in **net working capital** as at 31 December 2017 compared with the figure as at 31 December 2016.

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Inventories	97,028	97,520	(0.5%)
Trade receivables	156,668	183,341	(14.5%)
Trade payables	(149,294)	(126,914)	17.6%
Total	104,402	153,947	(32.2%)

The decrease in net working capital was 32.2%. Inventories decreased overall by 492 thousand Euro (-0.5%) and concerned the stocks of raw materials used for production which increased by 7,225 thousand Euro and the stocks of finished products which decreased by 7,717 thousand Euro.

In 2017 trade receivables totaled 156,668 thousand Euro (down by 14.5%) and concerned receivables from subsidiaries (114,477 thousand Euro, -14.1% compared to 2016) and receivables from third parties (42,191 thousand Euro, -15.8% compared to 2016).

Trade payables totaled 149,294 thousand Euro, up 17.6% in 2017, and mainly referred to purchases of production materials, outsourcing costs, purchases of finished goods, and the payables outstanding at the end of 2017 related to the construction work on the new logistics hub at Osmannoro.

Net financial debt

Net financial debt (calculated in accordance with CONSOB Communication no. DEM/6064293 and presented here in condensed form) as at 31 December 2017 and 31 December 2016 was as follows:

(In thousands of Euro)	31 December 2017	31 December 2016	% change
Cash and cash equivalents (A)	127,413	59,478	114.2%
Other current financial assets (B)	30,993	36,925	(16.1%)
Other current financial liabilities (C)	1,359	1,318	3.1%
Net financial debt/(surplus) (C – A – B)	(157,047)	(95,085)	65.2%

2017 ended with a net financial position of 157,047 thousand Euro, significantly improving compared to 31 December 2016 (95,085 thousand Euro).

The significant 61,962 thousand Euro increase in the net financial position was largely attributable to 184,153 thousand Euro in cash flows from operating activities net of 77,643 thousand Euro in total dividends paid during 2017 and 42,562 thousand Euro in cash flows used for the purposes of investing in tangible and intangible assets during 2017.

Income and financial indicators

The tables below set out the trend in the main income and financial indicators of the Parent company for the years ended 31 December 2017 and 2016.

These indicators are based on the data from the separate 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	2017	2016
ROE (Net profit for the period / Average shareholders' equity)	19.3%	37.6%
ROI (Operating profit / Net average invested capital)	29.8%	52.8%
ROS (Operating profit / Revenues from sales and services)	18.0%	27.1%

Financial ratios	2017	2016
Coverage of shareholders' equity ratio (Shareholders' equity / non current assets)	174.6%	178.6%
Liquidity ratio (Current assets excluding inventories / current liabilities)	220.6%	212.9%

Turnover ratios expressed in days	2017	2016
Turnover of trade receivables (Average value of Trade receivables in the period / Revenues from sales and services x days)	81	80
Turnover of Trade payables (Average value of Trade payables in the period / Costs for raw materials, goods and consumables and Costs for services x days)	101	89
Inventory turnover (Average value of Inventories in the period / Cost of goods sold x days)	89	85
Turnover of Average invested capital (Average value of Net invested capital / Revenues from sales and services x days)	221	188

Average value means the simple arithmetic average of the closing balances of the period and of the previous period.

6. Reconciliation between the Parent company's net profit/(loss) for the period and shareholders' equity and the consolidated values of the Group

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)	31 December 2017	
	Shareholders' equity	Net profit/(loss) for the period
Salvatore Ferragamo S.p.A. data	610,806	113,013
Elimination of consolidated investments	263,233	(2,727)
Dividends distributed among Group companies		(23,143)
Elimination of write-downs / (restatement value) on consolidated investments		10,159
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(135,591)	26,628
Effect of IAS 39 – cash flow hedge reserve, net of the deferred tax effect		(9,748)
Other consolidation adjustments	9,983	101
Total shareholders' equity and net profit/(loss)	748,431	114,283
Minority interests – shareholders' equity and net profit/(loss)	26,181	(4,358)
Group – shareholders' equity and net profit/(loss)	722,250	118,641

7. Results of Group companies

The main highlights of subsidiaries are shown in the table below.

(In thousands)							
Company	Currency	2017			2016		
		Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	37,844	718	21,119	38,276	3,609	20,401
Ferragamo Japan K.K.	JPY	13,675,680	(1,390,326)	800,650	13,543,572	(963,771)	2,166,427
Ferragamo Korea Ltd.	KRW	141,204,156	3,565,757	75,060,259	150,001,423	5,087,733	71,494,503
Ferragamo Espana S.L.	EURO	9,995	444	3,642	10,419	(80)	3,199
Ferrimag Limited	HKD	-	(1,363)	121,180	-	(1,299)	122,543
Ferragamo Retail HK Limited	HKD	493,205	(65,271)	169,927	489,275	(41,944)	235,199
Ferragamo Retail Taiwan Limited	TWD	715,439	2,028	320,020	805,948	(4,105)	316,705
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,161,807	83,280	461,264	1,043,591	93,260	376,301
Ferragamo Retail Nederland B.V.	EURO	6,058	(97)	2,501	5,650	270	2,598
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	1,048,594	35,633	410,543	972,176	16,786	374,910
Ferragamo (Singapore) Pte Ltd.	SGD	38,550	(8,161)	(5,419)	41,707	(4,905)	2,742
Ferragamo (Thailand) Limited	THB	208,193	(30,897)	31,501	215,207	(18,783)	62,169
Ferragamo (Malaysia) Sdn Bhd	MYR	51,518	(178)	22,340	46,291	(1,666)	22,518
Ferragamo Hong Kong Ltd.	USD	237,046	18,036	208,206	272,329	27,413	217,521
Ferragamo USA Group	USD	362,674	(5,751)	87,586	370,989	(8,173)	93,273
Ferragamo Deutschland GmbH	EURO	11,566	(1,596)	9,668	12,431	(692)	11,263
Ferragamo Belgique SA	EURO	1,626	(124)	1,146	1,845	(54)	1,270
Ferragamo Monte-Carlo S.A.M.	EURO	881	(247)	752	1,096	(116)	998
Ferragamo (Suisse) SA	CHF	9,708	(1,454)	2,909	8,975	(103)	4,363
Ferragamo U.K. Limited	GBP	22,356	267	8,806	17,146	(1)	8,538
Ferragamo France S.A.S.	EURO	22,037	213	10,004	23,369	(542)	9,773
Ferragamo Parfums S.p.A.	EURO	87,033	3,325	23,314	86,061	3,304	19,831
Ferragamo Chile S.A.	CLP	993,162	(89,943)	18,468	902,809	17,792	108,412
Ferragamo Austria GmbH	EURO	3,729	22	3,735	4,075	113	3,713
Ferragamo Retail India Private Limited	INR	306,708	(316,774)	(869,761)	437,330	(130,974)	(553,725)
Ferragamo Retail Macau Limited	MOP	141,644	(9,562)	82,399	150,126	(502)	91,961
Ferragamo Moda (Shanghai) Co.Ltd	CNY	239,649	(6,260)	(56,389)	252,775	(16,773)	(50,129)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	19,139	607	19,383	19,395	(8,990)	18,776
Ferragamo Argentina S.A.	ARS	24,054	(10,028)	(11,049)	23,782	(2,065)	(5,222)
Ferragamo Denmark ApS	DKK	4,766	(3,545)	4,674	5,382	(3,297)	719

8. Significant events occurred during the year

Shareholders' Meeting

- Approval of the 2016 Separate Financial Statements

On 27 April 2017, the Shareholders' Meeting of the Parent company Salvatore Ferragamo S.p.A. approved the financial statements for the year ended 31 December 2016 and the distribution of a dividend of 0.46 Euro per share, as detailed in the specific section "Dividends" in the Explanatory notes.

- Appointment of the Board of Statutory Auditors and of a Director

On the same date, the Shareholders' Meeting elected the members of the Board of Statutory Auditors, who shall remain in office for the next three years until the Meeting convened to approve the financial statements as at 31 December 2019, and fixed the number of Directors at 13 pursuant to the resolution of the Ordinary Shareholders' Meeting dated 24 April 2015. In addition, it appointed Eraldo Poletto, previously co-opted by the Board of Directors on 2 August 2016 to replace Michele Norsa, as Director. As agreed with the Company, Mr. Eraldo Poletto will finish his term as Director and Managing Director at the Board of Directors' meeting to be held on 8 March 2018 for the approval of the draft separate financial statements as at 31 December 2017.

- Authorization to purchase and dispose of Treasury shares

On 27 April 2017, 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 TUF, after withdrawing the resolution issued by the Shareholders' Meeting on 21 April 2016 (which expired on 21 October 2017). 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 27 October 2018).

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 27 April 2017, the 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 2017 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 TUF and article 84-quater as well as Annex 3A, Scheme 7-bis of CONSOB Regulation no. 11971/1999.

Board of Directors

On 27 April 2017, after the end of the Shareholders' Meeting, the Company's Board of Directors convened to appoint Director Eraldo Poletto as Managing Director.

At the same meeting, the Board of Directors named the Board of Statutory Auditors – elected by the Shareholders' Meeting on the same date – as the Company's Supervisory Body in accordance with Leg. Decree no. 231/2001.

- 2016-2020 Stock Grant Plan

At the meeting on 22 June 2017, the Board of Directors, as part of the 2nd cycle of the 2016-2020 Stock Grant Plan approved by the Shareholders' Meeting on 21 April 2016, following the positive opinion issued by the Nomination and Remuneration Committee on 20 June 2017, set and approved the Performance Targets for the Plan's 2nd cycle (2017-2019 performance period). With reference to said cycle, at the same meeting the Board granted 19 beneficiaries at Salvatore Ferragamo S.p.A. and its subsidiaries 290,000 rights to receive shares in Salvatore Ferragamo S.p.A. For the details of the Plan, see note 37 in the Explanatory notes to the consolidated financial statements and note 37 in the Explanatory notes to the separate financial statements.

Board of Statutory Auditors

The Acting Statutory Auditor Alessandra Daccò resigned, effective as from 11 October 2017. Pursuant to article 2401 of the Italian Civil Code and article 30 of the Company's Bylaws, the Substitute Statutory Auditor Paola Caramella took over as Acting Statutory Auditor, effective as from 11 October 2017 and until the next Shareholders' Meeting. She was selected from the same majority list submitted by the shareholder Ferragamo Finanziaria S.p.A. in which Alessandra Daccò had been included as a candidate at the Shareholders' Meeting of 27 April 2017.

Start of the process to sell the main assets of the subsidiary Ferragamo Retail India Private Limited, transfer Indian retail operations to third parties, and place the company in liquidation

At its meeting on 31 July 2017 the Board of Directors of Salvatore Ferragamo S.p.A. assigned a broad and separate mandate to the Chairman and Managing Director to negotiate the sale of the investment in Ferragamo Retail India Private Limited to third parties.

Since the sale appeared to be highly likely at 30 September 2017, in the Interim Report for the period ended on said date all the assets and liabilities of the Indian company were classified as assets and liabilities held for sale, as they met the requirements in IFRS 5. Subsequently, it emerged that it is impossible to sell the entire company because of, among other things, the cost of the guarantees required by the counterparty (with no limit in time or amount) to finalize the acquisition of the equity investment. Therefore, after due consideration, the Group decided to sell the main assets of Ferragamo Retail India Private Limited, such as the inventories of finished products, equipment, and the furniture of the Indian stores to a third party. Therefore, the following steps will be taken: (i) Ferragamo Hong Kong Limited shall enter into a franchising agreement with said third party for retail operations in India (ii) Ferragamo Retail India Private Limited shall terminate the lease agreements with the landlords, and the third party shall take over them, (iii) the third party shall hire part of the sales clerks, as resolved by Salvatore Ferragamo S.p.A.'s Board of Directors on 14 December 2017. As a result of these decisions, the inventories of finished products (net value of 944 thousand Euro) as well as the equipment and furniture (net value of 46 thousand Euro) of Ferragamo Retail India Private Limited were classified as held for sale financial assets in accordance with IFRS 5.

Always concerning the Group's Indian operations, at the meeting of 14 December 2017 Salvatore Ferragamo S.p.A.'s Board of Directors also resolved to:

- acquire the remaining 49% of Ferragamo Retail India Private Limited, currently owned by the local partner, after amending Ferragamo Retail India Private Limited's business purpose, excluding retail operations to overcome the restrictions that prevent a non-resident shareholder from acquiring more than 51% – the stake currently owned by Salvatore Ferragamo S.p.A. – of the entity;
- write off approximately 405 million Indian Rupees, i.e. nearly 5.393 million Euro, in trade receivables due from the subsidiary Ferragamo Retail India Private Limited: Salvatore Ferragamo S.p.A. allocated said amount to the Provision for bad debt in the Separate financial statements as at 31 December 2017;
- recapitalize the Indian entity to repay outstanding bank loans as well as payables due to third parties, including Salvatore Ferragamo S.p.A., as well as to pay the expenses associated with the Indian company's liquidation;
- place Ferragamo Retail India Private Limited in liquidation.

Tax and customs disputes and audits (update)

Following a documentary inspection started in July 2014, on 1 December 2015 the Regional Unit of the Tuscany Inland Revenue Office issued to Salvatore Ferragamo S.p.A. an assessment notice relating to the pass-through mechanism of taxation in Italy of the subsidiary Ferragamo Hong Kong Ltd. for the 2010 tax year, pursuant to Italian rules and regulations on controlled foreign companies. In the assessment notice, the tax base of Ferragamo Hong Kong Ltd. was redetermined and the credit for taxes paid abroad and used for tax return purposes was partly rejected, and more income tax (IRES) was claimed to the tune of around 170 thousand Euro, plus interest and sanctions for approximately 55 thousand Euro. On 2 May 2016, the Company appealed against the assessment notice, after the unsuccessful outcome of the assessment with acceptance process. On 29 September 2017, the Regional Unit of the Inland Revenue Office partially annulled the assessment notice, in compliance with Resolution no. 112/E of 11 August 2017, which was issued when the Regional Unit raised a query with the Regulatory Central Unit in relation to this case. The Company then settled the tax dispute for the residual part by paying 18 thousand Euro in additional tax liabilities (in addition to 9 thousand Euro which had already been paid as provisional amount of tax due), benefitting from the settlement of outstanding tax disputes as set out in art. 11, Law Decree no. 50 of 24 April 2017, converted with the relevant amendments into Law no. 96 of 21 June 2017, as already pointed out in the Interim report as at 30 September 2017.

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, once again 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. Following these findings, on 12 October 2016 the Regional Unit of the Tuscany Inland Revenue Office invited Salvatore Ferragamo S.p.A. to state any objections. On 27 October 2016, the Company submitted a statement of defense. 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. Also in this case, the assessment notice should be canceled pursuant to Resolution No. 112/E/2017.

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 two previous paragraphs. 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 submitted to the Tuscany Inland Revenue Office a request to obtain adjustment or cancellation of the tax assessment; at the same time 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.

With reference to the tax audit carried out on Ferragamo France S.A.S., relating to the tax years 2008-2010 that was started in 2011, and which was referred to in the Directors' report on operations of the 2013, 2014, 2015 and 2016 Consolidated Annual Report, it is recalled that the audit ended with an objection to the transfer pricing policy applied by the Parent company Salvatore Ferragamo S.p.A.. On 12 December 2012, after declining to change their position in order to reach a settlement, French tax authorities issued to the company two assessment notices, confirming their claims as redetermined during the proceeding. For Ferragamo France S.A.S. these claims would entail the payment of around 900 thousand Euro due to higher taxes on the company, penalties and interest for 2009 and 2010, as well as the redetermination of the taxable income for the years from 2011 to 2014 as a consequence of the cancellation of previous tax losses (amounting to around 8,925 thousand Euro), with a higher tax of 2,135 thousand Euro. After the administrative appeal was rejected, Ferragamo France S.A.S. filed an appeal with the administrative tax court. The ruling issued on 28 March 2017 dismissed all claims by French tax authorities, canceling the assessment notices for the years 2009 and 2010 and ordering them to pay 1,500 Euro in legal costs. On 26 July 2017, French tax authorities appealed against the decision to the Paris administrative Court of Appeal.

As already pointed out in the 2015 and 2016 Annual Reports, on 31 July 2015 Ferragamo France S.A.S. received notice of the opening of another general tax inspection relating to the years 2012 to 2014, which ended on 8 February 2016. The auditors have not raised any new objections. They simply rejected the use of past losses in the years 2013 and 2014 (as being subject to dispute following the previous tax audit concerning the years 2008-2010, referred to above), claiming higher taxes amounting to around 865 thousand Euro without sanctions. This proceeding entirely depends on the outcome of the outstanding dispute concerning the years 2008-2010. So far, the court has ruled in favor of Ferragamo France S.A.S.: a final victory for the Company would automatically cause the claims brought by French tax authorities at the end of the second audit to be dismissed.

Ferragamo France S.A.S. is still in talks with French tax authorities to settle the dispute.

On 18 October 2016, tax authorities started an audit of Ferragamo Deutschland GmbH concerning the company's income tax, local income tax, and VAT for the years between 2011 and 2014. The audit is still ongoing.

On 7 November 2017, tax authorities started an audit of Ferragamo Chile SA concerning the company's income tax for all the years in which it reported a tax loss without recognizing any deferred tax assets, as it did not expect to recover them. The audit is still ongoing.

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. Tax authorities visited the company's premises on 18 January 2018, and Ferragamo Japan K.K. is waiting to receive the audit closure report along with any potential objections.

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. The audit is ongoing.

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 transaction, 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, the company will appeal also against this assessment notice in accordance with the law.

Patent Box and Research and Development Tax Credit (update)

Concerning the optional preferential tax regime for income sourced from intangible assets (so-called Patent Box), previously described in the 2015 and 2016 Annual Report, it should be noted that on 29 December 2016, the Company entered into an advance pricing agreement with the Italian Inland Revenue Office for Advance Pricing Agreements and Disputes to determine the economic contribution in case of direct use of intangible assets. The agreement is effective for the fiscal years from 2015 to 2019 and can be extended for an additional five years. Under the agreement, Salvatore Ferragamo S.p.A. is entitled to the subsidy with reference to the income sourced from trademarks as well as designs and models. The agreement allowed Salvatore Ferragamo S.p.A. to file a supplementary tax return for IRES and IRAP purposes for the year 2015, claiming the additional deduction deriving from the agreement from taxable income. The change is calculated for each year in accordance with the pricing method set out in the agreement.

As from the fiscal year 2015, Salvatore Ferragamo S.p.A. benefits from the Research and Development Tax Credit, introduced by Art. 3 of Italian Law Decree no. 145/2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014. The tax benefit concerns the research and development expenditure incurred for the development of new products and IT systems and also applies to the 2016 and 2017 tax years.

The two tax benefits (Patent Box and R&D Tax Credit) are compatible and can be combined, as clarified in the Italian Inland Revenue Office's Circular no. 5/E of 16 March 2016.

International standard ruling on transfer pricing (update)

On 11 August 2014, Salvatore Ferragamo S.p.A. requested an international standard ruling from the Italian Inland Revenue Office – Central Assessment Department – International Ruling Office, pursuant to Art. 8 of Italian Law Decree no. 269 dated 30 September 2003 (converted into law no. 326/2003), as implemented by the Decision of the Head of the Inland Revenue Office dated 23 July 2004. The request concerned the transfer pricing policy Salvatore Ferragamo S.p.A. applies to its foreign subsidiaries that perform distribution operations, and the goal of the procedure is allowing tax authorities and the taxpayer to identify the appropriate applicable pricing method among those in the OECD Transfer Pricing Guidelines. On 5 September 2014, the International Ruling Office accepted the request, formally starting the international standard ruling procedure. This ended with the agreement signed on 28 July 2017, which is effective for the fiscal years from 2017 to 2021 and can be extended for a further five years. Under the agreement, the profitability of the foreign subsidiaries – calculated as the ratio of EBIT to revenues (Return on Sales, “RoS”) – must be within the free competition range set out in the ruling. Therefore, at the end of the year the Company may make profitability adjustments.

At the end of the first year of application, Salvatore Ferragamo S.p.A. calculated the EBIT Adjustments necessary to ensure that the profitability of the foreign subsidiaries covered by agreement is within the free competition range set out in the ruling for each geographic area. These adjustments caused Salvatore Ferragamo S.p.A. to recognize 41,801 thousand Euro in other operating costs and 2,493 thousand Euro in other income and revenues. For further details on the adjustments made, please refer to the section “Transactions with related parties” in the explanatory notes to the separate financial statements of Salvatore Ferragamo S.p.A..

9. Information on corporate governance and ownership structure

Disclosure pursuant to art. 123-bis of Italian Legislative Decree no. 58/1998 (TUF)

On 8 March 2018 the Board of Directors of Salvatore Ferragamo S.p.A. approved the annual report on corporate governance and ownership structure (the “Report”), which was prepared pursuant to art. 123-bis of the Consolidated Law on Finance (TUF).

The Report includes a description of the corporate governance system adopted by Salvatore Ferragamo S.p.A. (the Company), information on the ownership structure and on compliance with the Corporate Governance Code, the main governance policies in force as well as the characteristics of the risk management and internal control system in relation to the financial reporting process.

Corporate Governance

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 21 April 2016. 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 24 April 2015 according to the single list submitted by the majority shareholder Ferragamo Finanziaria S.p.A., except for the Director Eraldo Poletto. The latter was appointed by the Shareholders' Meeting on 27 April 2017 after being co-opted by the Company's Board of Directors pursuant to art. 2386 of the Italian Civil Code on 2 August 2016 to replace Director Michele Norsa. As announced by the Company, Director Eraldo Poletto will remain in office until the meeting of the Board of Directors of 8 March 2018 for the approval of the draft separate financial statements for 2017. Therefore, the Board of Directors currently consists of Ferruccio Ferragamo, Eraldo Poletto, Giovanna Ferragamo, Fulvia Ferragamo, Leonardo Ferragamo, Francesco Caretti, Diego Paternò Castello di San Giuliano, Peter K.C. Woo, Piero Antinori, Chiara Ambrosetti (Independent director), Lidia Fiori (Independent director), Umberto Tombari (Independent director), and Marzio Saà (Independent director).

This Board of Directors will serve until the date of the Shareholders' Meeting called to approve the separate financial statements for the year ended 31 December 2017, with the aforementioned exception of the Director Eraldo Poletto.

On 24 April 2015, the Shareholders' Meeting also confirmed, pursuant to article 17 of the Bylaws, Wanda Miletto 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 2017.

On 24 April 2015, the newly elected Board of Directors held its first meeting, confirming the appointment of Ferruccio Ferragamo as Chairman and Giovanna Ferragamo as Deputy Chairman. On 27 April 2017, after the Shareholders' Meeting appointed Eraldo Poletto to the Company's Board of Directors, the latter named him Managing Director.

It should be noted that at its first meeting on 24 April 2015, 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 Saà;
- confirm the appointment of a Risk and Control Committee, appointing as members the Independent directors Marzio Saà (Chairman), Umberto Tombari, and Chiara Ambrosetti, which is responsible also 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 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. The current Committee consists of the directors Ferruccio Ferragamo (Chairman of the Committee), Eraldo Poletto, Fulvia Ferragamo and Leonardo Ferragamo.

On 27 April 2017, the Board also confirmed the adjustment of the internal control and risk management system to the new provisions of the Corporate Governance Code and, in particular, it:

- confirmed, with the approval of the Control and Risk Committee, the Managing Director as the director responsible for the internal control and risk management system and adjusted his duties and responsibilities.

In addition, on 14 March 2017, the Board of Directors named Ugo Giorcelli CFO and Manager charged with preparing Company's Financial Reports pursuant to art. 154 bis of Italian Legislative Decree no. 58 of 24 February 1998. The appointment is effective from 15 March 2017.

Finally, on 27 April 2017 the Shareholders' Meeting elected the new members of the Board of Statutory Auditors for the 2017-2019 period based on a slate-voting system. The members shall remain in office until the Meeting convened to approve the financial statements as at 31 December 2019. Therefore, the members of the 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 Alessandra Daccò, Acting Statutory Auditors elected from the majority slate submitted by Ferragamo Finanziaria S.p.A.; Paola Caramella and Roberto Coccia, Substitute Statutory Auditors elected from the majority and minority slates, respectively. The Acting Statutory Auditor Alessandra Daccò resigned, effective as from 11 October 2017. Therefore, pursuant to article 2401 of the Italian Civil Code and article 30 of the Company's Bylaws, the Substitute Statutory Auditor

Paola Caramella took over as Acting Statutory Auditor, effective as from the same date and until the next Shareholders' Meeting. She was selected from the same majority list submitted by the shareholder Ferragamo Finanziaria S.p.A. in which Alessandra Daccò had been included as a candidate at the Shareholders' Meeting of 27 April 2017.

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 is appointed by the Managing Director and has the task of assisting him 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.

- Risk Manager

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 Managing Director, 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. Also the Group's head of compliance reports to the risk manager.

- 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. On 27 April 2017, the Board of Directors, deeming it still appropriate to streamline the internal control system, confirmed the Board of Statutory Auditors (appointed by the Shareholders' meeting held on the same date) as Supervisory Body pursuant to Leg. Decree no. 231/2001.

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.

Disclosure pursuant to art. 36 of the Markets Regulation

Salvatore Ferragamo S.p.A. adopted measures to comply with the provisions set out in article 36 of the Markets Regulation (CONSOB resolution no. 16191/2007, as subsequently integrated and amended); this Regulation governs the requirements for listing shares of companies which control entities that have been set up under and are governed by the law of Countries not belonging to the European Union and which are significant for the purposes of the consolidated financial statements. As at 31 December 2017 the aforementioned regulatory provision applied to the following foreign non-EU subsidiaries: Ferragamo USA Inc, Ferragamo Hong Kong Ltd, Ferragamo Fashion Trading (Shanghai) Co Ltd, Ferragamo Korea Ltd, Ferragamo Japan KK, Ferragamo Mexico S. de R.L. de C.V., Ferragamo Retail HK Limited, Ferragamo Retail Taiwan Limited, Ferragamo Singapore Pte. Ltd., Ferragamo Moda (Shanghai) Co. Ltd. and Ferragamo Australia Pty. Ltd..

In particular, Salvatore Ferragamo S.p.A.:

a) discloses, pursuant to the procedures and deadlines established by relevant regulations, the accounting records of the subsidiaries prepared for the purposes of drawing up the consolidated financial statements, including at least the statement of financial position and the income statement;

b) receives from the subsidiaries their bylaws and information about the structure and powers of the corporate bodies;

c) verifies that the subsidiaries:

- provide the Independent Auditors with the information they need to audit the annual and interim financial statements of the Holding company;
- adopt an administrative and accounting system that can ensure the regular provision to the management and to the Independent Auditors of the Holding company of the income, equity and financial data needed to prepare the consolidated financial statements.

In order to fulfill its own regulatory obligations, the Board of Statutory Auditors of the Parent company Salvatore Ferragamo S.p.A. has verified the suitability of the administrative and accounting system to duly provide management and the Independent Auditors of the Parent company Salvatore Ferragamo S.p.A. with the income, equity and financial data needed to prepare the consolidated financial statements and ensure the effective flow of information through meetings with both the Independent Auditors and the Manager charged with preparing Company's Financial Reports.

10. Other information

Financial reporting and Investor relations

Salvatore Ferragamo S.p.A., in order to maintain 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 continuous information exchange between the Group and financial markets.

Financial data, corporate presentations, interim reports, official press releases and updates in real time on the share price are available on the Company's website www.ferragamo.com in the section Investor Relations.

Stakes in Salvatore Ferragamo S.p.A.

As at 31 December 2017, Ferragamo Finanziaria S.p.A. held a majority stake in the share capital of Salvatore Ferragamo S.p.A. with 57.776% as per the communication of Ferragamo Finanziaria S.p.A. pursuant to art. 120 of the Consolidated Law on Finance.

Management and coordination

Salvatore Ferragamo S.p.A. is subject to the management and coordination of Ferragamo Finanziaria S.p.A. pursuant to art. 2497 and ff. of the Italian Civil Code. The Company complies with the requirements as set out in article 37 of the Markets Regulation for the listing of subsidiaries which are subject to management and coordination. In particular, it should be noted that Salvatore Ferragamo S.p.A.:

- (i) has fulfilled the disclosure obligations envisaged by article 2497-bis of the Italian Civil Code;
- (ii) has independent power to negotiate with customers and suppliers;
- (iii) has no centralized cash management arrangement with Ferragamo Finanziaria S.p.A.;
- (iv) has an internal control committee consisting of independent directors, pursuant to art. 148, paragraph 3 of the TUF and the relevant provisions of the Corporate Governance Code;
- (v) has a nomination and remuneration committee to appoint directors consisting of independent directors, pursuant to art. 148, paragraph 3 of the TUF and the relevant provisions of the Corporate Governance Code.

Domestic fiscal unity

Salvatore Ferragamo S.p.A. adopted the domestic fiscal unity provided for by articles 117 ff. of the TUIR- Presidential Decree no. 117 of 22 December 1986 with the Holding company Ferragamo Finanziaria S.p.A. as the consolidating company and Ferragamo Parfums S.p.A..

Shares held by Directors, Statutory Auditors and Managers with strategic responsibilities

For information relating to the Shares held by Directors, Statutory Auditors and Managers with strategic responsibilities, reference should be made to the Remuneration Report, prepared in accordance with art. 123-ter of the Consolidated Law on Finance, art. 84-quater and Annex 3A, Scheme 7-bis of CONSOB Regulation no. 11971/1999 as subsequently amended (the "Issuers' Regulation"), and art. 6 of the Corporate Governance Code, available on the Company's website www.ferragamo.com, in the section Investor Relations/Governance/Remuneration Report.

Treasury shares and shares or stakes in parent companies

On 27 April 2017, 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 21 April 2016), 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 27 April 2017, 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 27 April 2017, i.e. the date of the resolution of the Shareholders' Meeting, whereas there is no time limit for selling ordinary shares.

It should be noted that as at 31 December 2017, 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 Parent company Salvatore Ferragamo S.p.A. and 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 correctness/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.

Non-Financial Statement

The Directive 2014/95/EU ("Barnier Directive") introduced some non-financial disclosure requirements for large public-interest entities into Italian law. The Directive was transposed through Italian Legislative Decree 254/2016 and is effective for annual periods beginning on or after 1 January 2017. The non-financial statement includes information relating to environmental, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters that are material to an understanding of the reporting entity's performance, results, situation, and the impact of its operations.

The non-financial statement can be either a separate report or included in the director's report on operations. The Salvatore Ferragamo Group decided to publish a separate report named "2017 Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254 of 30 December 2016"; on 8 March 2018, Salvatore Ferragamo S.p.A.'s Board of Directors approved the "2017 Consolidated Non-Financial Statement" related to the consolidated information of the Salvatore Ferragamo S.p.A. Group, which is published on the Company's website www.ferragamo.com, in the section Investor Relations.

11. Human resources management and development

Attracting talent and developing people's potential in accordance with the principles of merit, equal opportunities, integration, and respect for diversity has always been strategically key to the Salvatore Ferragamo Group. To this end, in 2017 the MBO system was extended to a significantly larger number of managers at both the Parent company and the foreign subsidiaries. In addition, the Group activated an internal program to publish local and international job listings at the Group's companies.

Concerning employee training, the Parent company confirmed the Talent Management program, offering individual coaching to both managers and high-potential employees. In addition, the Group continued the induction training of both Italian and foreign employees, placing special emphasis on brand heritage promotion, in partnership with the Ferragamo Foundation and the Salvatore Ferragamo Museum.

In 2017, the Group continued focusing on the values of integrity and honesty of its employees, implementing an anti-corruption policy to identify and prevent all potential incidents of corruption as well as a whistleblowing system that allows to anonymously report potential crimes or violations of internal regulations committed by employees.

To implement specific initiatives intended to improve the well-being of employees, the Parent company has launched a project to renovate the Osmannoro site and continued entering into agreements with local entities (banks, insurance companies, and others) as well as confirmed the flexible benefit plan for blue-collar and white-collar staff. In addition, the Parent company launched initiatives to promote a sustainable lifestyle with a special emphasis on mobility, such as "carpooling", "bike to work", and discounts on the purchase of alternative fuel vehicles.

The Salvatore Ferragamo Group considers safeguarding the occupational health and safety of its employees as well as collaborators, suppliers, and consultants a core value. The commitment to improving occupational healthiness is based on training, controls, and the promotion of a safety culture at all levels of the company. The goal is to ensure all employees achieve a good understanding of their role and responsibilities. The initiatives to constantly improve health and safety led the Company to achieve the BS OHSAS 18001 certification in 2017 for all Italian offices and stores.

Staff

Here below is the Group's staff divided by category as at 31 December 2017 and 31 December 2016.

Staff	31 December 2017	31 December 2016
Top managers, middle managers and store managers	762	761
White collars	3,143	3,072
Blue collars	278	271
Total	4,183	4,104

The Parent company's staff as at 31 December 2017 totaled 951 staff members, up by 43 compared to 31 December 2016.

12. Environmental protection

The Group's business gives rise to limited environmental impact, but it has nonetheless always put environmental eco-sustainability at the heart of its development policies by promoting awareness-raising aimed at reducing consumption and encouraging energy saving with in-house initiatives. Over the years the Parent company Salvatore Ferragamo S.p.A. has installed at its Osmannoro-Sesto Fiorentino site photovoltaic systems and solar panels to produce electricity and hot water for the various buildings respectively, as it believes that the consequent environmental benefit is positive in terms of reduced CO2 emissions and reduced water consumption.

In addition, the Company implemented a geothermal heat pump for the multi-story building completed in 2015, which received the LEED PLATINUM certification – which it is pursuing also for the new logistics hub. In order to protect the environment, the Group decided to obtain the certification for the Environmental Management System, pursuant to the ISO14001:2015 standard, which monitors compliance with environmental legislation and has strengthened the relevant management activities (internal procedures, monitoring and control systems, containment systems, choice of contractors, etc.).

In 2017, the Company also extended the ISO 14064 certification already received in 2016 for the Salvatore Ferragamo Museum to the entire Palazzo Feroni premises. This certification requires accounting for the greenhouse gas emissions generated as part of the operations performed at the site concerned in order to monitor and reduce them.

Please refer to the Non-Financial Statement pursuant to Italian Legislative Decree no. 254/2016 for the year 2017 for all the relevant details.

13. 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 charged to the income statement under costs of production.

In 2017 these costs totaled 26,972 thousand Euro (of which 26,010 thousand Euro incurred by the Parent company) compared to 25,945 thousand Euro in 2016 (of which 25,518 thousand Euro incurred by the Parent company).

14. Transactions with related parties

In compliance with the provisions of the Regulation adopted by CONSOB with resolution no. 17221 of 12 March 2010 and subsequent amendments, the Company Salvatore Ferragamo S.p.A. adopted a Related Party Transaction Procedure ("Related Party Procedure") which was revised and updated on 13 November 2014 and is available on the website in the section Investor Relations/Governance/Corporate Governance/Procedures.

The main body responsible for the correct application of Salvatore Ferragamo S.p.A.'s Related Party Procedure is the Company's Board of Directors.

The Related Party Procedure identifies the principles adopted by the Company in order to guarantee the transparency and the actual and procedural fairness of transactions with related parties undertaken by the Company, either directly or through its subsidiaries.

In particular, it establishes the "larger" transactions which must be approved in advance by the Board of Directors on the basis of the grounded and binding opinion of the Committee responsible for transactions with related parties – which is identified in the Control and Risk Committee, except for resolutions on remuneration of Directors and Managers with strategic responsibilities for which the Nomination and Remuneration Committee is responsible – and which entail the disclosure of an information document. The other transactions, unless they fall in the residual category of low value transactions – i.e. those worth less than 100,000.00 Euro –

are defined as “smaller” transactions and can be executed subject to a grounded and non-binding opinion of the aforementioned Committee. In addition, the Related Party Procedure identifies the cases which are exempt from application of the procedure, including in particular ordinary transactions completed at market or standard conditions, transactions with or between subsidiaries and those with associated companies – provided that other related parties of the Company do not hold significant interests in these transactions – and low value transactions.

The Board of Statutory Auditors is responsible for overseeing the compliance of the Related Party Procedure with the principles indicated in the CONSOB Regulation and observance and correct application of the Procedure.

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

15. Main risks and uncertainties

Here below are the main risk factors to which the Parent company and the subsidiaries (the Group) are exposed, identified by type: strategic, operating, financial and compliance risks. For a description of the overall Risk management system through which risks are managed and controlled, reference should be made to the specific description in the Annual report on corporate governance and ownership structure.

Market and strategic risks

Market risks connected to social, economic and political changes

The luxury goods market, which is the key market for the Group's products, is highly dependent on disposable income and consumers' propensity to spend as well as the general economic trend. Political instability and/or economic recession in a geographical market which is significant for Group sales, and events that can undermine the confidence of the Group's target customers could have a negative impact on the income, financial and equity position of Group companies. This market is also closely connected to changes in consumption trends and changes in lifestyles.

Risks connected to the definition and implementation of strategies

In formulating its strategy, the Group takes into account some assumptions on the economic trend and on the development in demand for luxury goods in the various geographic areas and on the prospects for the potential locations in which to base its stores. The Group's ability to implement its strategy depends, among other things, on its ability to meet, through the development of its collections, the preferences of its customers and to launch communication campaigns aligned with its strategic positioning and brand awareness objectives. In addition, a risk factor is the competition for prestigious retail locations which could have an impact on fixed costs for new openings and renovation. Should the Group not be able to implement its strategy and/or should the underlying assumptions on which the Group has based its strategy prove not to be correct, the Group's business and prospects could be negatively affected.

Risks of natural or malicious events and the connected effects on equity or on the business

The widespread presence of the business and, above all, of the distribution network across the main countries worldwide exposes the Group to a variety of risks related to natural events, such as earthquakes, floods, etc., or malicious events, such as acts of terrorism, which could directly or indirectly damage the Group's assets, when such events cause significant economic losses and/or social unrest in the populations affected, with a consequent negative impact on demand in this geographic area and/or on the undertaking of the Group's activities.

Risks of events with an impact on the image and reputation of the brand

The Group's success depends on the image of its brand, which is influenced not only by internal factors relating to its own business, i.e. by the definition and implementation of its strategies, but also by a variety of external factors or events which may harm or damage the business ethics and values associated with the reputation of the brand. Internal risk factors include, by way of example, the perceived service quality and the attractiveness of products to customers, the implementation of commercial strategies and the excellence of the distribution service and the direct and indirect channels. Among external risk factors note should be taken, among others, of the increasing spread and use of easily accessible media channels that broaden their appeal to a large catchment area, the dissemination of information or news and possible crimes connected to the production chain although entrusted to external workshops, may have an indirect impact on the brand.

Risk connected to trade channels managed by third parties

Part of the distribution network for “Salvatore Ferragamo” branded products consists of stores managed by third parties with whom the Group generally has long-standing business relationships. As far as the wholesale channel is concerned, the Group's sector is characterized by a limited number of large operators, such as major department stores, mainly from the United States, but also important distributors and duty free and travel retailers. The lack of commercial relations with the main indirect distributors, the impossibility of developing new commercial relations, or a marked fall in the related revenues could impact the Group's business. In addition, the failure by indirectly managed stores to comply with a commercial policy that is in line with the brand's image could damage the brand's positioning, as well as the related sales.

Operating risks (connected to typical processes)

Dependence on key suppliers in the production process

The organizational model adopted by the Group entrusts the production process entirely to expert staff in external workshops, although keeping in-house the management and organization of the most important stages in the value chain. The outsourcing of the production process and the consequent possibility of the termination of dealings with third parties, owing to bankruptcy or discontinuance, and also due to default or voluntary interruption of the collaboration, could represent a going-concern risk in particular business areas, at least in the short term. In addition, any interruption in the relationship with these external subjects could lead to issues relating to claims of alleged employment and operational dependence which such external subjects could raise, should the Group consider it advisable to discontinue the collaboration.

An additional risk is that connected with price fluctuations relating to the availability of high-quality raw materials or supply-side competitive tensions, resulting in additional costs to the Company.

Risks relating to the protection of intellectual property and parallel market rights

The risk relates to the possibility that counterfeit products are illegally marketed and the possibility of third parties using the trademark or the corporate name improperly or for purposes not permitted by current regulations on the protection of intellectual property rights. The risk of violation of the intellectual property rights of products and the brand held by the Group is amplified via the Internet through their improper use on third-party websites. This risk can take several forms: unauthorized e-commerce websites which sell official products; e-commerce websites which sell counterfeit products; and unauthorized use of the “Ferragamo” name in the website address. Finally, legal protection cannot, in any case, prevent the possibility that Salvatore Ferragamo brand products sold to wholesale customers are then sold on so-called parallel channels, with possible repercussions on the corporate image as a result of the lack of control over these retail sales by a commercial policy that is in line with the brand image developed by the Group, as well as a negative impact on Group revenues.

Risks connected to the adequacy of the governance system of subsidiaries and to organizational development that is in line with the Group's growth

The risk is connected to the possibility that the governance system of subsidiaries, whether wholly or partially owned, or the instruments adopted for its implementation are not adequate or do not allow the activities undertaken by local managers to be maintained in line with the policies or expectations of the Group's top management. The risk of an inadequate organizational model relates also to the possibility that the macro and micro organizational systems do not provide the best possible support for the company's activities in order to achieve the defined business goals.

Risk of loss of key resources and know-how

The risk is connected to the significant dependence which the Group may have in regard to some managers who are currently considered strategic resources, since they cannot be easily or rapidly replaced by internal or external staff. The ending of the contribution of such staff members could lead to missed business opportunities, lower revenues, higher costs or cause damage to the Group's image.

The risk of dependence on key staff is also connected to the potential loss of “technical know-how”, in reference to the possibility of seeing a gradual reduction or loss of the expertise and skills needed to manage design, development and production activities, in particular in regard to the Group's core business: the manufacture of footwear and leather goods. This risk is especially important in regard to the professional staff responsible for handling product development and industrial manufacture processes, in an external and local framework characterized by a gradual reduction in craftsmanship and professional skills.

IT security risks, data management and dissemination

Information Technology is today one of the key enablers for the achievement of corporate business goals. The IT risk is therefore connected to the significant dependence of the Group companies, and the relevant operational processes, on the IT component. Specifically, this means the risk of undergoing a financial loss or a loss of reputation and market share resulting from the possibility that a given threat, be it accidental or deliberate in

nature, exploits a vulnerability which is implicit in the technology or derives from the automation of corporate business processes, causing events that could compromise the security of the Company's data in terms of confidentiality, integrity and availability.

Financial risks

For information relating to the management of financial risks and for the other information provided for by IFRS 7, reference should be made to the specific section in the Explanatory notes to the consolidated and separate financial statements, at the end of the paragraph on accounting standards.

Exchange rate risk

The Group operates at the international level and is therefore exposed to risks deriving from exchange rate fluctuations, which affect the financial position and financial performance, due to the difference in the value of foreign currency costs and revenues compared to the moment in which pricing conditions were set, as well as because of the translation of trade or financial receivables and payables denominated in foreign currencies. In addition, by virtue of the fact that the Company prepares its consolidated financial statements in Euro, fluctuations in the exchange rates used to translate the financial statement data of subsidiaries which were originally expressed in a foreign currency could have a significant impact on consolidated results, net financial position, net financial debt, and shareholders' equity as expressed in Euro in the Group's financial statements, and financial ratios.

Counterparty risk

The credit risk connected to financing, investing and operating activities in derivatives to hedge the exchange rate risk is represented by the inability of the counterparty or the issuer of the instruments to meet their obligations. The credit risk regarding the Group's other financial assets, consisting of cash and cash equivalents, available-for-sale financial assets and some derivatives, has a risk equal to the book value of these assets in case of insolvency of the counterparty.

Credit risk

The Group's exposure to trade credit risk refers exclusively to wholesale sales and the receivables associated with licensing revenues, which combined represent nearly one-third of global turnover; the rest refers to retail sales, which are usually paid with cash or credit and debit cards at the time of purchase.

Interest rate risk

Movements in market interest rates affect the level of net financial charges and the market value of financial assets and liabilities. The Salvatore Ferragamo Group is mainly exposed to the risk of recording on the income statement an increase in financial charges due to an unfavorable change in interest rates. Group companies use third-party financial resources largely in the form of floating rate bank debt and deploy the available liquidity mainly in money market instruments. Changes in market interest rates only affect the cost of loans and the yield on uses and thus the level of the Group's financial charges and income, and not their fair value.

Liquidity risk

Liquidity risk represents the risk that the Group cannot meet its financial obligations due to problems in obtaining funds at current market price conditions or in liquidating assets on the market to find the necessary financial resources. The first consequence is a negative impact on the income statement, should the Group be forced to incur additional costs to meet its commitments. The factors which mainly influence the Group's liquidity are the resources generated or absorbed by current operating and investing activities, the possible distribution of dividends and the expiry and possibility of renewal of debt or the expiry and possibility of liquidation of financial investments of surplus cash.

Compliance risks

Tax risk

The Salvatore Ferragamo Group has subsidiaries in over 25 countries worldwide and, therefore, its tax returns and obligations are usually subject to assessments by the tax authorities of the various countries. In addition, due to the high number and value of transactions between Group companies, the compliance of the amounts envisaged for such transactions to local and international rules and principles on transfer pricing is subject to assessment and adjustment by tax authorities. The instruments adopted by the management to limit tax risk for both tax compliance and transfer pricing cannot completely rule out the risk of tax assessments, especially taking into account the lack of clear and established regulation of transfer pricing in local legal provisions and procedures.

Risk relating to non-compliance with rules and regulations

The Group is subject, in the various jurisdictions where it operates, to legal provisions – including tax provisions which are described separately – and to technical rules which are applicable to the products manufactured and their distribution.

In terms of risk, of particular importance are the rules which became applicable to the Parent company as a result of its status as a company listed on the Italian stock market (regulations were issued by market supervisory and regulation authorities, e.g. CONSOB), along with other regulations such as, among others, consumer protection, intellectual and industrial property rights and healthy competition, protection of health and safety of employees and the environment, privacy, the administrative responsibility of public entities as provided for by Italian Legislative Decree 231/01, responsibility under Law 262/05 and industrial compliance concerning the conformity of distributed finished products and raw materials used in relation to the standards provided for by law.

Almost all products manufactured and sold by the Group are made in Italy, except for a very limited range of products manufactured abroad to take advantage of local traditions and quality (for example "Swiss Made" watches). This is considered a competitive advantage compared to rival products which cannot make the same claim.

A change in the law on the origin of goods could, however, change the current identification requirements for "Made in Italy" products. It is impossible to rule out the risk of potential violation of the "Made in Italy" identification requirements by external workshops or suppliers to whom the realization of the finished products is outsourced, in particular in cases in which a production stage is further subcontracted. The application of new rules and regulations or changes to the law in force, which could lead to a delay in adjusting structures in order to ensure compliance with the new or subsequent requirements, result in further exposure to the risk of sanctions due to failure to comply with such provisions.

16. Significant events occurred after 31 December 2017

On 27 February 2018, Salvatore Ferragamo S.p.A. announced that, as mutually agreed by the parties, Mr. Eraldo Poletto will finish his term as Director and Managing Director of the Company at the Board of Directors' meeting to be held on 8 March 2018 for the approval of the draft separate financial statements for 2017.

17. Macroeconomic situation and outlook

2017 saw moderate economic growth across the globe: the positive data of the last few months of the year and the strengthening of the manufacturing industry in both advanced and emerging countries laid the foundations for the world economy to continue growing also in 2018. Overall, monetary policies are still expansionary even though inflation remains generally elusive – especially in advanced economies: while the prices of raw materials (chief among them oil) rose during the year, wage growth has remained subdued even where unemployment is now back to normal levels; the ongoing changes in distribution models, the impact of new technologies and the expansion of e-commerce are compressing profit margins. At the moment, there are no threats to financial stability that could undermine the expansionary cycle, even though risk premiums are excessively compressed; after several years, the different classes of market participants have high expectations. Geopolitics is the main uncertainty for the outlook, given the several sources of instability across the world.

In the United States, growth is being driven by all components of domestic demand. The job market is near full employment, but hourly wages remain flat and inflation remains below the target of the Federal Reserve – which, however, is expected to continue normalizing its monetary policy. The impact of the tax reform is yet to be determined. The relationships between the United States and North Korea, China, and Mexico as well as the tensions between Saudi Arabia and Iran could negatively affect markets.

In Europe, GDP growth is still stronger than expected and steadily above 2.0%, as well as spread more evenly across core and peripheral countries. Macroeconomic and confidence indicators are positive; the investment cycle has restarted, but the main driver is still represented by domestic demand; the appreciation in the Euro's effective exchange rate will weigh on exports. Inflation expectations remain muted. In 2018, the European Central Bank will likely wind down its Quantitative Easing; interest rates will remain low even after the end of the asset purchase program. After the French vote, the destabilizing impact of the election cycle in the Eurozone has either significantly abated – despite the current political stalemate in Germany – or remained limited to specific places, such as Catalonia. Italy's upcoming elections could put pressure on the country's sovereign debt, but not to the point of jeopardizing the current economic recovery. A hard Brexit could cause turmoil – even beyond the Euro area.

In Japan, GDP has been growing for six consecutive quarters, and the trend is expected to continue through the end of 2018 thanks to domestic demand and exports. Inflation remains extremely weak despite the Bank of Japan's ultra-loose monetary policy. The risks are represented by the constitutional reform as well as the tensions with North Korea.

Chinese growth and confidence indexes are at around 6.8%, in line with the government's targets. The acceleration in the service industry has offset the slowdown in manufacturing. The real estate market seems to be going through a correction driven by the decline in the money supply, even though credit remains widely available. Monitoring financial risk is high on the agenda of regulators.

After the slowdown and recession of 2016, emerging countries grew by more than 4.0% in 2017, and the trend is expected to continue into 2018: the renewed momentum of global trade, and especially the steady increase in Chinese imports, are benefiting manufacturing economies that export to the Far East as well as commodity-producing countries; developing economies, which have large debts denominated in US dollars, reacted to the Federal Reserve's tightening in a more orderly fashion than in the past. If China manages to pull off a stable recovery, the outlook for these economies should improve further, while the adoption of protectionist measures in the US represents a risk.

Despite the above macroeconomic uncertainty, the luxury sector is growing at a moderate rate, driven especially by Chinese demand in the domestic and international market as well as the travel retail channel. If the US Dollar continues depreciating steadily in 2018, this could negatively affect the Ferragamo Group's performance.

The Salvatore Ferragamo Group expects the current transition phase to continue into 2018 and will go ahead with the investments necessary to revamp the Brand and optimize processes.

The negative trend registered late last year continued into early 2018 because of, among other things, the negative impact of the strong Euro as well as the channel mix.

***18. Separate Financial Statements as at 31 December 2017 of Salvatore Ferragamo S.p.A.
– Proposal for approval***

Dear Shareholders,
having completed the report and relying on your approval to the structure and basis of presentation of the separate financial statements for the year ended 31 December 2017, we:

- 1) submit the 2017 Separate Financial Statements to your approval;
- 2) propose to allocate the profit for 2017 of 113,012,652 Euro as follows:
 - a) to Shareholders a gross dividend of 0.38 Euro for each of the 168,790,000 ordinary shares for a total of 64,140,200 Euro;
 - b) the remainder amount, equal to 48,872,452 Euro, to the Extraordinary Reserve.

Florence, 8 March 2018

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Salvatore Ferragamo Group

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Financial statements

Consolidated statement of financial position – assets

(In thousands of Euro)	Notes	31 December 2017	of which with related parties	31 December 2016	of which with related parties
NON CURRENT ASSETS					
Property, plant and equipment	5	249,600		243,692	
Investment property	6	6,139		7,350	
Intangible assets with a finite useful life	7	43,593		37,576	
Available-for-sale financial assets	8	-		20	
Other non current assets	9	4,963		7,395	
Other non current financial assets	10	15,981	4,716	17,278	1,552
Deferred tax assets	34	79,624		110,277	
TOTAL NON CURRENT ASSETS		399,900	4,716	423,588	1,552
CURRENT ASSETS					
Inventories	11	325,516		374,710	
Trade receivables	12	148,583	116	179,678	69
Tax receivables	13	27,654		31,854	
Other current assets	14	67,556	21,576	67,898	32,410
Other current financial assets	15	341		264	
Cash and cash equivalents	16	212,088		117,249	
TOTAL CURRENT ASSETS		781,738	21,692	771,653	32,479
Assets held for sale	17	990		-	
TOTAL ASSETS HELD FOR SALE		990		-	
TOTAL ASSETS		1,182,628	26,408	1,195,241	34,031

Consolidated statement of financial position – liabilities and shareholders' equity

(In thousands of Euro)	Notes	31 December 2017	of which with related parties	31 December 2016	of which with related parties
SHAREHOLDERS' EQUITY					
GROUP SHAREHOLDERS' EQUITY					
Share capital	18	16,879		16,879	
Reserves	18	586,730		474,275	
Net profit/(loss) – Group		118,641		201,984	
TOTAL GROUP SHAREHOLDERS' EQUITY		722,250		693,138	
MINORITY INTERESTS					
Share capital and reserves – minority interests		30,539		33,102	
Net profit/(loss) – minority interests		(4,358)		(3,626)	
TOTAL MINORITY INTERESTS		26,181		29,476	
TOTAL SHAREHOLDERS' EQUITY		748,431		722,614	
NON CURRENT LIABILITIES					
Non current interest-bearing loans & borrowings	24	14,814		-	
Provisions for risks and charges	19	13,794		14,328	
Employee benefit liabilities	20	11,509		12,283	
Other non current liabilities	21	59,067		60,756	
Other non current financial liabilities	22	93		355	
Deferred tax liabilities	34	8,235		6,561	
TOTAL NON CURRENT LIABILITIES		107,512	-	94,283	-
CURRENT LIABILITIES					
Trade payables	23	203,613	440	180,256	513
Interest-bearing loans & borrowings	24	66,529		121,251	
Tax payables	25	19,772		21,615	
Other current liabilities	26	33,269	1,527	51,317	3,760
Other current financial liabilities	27	3,502		3,905	
TOTAL CURRENT LIABILITIES		326,685	1,967	378,344	4,273
TOTAL LIABILITIES		434,197	1,967	472,627	4,273
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,182,628	1,967	1,195,241	4,273

Consolidated income statement

(In thousands of Euro)	Notes	2017	<i>of which with related parties</i>	2016	<i>of which with related parties</i>
Revenues from sales and services		1,380,779	309	1,424,969	233
Rental income investment properties		12,693		12,954	
Revenues	29	1,393,472		1,437,923	
Cost of goods sold	30 - 31	(494,755)		(472,808)	
Gross profit		898,717		965,115	
Style, product development and logistics costs	30 - 31	(44,151)	(1,246)	(44,167)	(1,655)
Sales & distribution costs	30 - 31	(474,674)	(22,949)	(469,191)	(22,641)
Marketing & communication costs	30 - 31	(70,708)	(80)	(71,217)	(54)
General and administrative costs	30 - 31	(115,682)	(7,844)	(113,663)	(12,224)
Other operating costs	30 - 31	(19,183)	(110)	(20,098)	(140)
Other income and revenues	32	11,735	30	13,949	18
Operating profit		186,054		260,728	
Financial charges	33	(52,079)		(42,527)	
Financial income	33	39,370	-	27,472	
Profit before taxes		173,345		245,673	
Income taxes	34	(59,062)		(47,315)	
Net profit/(loss) for the period		114,283		198,358	
Net profit/(loss) – Group		118,641		201,984	
Net profit/(loss) – minority interests		(4,358)		(3,626)	

(In Euro)	Notes	2017	2016
Basic earnings per share – ordinary shares	35	0.703	1.197
Diluted earnings per share – ordinary shares	35	0.703	1.197

Consolidated statement of comprehensive income

(In thousands of Euro)	Notes	2017	2016
Net profit/(loss) for the period (A)		114,283	198,358
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>			
- Currency translation differences of foreign operations	18	(32,365)	10,543
- Net gain/(loss) from cash flow hedge	3	27,663	(2,870)
- Income taxes		(6,639)	472
		<u>21,024</u>	<u>(2,398)</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		(11,341)	8,145
<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	20	278	(677)
- Income taxes		(92)	81
		<u>186</u>	<u>(596)</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		186	(596)
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		(11,155)	7,549
Total comprehensive income for the period, net of taxes (A+B)		103,128	205,907
Group		109,605	209,513
Minority interests		(6,477)	(3,606)

Consolidated statement of cash flows

(In thousands of Euro)	Notes	2017	of which with related parties	2016	of which with related parties
NET PROFIT / (LOSS) FOR THE PERIOD		114,283		198,358	
Adjustments to reconcile net profit (loss) to net cash provided by/ (used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	5-6-7	62,454		63,101	
Allocation / (use) of deferred taxes	34	21,811		1,261	
Provision for employee benefit plans	20	827		792	
Allocation to / (use of) the provision for obsolete inventory	11	3,851		169	
Losses and provision for bad debt	12	466		2,494	
Losses / (gains) on disposal of tangible/intangible assets		1,077		619	
Other non-monetary items		1,423		2,047	
Changes in operating assets and liabilities:					
Trade receivables	12	28,381	(47)	(10,636)	10
Inventories	11	18,605		(16,191)	
Trade payables	23	15,038	(73)	(22,100)	169
Tax receivables	13	2,511		(12,458)	
Tax payables	25	(769)		(1,117)	
Employee benefits payments	20	(961)		(974)	
Other assets and liabilities*		10,691	5,437	(42,871)	(44,643)
Other – net		(802)		(617)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES		278,886	5,317	161,877	(44,464)
Cash flow from investing activities:					
Purchase of tangible assets	5 -6	(60,147)		(55,118)	(13)
Purchase of intangible assets	7	(16,509)		(13,421)	
Net change in available-for-sale financial assets		5		-	
Proceeds from the sale of tangible and intangible assets		41		31	
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(76,610)	-	(68,508)	(13)
Cash flow from financing activities:					
Net change in financial payables*	16	(33,104)	-	(25,745)	-
Dividends paid to shareholders of the Parent company	36	(77,643)	(56,934)	(77,643)	(57,080)
Dividends paid to minority shareholders		-	-	(1,246)	
Purchase of minority interests in companies consolidated on a line-by-line basis		(804)		(15,537)	
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(111,551)	(56,934)	(120,171)	(57,080)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		90,725		(26,802)	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		117,249		142,121	
Increase/(decrease) in cash and cash equivalents		90,725		(26,802)	
Effect of exchange rate translation differences		4,114		1,930	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	16	212,088		117,249	
ADDITIONAL INFORMATION					
Interest paid		3,232		4,819	
Income taxes paid		28,767		108,108	
Interest received		629		546	
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 2016 by 907 thousand Euro accordingly.

Statement of changes in consolidated shareholders' equity

(In thousands of Euro) Note 18	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	-	-	-	-	-	-	-	-	-	118,641	118,641	(4,358)	114,283
Other comprehensive income/(loss)	-	-	-	-	21,024	(29,094)	(1,142)	-	176	-	(9,036)	(2,119)	(11,155)
Total comprehensive income (loss)	-	-	-	-	21,024	(29,094)	(1,142)	-	176	118,641	109,605	(6,477)	103,128
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	-	-	-	-	-	-	(3,720)	-	-	-	(3,720)	3,182	(538)
Stock Grant Reserve	-	-	-	-	-	-	-	870	-	-	870	-	870
As at 31.12.2017	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

(In thousands of Euro)	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 01.01.2016	16,879	2,995	4,188	191,676	(4,486)	(15,208)	182,959	14,780	(2,590)	172,733	563,926	44,815	608,741
Allocation of results	-	-	-	124,466	-	-	48,267	-	-	(172,733)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	201,984	201,984	(3,626)	198,358
Other comprehensive income/(loss)	-	-	-	-	(2,398)	10,063	447	-	(583)	-	7,529	20	7,549
Total comprehensive income (loss)	-	-	-	-	(2,398)	10,063	447	-	(583)	201,984	209,513	(3,606)	205,907
Distribution of dividends	-	-	-	-	-	-	(77,643)	-	-	-	(77,643)	(1,246)	(78,889)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	1,110	(4,460)	244	7	-	(3,099)	(10,487)	(13,586)
Stock Grant Reserve	-	-	-	-	-	-	-	441	-	-	441	-	441
Reclassifications	-	-	-	(60)	-	-	-	60	-	-	-	-	-
As at 31.12.2016	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

Explanatory notes to the consolidated financial statements

1. Corporate information

Salvatore Ferragamo S.p.A. is incorporated as a joint-stock company in Italy under Italian law and adopts a conventional organizational model, with the Shareholders' Meeting, the Board of Directors, and the Board of Statutory Auditors. The Company's Shares are listed on the Mercato Telematico Azionario (an electronic stock market) organized and managed by Borsa Italiana S.p.A..

The Salvatore Ferragamo Group is one of the main players in the luxury sector and dates back to 1927.

The consolidated financial statements for the year ended 31 December 2017 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 8 March 2018.

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

1.1 Management and coordination

Pursuant to art 2497 ff. of the Italian Civil Code, Salvatore Ferragamo S.p.A. is subject to management and coordination by Ferragamo Finanziaria S.p.A., whose consolidated financial statements are available at the registered office in Florence, Via Tornabuoni, 2.

In compliance with the provisions of art. 2497-bis, paragraph 4 of the Italian Civil Code, the key data from the financial statements of the Holding company Ferragamo Finanziaria S.p.A. as at 31 December 2016 and 2015 is given below.

Ferragamo Finanziaria S.p.A.	31 December	31 December
(In Euro)	2016	2015*
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	201,352,175	190,294,420
C) Current assets	57,979,981	48,630,145
D) Accrued expenses and deferred income	4,049	-
TOTAL ASSETS	259,336,205	238,924,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	134,325,990	129,593,530
- Profit (loss) for the year	41,699,767	40,131,470
B) Provisions for risks and charges	677,580	759,989
D) Payables	32,813,951	18,689,616
E) Accrued expenses and deferred income	68,957	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	259,336,205	238,924,565
Guarantees, commitments and other risks	-	-
INCOME STATEMENT		
A) Value of production	402,168	3,367,420
B) Costs of production	(1,975,976)	(2,141,586)
Difference between value and costs of production	(1,573,808)	1,225,834
C) Financial income and charges	42,536,331	39,072,940
Profit before taxes	40,962,523	40,298,774
Income taxes for the year, current and deferred	737,244	(167,304)
Profit (loss) for the year	41,699,767	40,131,470

*For comparative purposes only, the items of the statement of financial position and the income statement for the year ended 31 December 2015 have been restated, reclassified and modified in accordance with OIC 29 "Changes in accounting policies, changes in accounting estimates, corrections of errors, events after the reporting period".

2. Basis of presentation

Statement of compliance with IFRS

The Consolidated Financial Statements of Salvatore Ferragamo S.p.A. have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (“IASB”), adopted by the European Union and in force at the reporting date. The explanatory notes to the consolidated financial statements have been supplemented with the extra information requested by CONSOB and by the provisions it has issued in implementation of art. 9 of Italian Leg. Decree 38/2005 (resolutions 15519 and 15520) dated 27 July 2006 and communication DEM/6064293 dated 28 July 2006, pursuant to art. 78 of the Issuers’ Regulation, the EC document of November 2003 and, where applicable, the Italian Civil Code. The term “IFRS” used herein includes International Accounting Standards (“IAS”) which are still in force as well as all the interpretations issued by the IFRS Interpretation Committee, previously referred to as International Financial Reporting Interpretations Committee (“IFRIC”) and before that Standing Interpretations Committee (“SIC”).

Contents and structure of the consolidated financial statements

All amounts are expressed in Euro and are expressed in thousands of Euro, unless otherwise indicated.

The consolidated statement of financial position distinguishes between current and non current assets and liabilities, where:

- non current assets refer to positive balances to be realized after more than 12 months and include intangible, tangible and financial assets and deferred tax assets;
- current assets refer to positive balances to be realized within 12 months;
- non current liabilities refer to payables due after more than 12 months, including financial payables, provisions for risks and charges and employee benefit liabilities and deferred tax liabilities;
- current liabilities refer to payables due within 12 months, including the short-term portion of medium/long-term loans, provisions for risks and charges and employee benefit liabilities.

Differently from the separate financial statements of the Parent company Salvatore Ferragamo S.p.A., the consolidated income statements are shown in accordance with a classification of costs by function, which is considered more representative than the so-called presentation of costs by nature. The Group allocates costs by function using the cost centers that represent the function of the cost. The structure chosen is in line with internal reporting processes and business operations. The breakdown of costs by nature is included in the explanatory notes (note 31). The statement of cash flows has been prepared according to the indirect method and is presented in compliance with IAS 7, breaking down financial flows into operating, investing and financing activities.

It should be noted that in reference to CONSOB Resolution no. 15519 of 27 July 2006 and Communication no. DEM6064293 of 28 July 2006, the financial statements show significant transactions with related parties, in order to provide better disclosure.

Accounting standards

General notes

The Consolidated Financial Statements have been prepared according to the historical cost principle, except for derivatives and financial assets classified as held for sale, which are recorded at fair value and on a going concern basis. The accounting standards adopted in the consolidated financial statements as at 31 December 2017 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2017.

Discretionary valuations and significant accounting estimates

The preparation of the Consolidated Financial Statements 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;

- provisions for bad debt relating to wholesale sales, which are 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 notes 3 and 12;
- 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, as well as for marginal cases relating to the return of goods by customers;
- 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, which are measured using actuarial assumptions; for the main actuarial assumptions, reference should be made to note 20;
- 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, chief among them derivative instruments, which the Groups uses extensively to hedge exchange rate risk; for details about the assumptions underlying the measurement of fair value, reference should be made to notes 3 and 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 37.

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 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 calculation of the fair value less the costs of sale is based on the data available from transactions between free and independent parties involving similar assets or observable market prices, less the extra costs relating to the disposal of the asset. The value in use is calculated based on discounted cash flow models using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset.

The cash flows are taken from the business plans prepared by Top Management in compliance with the strategic guidelines submitted to the Board of Directors, which represent the best estimate made by the Company on the economic conditions set for the plan period. The plan forecasts refer to a time period of three years (of which the first budget year is approved by the Board of Directors), the long-term growth rate (g) – used to estimate the terminal value of the asset – for prudential reasons is lower than the long-term growth rate for the sector, country or reference market. Cash flows do not include restructuring activities for which the Company does not have a current obligation, or significant future investments which will increase the yield on the assets that make up the cash flow generating unit that is being valued. The recoverable amount is very dependent on the discount rate

used in the discounted cash flow model and also on the expected future incoming cash flows and on the growth rate used for the purposes of the extrapolation.

Disclosure on impairment

In the current economic scenario, although reassured by a positive trend in the economy, the Group considers disclosure regarding impairment of assets as particularly important. The Group has adopted a procedure to analyze indicators of impairment and a procedure for impairment testing. The results are listed in the notes relating to the individual assets.

Property, plant and equipment

Tangible assets are recorded at historic cost, including the additional costs directly attributable and necessary to use the asset for the purpose for which it has been bought. This cost includes the costs to replace part of the plant and equipment when incurred, if they comply with the recognition criteria. The net value (cost less accumulated depreciation and accumulated impairment) of parts of replaced plant and equipment is recognized in the income statement at the time of replacement.

Maintenance and repair expenses, which do not involve the creation of value from and/or extension of the residual life of the assets, are recognized in the income statement in the year in which they are incurred, otherwise they are capitalized.

Tangible assets are shown net of the related accumulated depreciation and any accumulated impairment determined in accordance with the method described below. Depreciation is calculated on a straight-line basis according to the estimated useful life of the asset for the company.

The useful lives of the main classes of tangible assets are as follows:

	Useful life
Buildings	33 years
Plant and Equipment	5-6 years
Industrial and commercial equipment	4-7 years
Other assets:	
- Office furniture and furnishings	5-8 years
- Electronic machines	3-5 years
- Historic collection	5 years
- Vehicles	3-4 years
Leasehold improvements	On the basis of the residual duration of the asset's lease contract

The residual value of the asset, its useful life, and the depreciation methods applied are reviewed at the end of each year and adjusted on a prospective basis if necessary.

Should significant parts of these tangible assets have different useful lives, these components are accounted for separately. Land, whether it is free of construction or attached to buildings, is recorded separately and is not depreciated since it has an unlimited useful life.

The book value of property, plant and equipment is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. If there is an indication of impairment and, should the book value exceed the presumed realizable value, assets are written down to reflect their realizable value. The realizable value of property, plant and equipment is the higher of the net sale price and the value in use.

In defining the value in use, the expected future cash flows are discounted using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset. The realizable value of an asset which does not generate broadly independent cash flows is determined in relation to the cash flow generating unit to which this asset belongs. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

At the time of its sale or when there are no future economic benefits expected from the use of the asset, the asset is eliminated from the statement of financial position and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized in the income statement in the year of the elimination.

Investment property

Tangible assets held for income purposes and not for instrumental use are shown in a specific item called "Investment property", in accordance with IAS 40, and are recognized at cost. The assets which fall under this category are represented by land and/or buildings (or parts of buildings) held by the owner or lessee under a financial or operating lease in order to lease them out.

These types of property are classified separately from other property assets held. Investment property is shown net of the relevant accumulated depreciation and any impairment. The useful life of Group investment property is 33 years.

The book value of investment property is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

Leases

The definition of a contract as a lease transaction (or as containing a lease transaction) is based on the content of the agreement and requires an assessment as to whether the fulfillment of the agreement depends on the use of one or more specific assets and whether the agreement transfers the right to use this asset. A review is undertaken after the beginning of the contract only if one of the following conditions occurs:

- a) change in the contract conditions other than a renewal or extension of the contract;
- b) exercise of a renewal option or grant of an extension, unless the terms of the renewal or extension were not initially included in the terms of the lease transaction;
- c) change in the condition under which fulfillment depends on the use of a specific asset; or
- d) substantial change in the asset.

In case of a review, the recognition of the lease will start or end on the date on which there is a change in the circumstances which gave rise to the review for scenarios a), c) or d) and on the date of renewal or extension for scenario b).

The Group as lessee

A lease contract is classified as a financial lease or an operating lease at the start of the lease. A lease contract which substantially transfers to the Group all the risks and benefits of ownership of the leased asset is classified as financial lease. Financial leases are capitalized at the start date of the lease at the fair value of the leased asset, or, if lower, at the present value of the lease payments. Lease payments are divided between capital and interest so as to ensure the application of a constant interest rate on the residual balance of the amount due. Financial charges are recognized in the income statement. Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract, leased assets are amortized over the shorter of the estimated useful life of the asset and the duration of the lease contract.

Payments on operating leases are recognized in the income statement on a straight-line basis over the duration of the contract.

The Group as lessor

Lease contracts in which the Group largely retains all the risks and benefits of ownership of the asset are classified as operating leases.

Lease payments are recognized on a straight-line basis over the duration of the lease contracts in place at the reporting date and, if they derive from investment property, they are classified under Rental income investment properties.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The acquisition cost is valued as the total of the transferred consideration measured at fair value at the acquisition date and the amount of any minority interests in the acquired company. For every business combination, the acquirer must assess any minority interests in the acquired company at fair value or in proportion to the share of minority interests in the net identifiable assets of the acquired company. Acquisition costs are recognized in the income statement under administrative costs.

Every potential consideration must be recognized by the acquirer at the fair value on the acquisition date. The change in the fair value of the potential consideration classified as a financial asset or liability pursuant to IAS 39 will be recognized in accordance with the provisions of IAS 39, in the income statement or in the statement of comprehensive income. If the potential consideration is classified as an equity instrument, its value is not remeasured and its discharge is recognized under shareholders' equity. When the contingent consideration is outside the scope of IAS 39, it must nonetheless be measured at fair value through profit or loss.

The goodwill acquired in a business combination is initially measured as the excess of the aggregate of the consideration transferred and the amount of any non-controlling interest over the fair value of the net identifiable assets acquired and the liabilities assumed by the Group.

This requires the fair value recognition of the identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the purchased company.

After the initial recognition, goodwill is valued at cost less accumulated impairment. For impairment test purposes, the goodwill acquired in a business combination is allocated, at the acquisition date, to the Group's individual cash flow generating units, or to groups of cash flow generating units which should benefit from the synergies of the combination, regardless of the fact that other Group assets or liabilities are allocated to these units or groups of units.

When the Group acquires a business, it must classify or designate the financial assets acquired or the liabilities assumed on the basis of the contractual terms, economic conditions and other pertinent conditions as they exist at the acquisition date. This includes a test to establish whether an embedded derivative must be separated from the primary contract.

In a business combination achieved in stages, the company shall remeasure its previously held equity interest at its fair value and recognize the resulting gain or loss, if any, in profit or loss.

If the goodwill has been allocated to a cash flow generating unit and the entity disposes of part of the assets of this unit, the goodwill relating to the disposed asset must be included in the book value of the asset when the gain or loss arising from the disposal is determined. The goodwill relating to the disposed asset must be determined on the basis of the values relating to the disposed asset and the part of the cash flow generating unit which is kept.

Business combinations between entities subject to joint control do not fall within the scope of application of IFRS 3. Should the business combination between entities subject to joint control not be of an economic nature but a mere corporate reorganization, the company will apply the business combination accounting method called "pooling of interest", thus aggregating the assets and liabilities to the book values on a line-by-line basis.

Intangible assets

Intangible assets are recorded among assets at purchase cost when the use of the asset is likely to generate future income and when the cost of the asset can be reliably established. Intangible assets acquired through business combinations are recorded at fair value as established at the acquisition date, if this value can be reliably established. Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life; the useful life is reviewed on an annual basis and any changes, where necessary, are applied on a prospective basis.

Intangible assets are shown net of the related accumulated amortization and any accumulated impairment determined in accordance with the method described below.

The useful lives of the main categories of intangible assets with a finite useful life are the following:

	Useful life
Industrial patents and intellectual property rights	2-5 years
Concessions, licenses and trademarks	10 years
	On the basis of the residual duration of the asset's lease contract

Key money

At the time of disposal of an intangible asset, the asset is eliminated from the statement of financial position and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized in the income statement when such asset is eliminated.

The book value of intangible assets is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

Development costs

Research costs are charged to the income statement when they are incurred.

Development costs incurred in relation to a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset in such a way as to make it available for use or for sale, as well as its intention to complete the asset in order to use it or sell it, the means by which it will generate probable future income, the availability of technical, financial or other resources to complete the development and its ability to make a reliable assessment of the cost attributable to the asset during its development.

During the development period, the asset is reviewed annually to assess any impairment. Following the initial recognition, development costs are assessed at cost less any accumulated amortization or impairment loss. Amortization of the asset starts when the development is completed and the asset is available for use. It is

amortized in reference to the period in which the project is likely to generate revenues for the Group. During the period in which the asset is not yet being used, it will be reviewed annually to assess any impairment.

Industrial patents and intellectual property rights

Industrial patents and intellectual property rights refer to costs for software licenses and to costs for the deposit and registration of trademarks and patents relating to Group products.

Concessions, licenses, trademarks and similar rights

This item refers to costs for the deposit and registration of the Salvatore Ferragamo trademark. Purchase costs are amortized over the useful life of the right purchased.

Other intangible assets with a finite useful life

This item mainly refers to the sums paid to lease property by taking over existing contracts or by obtaining the withdrawal of lessees so as to be able to enter into new contracts with the lessors (key money). These charges are amortized over the duration of the lease contract.

Financial instruments

Financial instruments are initially recorded at fair value and, following their initial recognition, are valued in relation to their classification, pursuant to International Accounting Standard 39. For financial assets, this treatment is differentiated among the following categories:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

In reference to financial liabilities, just two categories are available:

- Financial liabilities at fair value through profit or loss
- Liabilities at amortized cost.

The Group establishes the classification of its financial assets and liabilities when they are initially recognized.

The methods for determining fair value in reference to these financial instruments, for accounting or disclosure purposes, are summarized below in reference to the main financial instrument categories, to which they have been applied:

- Derivatives: adequate pricing models have been adopted, based on the market values of interest and exchange rates;
- Receivables and payables and unlisted financial assets: for financial instruments expiring after more than one year, the discounted cash flow method has been applied, i.e. the discounting of expected cash flows given current interest rate and creditworthiness conditions;
- Listed financial instruments: the market value at the reference date is used.

Elimination of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the statement of financial position when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred or maintained the right to receive the cash flows from the asset, but it is subject to the contractual obligation of paying them in full and without any delays to a third party; (a) it has transferred substantially all the risks and benefits relating to the ownership of the financial asset or (b) has not transferred substantially all the risks and benefits relating to the asset, but has transferred control of the asset.

When the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor maintained substantially all the risks and benefits or has not lost control over the asset, the asset is recorded in the Group's financial statements to the extent of the Group residual involvement in the asset itself. Residual involvement which takes the form of a guarantee over the transferred asset is valued at the lower of the initial book value of the asset and the maximum consideration which the Group might be required to pay.

When the residual involvement takes the form of an option which has been issued and/or acquired in relation to the transferred asset (including cash-settled or similar options), the Group's involvement corresponds to the amount of the transferred asset which the Group may repurchase; however, in the case of a put option issued over an asset measured at fair value (including cash-settled or similar options), the Group's residual involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Impairment of financial assets

The Group verifies at each reporting date whether a financial asset or group of financial assets has suffered impairment. A financial asset or a group of financial assets must be considered impaired if, and only if, there is objective evidence of impairment as the result of one or more events which have occurred since the initial recognition (when “an impairment event” occurs) and this impairment event has an impact, which can be reliably estimated, on the expected future cash flows of the financial asset or group of financial assets. Evidence of impairment may be indicators such as financial difficulties, the inability to meet obligations, insolvency in paying interest or major payments, which debtors, or a group of debtors, are experiencing, the likelihood that it will go bankrupt or be subject to some other forms of financial reorganization, and where observable data indicate that there is a measurable fall in estimated future cash flows, such as changes in circumstances or in economic conditions related to obligations.

Should financial assets be recorded at amortized cost, if there is objective evidence of impairment, the total loss is measured as the difference between the book value of the asset and the current value of the estimated future cash flows (excluding future expected bad debts which have not yet occurred). The current value of cash flows is discounted at the original effective interest rate of the financial asset. If a loan is at a floating interest rate, the discount rate for the assessment of any impairment is the effective current rate. The book value of the asset is reduced by using a provision for bad debt and the amount of the impairment is recorded in the income statement. In the case of equity instruments which are classified as available for sale, the objective evidence would include a significant or prolonged reduction in the fair value of the instrument to below its cost. ‘Significant’ is intended with respect to the original cost of the instrument and ‘prolonged’ is intended with respect to (the duration of) the period in which the fair value has been below the original cost. Where there is evidence of impairment, the cumulative impairment – measured as the difference between the purchase cost and the current fair value, less any loss for impairment of that financial asset which has already been recorded in the income statement – is reversed from the other items of the comprehensive income statement and is recorded in the income statement.

Elimination of financial liabilities

A financial liability is eliminated when the obligation underlying the liability is extinguished, cancelled or fulfilled.

Should an existing financial liability be replaced by another liability from the same lender at significantly different conditions, or should the conditions of an existing liability be substantially modified, this replacement or change is treated as an accounting elimination of the original liability and the recording of a new liability, with the recognition in the income statement of possible differences between the book values.

Available-for-sale financial assets

Available-for-sale financial assets are those financial assets, excluding derivatives, which have been designated as such or which are not classified in another financial instrument category. After their initial recognition, available-for-sale financial assets are valued at fair value and the gains and losses are recorded directly in the statement of comprehensive income. Investments in other companies, representing non current financial assets which are not held for trading (the so-called available for sale investments), are initially recognized at fair value. Subsequently, gains and losses deriving from changes in fair value are charged directly to shareholders’ equity until the assets are sold or impaired; in that moment overall gains or losses which have been previously recognized under shareholders’ equity are charged to the income statement for the period. Investments in other smaller companies for which the fair value cannot be reliably established, are recognized at cost, possibly written down for impairment.

Financial assets and other non current assets

These assets are valued based on amortized cost, using the effective interest rate method, net of any provision for impairment.

The amortized cost is calculated by considering all purchase discounts or premiums and includes fees, which are an integral part of the effective interest rate and of the transaction costs.

Trade receivables

Receivables are initially recognized at fair value, which generally corresponds to the nominal value and subsequently at amortized cost, except when the short duration of the receivables makes the application of the amortized costs negligible. They are written down in the case of impairment. In addition, they are adjusted to their presumed realizable value by recording a specific adjustment provision.

Other receivables and other financial assets

They are initially recognized at fair value and are subsequently valued using the amortized cost method.

Cash and cash equivalents

Cash and short-term deposits refer to cash on hand and sight/short-term deposits, in the latter case originally expiring in no more than three months.

Interest-bearing loans & borrowings

Loans are initially recognized at cost, corresponding to the fair value of the amount received, net of ancillary charges to take out the loan. Following initial recognition, loans are valued at amortized cost, using the effective interest method.

Inventories

Inventories are valued at the lower of purchase and/or production cost, determined using the weighted average cost method, and the net realizable value. Purchase cost includes ancillary charges; production cost includes direct costs and a share of indirect costs which may be reasonably attributable to products. The presumed net realizable value is the normal estimated sale price less the estimated costs to complete the product and the estimated costs to complete the sale.

Non current assets classified as held for sale

This item is composed of non current assets, whose book value will be recovered mainly through their sale rather than through their continued use. Assets classified as held for sale are valued at the lower of their net book value and their fair value net of sale costs.

Provisions for risks and charges

Provisions for risks and charges are allocated when the Group must meet a current (legal or implicit) obligation resulting from a past event, whose occurrence is deemed as likely and whose amount can be reasonably estimated.

When the Group believes that an allocation to the provision for risks and charges will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the compensation is recorded separately among assets if, and only if, it is almost certain. In this case, in the income statement the cost of any allocation is shown net of the amount recorded for the compensation.

If there is a significant effect from discounting the value of money, the allocations are discounted using a pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting is carried out, the increase in the allocation due to the passing of time is recorded as a financial charge.

Employee benefit liabilities

The Group's net obligation deriving from defined-benefit plans is calculated separately for each plan by estimating the amount of the future benefit which employees have accrued in return for the service provided in the current and previous years; this benefit is discounted in order to calculate the present value. Actuarial gains and losses are recorded directly in the statement of comprehensive income, as provided for by IAS 19.

Effective 1 January 2007, in Italy the 2007 Budget Law and the relevant enabling legislation have introduced significant changes to employee severance indemnities, requiring to allocate them to either supplementary pension schemes or the Treasury Fund of the Italian Social Security Institute (INPS). Starting from said date, in accordance with IAS 19, severance indemnities are classified as "Defined-contribution plans", while the amounts paid into the provision for employee severance indemnities up to 31 December 2006 still qualify as "Defined-benefit plans". The actuarial assessment of liabilities has been entrusted to independent actuaries.

Trade payables

Trade payables, whose expiry falls within normal conditions, are not discounted since the discounting effect on cash flows is negligible and they are recorded at their nominal value.

Derivatives

Derivatives are used solely with the purpose of hedging financial risks relating to exchange rate changes affecting commercial transactions in foreign currency.

In keeping with the provisions of IAS 39, hedge derivatives can be accounted for in accordance with the methods established for hedge accounting only when:

- at the start of the hedge, there is formal designation and documentation of the hedge itself;
- the hedge is likely to be highly effective;
- the effectiveness can be reliably measured; and
- the hedge itself is highly effective during the various accounting periods for which it is designated.

All derivatives are measured at fair value. When derivatives possess the necessary features to be accounted for in accordance with hedge accounting, the following accounting treatments are applied:

- Fair value hedge – if a derivative is designated as a hedge against changes in the current value of an asset or a liability which may have an impact on the income statement, the change in the fair value of the hedging instrument is recorded in the income statement and the change in the fair value of the hedged instrument attributable to the risk covered is recorded as part of the book value of the item being hedged and is also recorded in the income statement.
- Cash flow hedge – if a derivative is designated as a hedge against the changes in cash flows from an asset or liability or from a transaction which is considered as highly likely and which could affect the income statement, the effective portion of the gains or losses on the derivative is recorded under shareholders' equity and accounted for in the statement of comprehensive income; the accumulated gain or loss is reversed from shareholders' equity and charged to the income statement in the same period in which the hedged transaction is recorded; the gain or loss associated with a hedge or that part of the hedge which has become ineffective, is recorded in the income statement when its ineffectiveness is recognized.

Should the conditions to apply hedge accounting not occur, the effects arising from the fair value assessment of the derivative are charged directly to the income statement.

Fair Value

IFRS 13 establishes a single source of guidance for fair value measurement and for the relevant disclosures when such measurement is required or permitted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets or liabilities whose fair value is measured or recognized are categorized based on the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – valuation techniques using unobservable inputs for the asset or liability.

The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Revenues and costs

Revenues and costs are shown in accordance with the accruals principle.

Revenues are recorded if the relevant economic benefits are likely to be accrued by the Group and the related amount can be reliably determined, regardless of the date on which payment is received. Revenues are valued at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding taxes and duties. Revenues and income are recorded net of returns, discounts, allowances and premiums.

Sale of goods

Revenues for product sales are recognized when the Group has transferred to the purchaser all the significant risks and benefits related to the product ownership, i.e. at the time of the transfer of ownership, generally, corresponding to the shipment of goods.

Royalties

Revenues from royalties are recorded on an accrual basis in accordance with contract conditions.

Costs are recognized according to their nature considering the standards applicable under IFRS.

Advertising and research costs, in accordance with IAS 38, are charged in full to the income statement, when the service has been provided and delivered to the Group.

Share-based payment plans

The Group recognizes additional benefits to some employees, directors and collaborators with particular positions, through equity-settled share-based payments, which provide for the physical delivery of shares. In accordance with the provisions of IFRS 2 – Share-based payments – rights in favor of employees are valued at fair value when the beneficiary is informed of their allocation, and this value is determined using the binomial model. This model takes account of all the features of the rights (duration, exercise price and conditions, etc.), as well as the value of the underlying shares at the grant date and their expected volatility.

If the right can be exercised after a certain period (vesting period) and on the occurrence of specific performance conditions, the cost of transactions settled with equity instruments, together with the corresponding increase in shareholders' equity, is recorded in the period in which the conditions relating to the achievement of objectives and/or the provision of the service are satisfied, ending at the time the beneficiaries have fully accrued the right to receive payment ("vesting date").

At the end of each year, the fair value of the rights which has been determined previously is not reviewed, but on this date the estimate of the number of rights which will vest up to the expiry is updated. The accumulated costs recorded for these transactions at the end of each year up to the vesting date are proportionate to the expiries of the vesting period and to the best available estimate of the number of options which will actually vest. The cost or revenue recorded in the income statement for the year represents the change in the accumulated cost recorded at the start and at the end of the year.

No cost is recorded for rights which do not ultimately vest, except in the case of rights whose allocation is subordinate to market conditions.

The impact of the dilution of the rights not yet exercised is reflected in the calculation of the dilution of earnings per share.

Cash-settled transactions

In case of cash-settled share-based transactions, the cost of the cash-settled transactions is initially valued at the fair value at the date the beneficiary is informed of their allocation. This fair value is recognized in the income statement in the period until vesting, with the recognition of a corresponding liability. Until the liability is settled, the fair value is recalculated at each year-end date and at the settlement date, charging the related changes to the income statement.

Financial income and charges

Financial income and charges are recorded on an accrual basis according to the interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

Dividends

Dividends are recognized when the shareholders' right to receive payment arises.

Income taxes

Current taxes

Current taxes reflect a realistic estimate of the tax burden, determined by applying the rates and laws in force in the countries where the Salvatore Ferragamo Group operates; the amount payable for current taxes is recognized in the statement of financial position net of any tax advances paid.

Current taxes relating to items recorded directly under shareholders' equity or in the statement of comprehensive income are also charged directly to shareholders' equity or to the statement of comprehensive income.

Deferred taxes

Deferred taxes are calculated on the temporary differences existing at the reporting date between the fiscal values taken as a reference for assets and liabilities and the values recognized in the financial statements.

Deferred tax liabilities are recorded for all taxable temporary differences, except:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction, has no effect on the profit/(loss) for the year calculated for financial statement purposes or on the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences relating to investments in subsidiaries, associated companies and joint ventures, when the reversal of temporary differences may be managed and it is not likely to occur in the foreseeable future.

Deferred tax assets are recorded against all deductible temporary differences and for tax assets and liabilities which are carried forward, to the extent that adequate future tax profits are likely to exist which make it possible to use the deductible temporary differences and the tax assets and liabilities which have been carried forward, except when:

- the deferred tax asset connected to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, does not affect profit/(loss) for the year calculated for financial statement purposes or the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences relating to investments in subsidiaries, associated companies and joint ventures, deferred tax assets are only recorded to the extent that the deductible temporary differences are likely to be reversed in the immediate future and there are adequate tax profits against which the temporary differences may be used.

The value to be recorded for deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer likely that sufficient tax profits will be available in the future so as to allow all or part of this credit to be used. Unrecognized deferred tax assets are reviewed annually at the reporting date and are recorded to the extent that it has become likely that the tax profit is sufficient to ensure that these deferred tax assets can be recovered.

To determine whether taxable profit will be available against which a deductible temporary difference can be utilized, the entity shall consider whether local tax laws restrict the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.

Deferred tax assets and liabilities are measured on the basis of the tax rates which are expected to be applied in the year in which the assets are realized or the liabilities are settled, taking into account the rates in force and those already issued or basically issued at the reporting date.

Deferred taxes relating to items recorded directly under shareholders' equity or in the statement of comprehensive income are also charged directly to shareholders' equity or to the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

Revenues, costs and assets are recorded net of value added taxes except when:

- this tax, applied to the purchase of goods or services, is non-deductible, in which case it is recognized as part of the purchase cost of the asset or part of the cost item charged to the income statement;
- it refers to trade receivables and payables for which the invoice has already been issued or received and whose values are shown including the tax amount.

The net amount of indirect taxes on sales and purchases which may be recovered from or paid to the Inland Revenue Office is recorded among tax receivables or payables depending on the nature of the balance.

Earnings per share

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 year. For the purposes of calculating the diluted earnings per share, the weighted average number of the outstanding shares is modified by assuming the conversion of all potential shares with a diluting effect. The net result is also adjusted to take account of the impact, net of taxes, of the conversion.

Put and call agreements on minority interests

In the case of put options granted to minority shareholders, the Group recognizes a financial liability corresponding to the present value of the exercise price of the option. On initial recognition, this liability is reclassified from equity as a deduction from the minority interests if the terms and conditions of the put option already give the Group access to the economic benefits associated with the interest concerned by the option, therefore the Group accounts for this interest as if it was already acquired. The liability is subsequently remeasured at the end of each period in compliance with IAS 39. In the other cases, the accounting policy chosen by the Group provides for: a) the allocation of profit/(loss) to minority interests; b) the reclassification of minority interests under debt at the end of each accounting period as if the acquisition had occurred on that date; c) the recognition under shareholders' equity of every change in value in the liability.

Changes in international accounting standards

Amendments to IAS 12 Income taxes

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The amendments are effective for annual periods beginning on or after 1 January 2017, and early adoption is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment did not have any impact on the Group's consolidated financial statements.

Amendments to IAS 7 Statement of Cash Flows

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The amendments are effective for annual periods beginning on or after 1 January 2017, and early adoption is permitted. The Group added a table with the new information deriving from the amendment to IAS 7 in the Explanatory notes to the consolidated financial statements, note 16, providing such information also for the comparative period.

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

Standards issued but not yet in force

Set out below are the standards which, when preparing the Group's consolidated financial statements had already been issued but were not yet in force. The list refers to the standards and interpretations which the Group expects will in all likelihood be applicable in the future. The Group intends to adopt these standards when they come into 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 will adopt the new standard starting from its effective date and it will not provide 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. This assessment was based on currently available information and may be subject to change following a more in-depth analysis as well as in light of any additional information that may become available to the Group in 2018. In general, the Group does not expect material impacts on its statement of financial position and shareholders' equity, and anticipates

limited impacts from the implementation of the impairment requirements in IFRS 9. As discussed below, the Group expects it will not have to set aside an amount significantly different from the one resulting from current procedures to cover losses. In addition, the Group does not anticipate changes to the classification of financial instruments.

a) Classification and measurement

The Group does not expect the application of the classification and measurement requirements in IFRS 9 to materially affect its financial statements and 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 Company expects it will continue measuring at fair value all financial assets currently 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. The Group assessed the characteristics of the contractual cash flows of these instruments and concluded 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 will apply the simplified approach and will recognize the expected losses on all trade receivables based on their remaining life. At the moment, the Group has analyzed the historical default rate and the segmentation of the receivables portfolio based on credit risk characteristics (type of receivable, country risk, remaining life, and debt collection procedures used) to determine how the current impairment procedure must be adapted to match the requirements of the new standard. Considering the analyses carried out and the above observations, the requirements of IFRS 9 do not materially impact the Group's shareholders' equity – even though they require revising certain procedures.

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 was issued in May 2014 and introduces a new five-step model to be applied to revenue arising from contracts with customers, replacing all existing revenue requirements in IFRS (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). 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 is effective for annual periods beginning on or after 1 January 2018, with a full or modified retrospective application. Early adoption is permitted.

The Group will apply the new standard from the mandatory effective date, i.e. 1 January 2018. 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 Group estimates the impact to be immaterial. In addition, please note that the Group elected to use the modified retrospective application method during the transition period: therefore, it will not restate the comparative data (year 2017).

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 is not expected to have a significant impact on the Group. The Group expects that revenue will be recognized when control over the asset has been transferred to the customer, generally upon delivery as in the case of other currently applicable standards.

In addition, IFRS 15 requires to estimate variable consideration from the contract date and to consider it when control over the asset is transferred, and thus the right to receive the consideration arises. Therefore, the Group has considered whether the current portfolio of contracts with its main customers includes variable consideration and, if any, its nature, and looked at all available information and processes to assess any potential impact of the application of the new standard.

Finally, in identifying the different performance obligations, the Group identified the right of return as the reason for this impact.

- Right of return: When a contract with a customer includes a right to return the products, the Group currently recognizes the right of return using an approach based on the weighted average probability of return, which is similar to the expected value method set out in IFRS 15. Under IFRS 15, the

consideration received from the customer is variable because the contract allows the customer to return the products. The Group has not identified any changes in the estimate of variable consideration compared to the estimate made under the current accounting standards. When transitioning to IFRS 15, the Group will include: 2.2 million Euro worth of contract liabilities in Trade Payables, and 1.0 million Euro worth of contract assets in Inventories. The Group is considering whether to present a contract liability and a contract asset separately in the statement of financial position, as the estimated amounts are currently not considered material.

(b) 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 already allocated based on when the final service is rendered to the customer throughout the distribution chain. Therefore, the Group will not be affected by the application of IFRS 15.

(c) Presentation and disclosure requirements

The provisions in IFRS 15 concerning presentation and disclosure requirements, which are fundamentally new, are more detailed compared to existing standards. Considering that the analysis of the contracts and revenue streams shows 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), the Group does not expect to face significant implementation challenges concerning the inclusion of additional disclosures. In accordance with IFRS 15, the Group will disaggregate the revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. In 2017, the Group continued testing the systems, internal controls, policies, and procedures necessary to collect this information and provide the required disclosures.

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.

Lessor accounting in IFRS 16 is substantially unchanged from today's accounting under IAS 17, except for the fact that IAS 17 considers the substance of the transaction similar to the purchase of an asset, whereas IFRS 16 is based on the right to use a specific asset. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Group started collecting data and assessing all the Group's companies to estimate the impact of the new accounting standard on the financial statements and the reporting system concerning all lease agreements outstanding at 31 December 2017. This process will continue into 2018.

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 standard, and it will evaluate the impact of these amendments on its consolidated financial statements should the need arise in the future.

Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has postponed the effective date of these amendments indefinitely, but if an entity decides to apply them early, it should do so prospectively.

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 will adopt the amendments starting from their effective date. The Group currently does not fall under the scope of the standard, and it will evaluate the impact of these amendments on its consolidated financial statements should the need arise in the future.

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. Since its current accounting policy is aligned with the interpretation, the Group does not expect any impact on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12; it does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will adopt the interpretation starting from its effective date. Since its current accounting policy is aligned with the interpretation, the Group does not expect any impact on its consolidated financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendment clarifies that an entity shall apply IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. Early adoption is permitted. The Group will adopt the interpretation starting from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment clarifies that the measurement of the payment for the early termination of the contract by a lender is irrespective of which party pays or receives it. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. Early adoption is permitted. The Group will adopt the interpretation starting from its effective date.

Annual improvements cycle 2015-2017

These improvements include:

- IFRS 3 Business Combinations: The amendment clarifies that, when an entity obtains control of a business that is a joint operation, it shall remeasure its previously held interest in the joint operation;
- IFRS 11 Joint Arrangements: The amendment clarifies that, when an entity obtains joint control of a business that is a joint operation, it shall not remeasure its previously held interest in the joint operation;
- IAS 12 Income taxes: The amendment clarifies that an entity shall recognize all income tax consequences of dividends using the same method;
- IAS 23 Borrowing costs: The amendment clarifies that an entity shall treat any borrowing originally made to develop an asset as part of general borrowings when the asset is ready for its intended use or sale.

The amendment is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Group will adopt the interpretation starting from its effective date.

Consolidation area

The Consolidated Financial Statements as at 31 December 2017 contain 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. These are identified collectively as the Salvatore Ferragamo Group.

The Consolidated Financial Statements as at 31 December 2017 include the 2017 accounts of Group companies, which have been prepared by adopting the same accounting principles as the Parent company. Subsidiaries are those entities over which the Group has control, or when the Group is exposed to variable returns arising from its transactions with the entity, or can claim rights over such returns, and at the same time has the ability to influence such returns by exercising its influence over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the moment when the parent company starts to exercise control until such control ends. Should it lose such control, the Group eliminates the assets and liabilities of the subsidiary and any previous minority interests in shareholders' equity, including any other item of other comprehensive income relating to the subsidiary. Any profit or loss arising from the loss of control is recorded under net profit/(loss) for the year. Any equity investment in the former subsidiary is measured at fair value on the date of loss of control.

All intragroup balances and transactions, including any unrealized profits and losses deriving from transactions among Group companies, are completely eliminated.

Minority interests represent the part of profits or losses and of net assets not held by the Group and are shown in a separate item of the income statement, and in the statement of financial position among shareholders' equity items, separately from Group shareholders' equity.

Acquisitions of subsidiaries are recognized using the acquisition method, allocating the cost of the business combination at the fair values of assets, liabilities and contingent liabilities acquired at the acquisition date and including the result of the purchased company recorded from the acquisition date to the end of the year. Changes in the Group's stake in a subsidiary which do not cause the loss of control are recognized as equity transactions.

The following companies are included in consolidation as at 31 December 2017

The following companies are included in consolidation as at 31 December 2017						
Company name	Location	Currency	Share capital	31 December 2017		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	9,169,107	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)
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%		

– Through Ferragamo USA Inc.; 2 – Through Ferragamo Hong Kong Ltd.; 3 – Through Ferrimag Limited; 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.

During 2017 the Group structure underwent no changes.

It should be noted that the main assets of Ferragamo Retail India Private Limited have been classified as held for sale, in line with the requirements outlined in IFRS 5.

For further details reference should be made to the Directors' report on operations, section "Significant events occurred during the year".

Subsidiaries with material minority interests

In reference to subsidiaries with material minority interests here below are the main activities undertaken and the minority interest percentages as at 31 December 2017 and 2016.

Company	Activity	Minority interest (%)	
		31 December 2017	31 December 2016
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Retail and distribution company for the Chinese market	25%	25%
Ferragamo Retail HK Limited	Retail company for the Hong Kong market	25%	25%

The following tables provide the main economic and financial data of the subsidiaries with material minority interests. This information is based on the balances of the 2017 and 2016 accounts, which were drawn up for the purposes of preparing the consolidated financial statements, gross of intercompany eliminations.

(In thousands of Euro)

	Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Ferragamo Retail HK Limited
31 December 2017		
Non current assets	17,348	13,576
Current assets	93,508	20,810
Non current liabilities	1,335	4,203
Current liabilities	56,917	12,052
Shareholders' equity	52,604	18,131
Minority interests	16,591	3,493
Revenues	137,448	56,017
Profit for the year	4,671	(7,413)
Net profit/(loss) – minority interests	1,168	(1,853)
Total comprehensive income for the period	4,671	(7,413)
Comprehensive income attributed to minority interests	1,168	(1,853)
Net cash provided by (used in) operating activities	26,537	2,618
Net cash provided by (used in) investing activities	(3,933)	(7,438)
Net cash provided by (used in) financing activities	(16,421)	2,941
Increase/(decrease) in cash and cash equivalents	6,183	(1,879)
Dividends paid to minority interests	-	-

(In thousands of Euro)

	Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Ferragamo Retail HK Limited
31 December 2016		
Non current assets	20,371	10,539
Current assets	103,584	30,989
Non current liabilities	1,350	3,728
Current liabilities	71,389	9,030
Shareholders' equity	51,216	28,770
Minority interests	16,237	6,000
Revenues	132,229	56,944
Profit for the year	2,283	(4,882)
Net profit/(loss) – minority interests	571	(1,220)
Total comprehensive income for the period	2,283	(4,882)
Comprehensive income attributed to minority interests	571	(1,220)
Net cash provided by (used in) operating activities	11,835	(2,995)
Net cash provided by (used in) investing activities	(3,127)	(1,228)
Net cash provided by (used in) financing activities	(13,390)	3,125
Increase/(decrease) in cash and cash equivalents	(4,682)	(1,098)
Dividends paid to minority interests	-	-

IFRS 12 requires disclosure if there are legal, contractual and/or regulatory requirements as well as minority interest protection rights that may in some cases limit the Group's ability to access the assets or use them and cancel liabilities of the Group. An analysis of these cases does not show significant restrictions.

Translation of financial statements in currencies other than the Euro and of items denominated in foreign currency

The consolidated financial statements are expressed in Euro, which is the functional and presentation currency adopted by the Parent company. Every Group company establishes its own functional currency, which is used to value the items included in the individual reports. Transactions in foreign currency are initially recorded at the exchange rate in force at the transaction date (referred to the functional currency). Monetary assets and liabilities, which are denominated in foreign currency, are translated into the functional currency at the exchange rate in force at the reporting date.

All exchange rate differences are recorded in the income statement.

Non-monetary items which are valued at historic cost and denominated in foreign currencies are translated by using the exchange rates in force at the date of initial recognition of the transaction.

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 rates		Exchange rates at the end of the reporting period	
	31 December	31 December	31 December	31 December
	2017	2016	2017	2016
US Dollar	1.1297	1.1069	1.1993	1.0541
Swiss Franc	1.11167	1.09016	1.1702	1.0739
Japanese Yen	126.711	120.197	135.01	123.40
Pound Sterling	0.8767	0.8195	0.8872	0.8562
Danish Krone	7.4386	7.4452	7.4449	7.4344
Australian Dollar	1.4732	1.4883	1.5346	1.4596
South Korean Won	1,276.73	1,284.18	1,279.61	1,269.36
Hong Kong Dollar	8.8045	8.5922	9.3720	8.1751
Mexican Peso	21.329	20.667	23.6612	21.7719
New Taiwanese Dollar	34.351	35.6608	35.5658	34.1345
Singapore Dollar	1.5588	1.5275	1.6024	1.5234
Thai Baht	38.2958	39.0428	39.1210	37.7260
Malaysian Ringgit	4.8527	4.5836	4.8536	4.7287
Indian Rupee	73.5324	74.3717	76.6055	71.5935
Macau Pataca	9.059	8.841	9.6220	8.4189
Chinese Renminbi	7.6290	7.3522	7.8044	7.3202
Chilean Peso	732.49	748.13	736.51	707.679
Argentine Peso	18.738	16.324	22.624	16.715
Brazilian Real	3.6054	3.8561	3.9729	3.4305
Canadian Dollar	1.4647	1.4659	1.5039	1.4188

At the reporting date, the assets and liabilities of Group companies are converted into the Group's presentation currency (the Euro) at the exchange rate in force on that date, and their income statement is converted using the average exchange rate for the period. Translation differences are recorded directly under shareholders' equity, are shown separately in a specific reserve and are recognized in the statement of comprehensive income. On disposal of a particular foreign company, the accumulated translation differences which have been recorded as component of the statement of comprehensive income for that particular foreign company are recorded in the income statement.

Any goodwill resulting from the acquisition of a foreign company and any adjustment to fair value of the book values of assets or liabilities arising from the acquisition of that foreign company are recognized as assets and liabilities of the foreign company, are expressed in the functional currency of the foreign company and are translated at the exchange rate in force at the end of the period.

3. Management of financial risks (IFRS 7)

The Salvatore Ferragamo Group is exposed in different measure to the various financial risks related to its business, in particular to the market risk category which includes the following types of risk:

- interest rate risks relating to the impact of changes in market interest rates;
- exchange rate risks, due to operations in currency areas other than that of the accounting currency;
- liquidity risks relating to the availability of financial resources and the ease of access to the credit market and connected to the need to fulfill the Group's financial commitments in the short term;
- credit (or counterparty) risks, representing the risks of default on commercial or financial obligations assumed by the various counterparties and arising from normal commercial transactions or from use, financing and risk hedging activities.

Financial risks are managed on the basis of guidelines established by the Parent company, in compliance with the goals set centrally by the Board of Directors. This enables the control and coordination of the operations of the individual subsidiaries, also through more effective financial planning and control, the systematic monitoring of the Group's levels of exposure to financial risks as well as the trend in cash management, and the provision of useful indications in order to optimize the management of dealings with the reference credit institutions. In accordance with these directives, the Group specifically controls the management of individual financial risks and intervenes to contain their impact, also by using derivatives. Derivatives are used for hedging purposes only. In application of IFRS, some derivatives have been classified as held for trading, although they have been entered into solely for hedging purposes.

Financial liabilities mainly consist of trade payables and payables to banks and other financial payables. The management of these liabilities is largely aimed at financing the Group's operations.

Interest rate risk

Movements in market interest rates affect the level of net financial charges and the market value of financial assets and liabilities.

Interest rate risk can be classified as follows:

- flow risk, which refers to the variability in interest income and expense received and paid following changes in market interest rates;
- price risk, relating to the sensitivity of the assets and liabilities market value to changes in the level of interest rates (it refers to fixed rate assets or liabilities).

The Salvatore Ferragamo Group is mainly exposed to flow risk, i.e. to the risk of recording in the income statement an increase in financial charges due to an unfavorable change in interest rates. Group companies use third-party financial resources largely in the form of floating rate bank debt and deploy the available liquidity mainly in money market instruments. Changes in market interest rates only affect the cost of loans and the yield on uses and thus the level of the Group's financial charges and income, and not their fair value.

Bank debt is represented by both short-term and medium/long-term, floating-rate loans. The cost of bank debt is benchmarked to the market rate (generally Euribor/Libor or the benchmark of the loan currency on the specific interbank market) in the period increased by a spread which depends on the type of line of credit used. Drawdowns range from one day to a maximum of less than three years (term loan); the interest period and the market rate used (Euribor/Libor) does not exceed three months, including for drawdowns beyond the year. The margins applied are in line with best market standards.

Cash surpluses are used with reference banks in short-term time deposit transactions, referring to the Euribor/Libor rate for the period or the benchmark of the investment currency on the specific interbank market or in intercompany loans, regulated at current market conditions, in order to reduce the Group's exposure to the banking system, limit the counterparty risk as well as the impact of financial charges.

As part of the general policy of optimizing financial resources, the aim is to find a balance between companies with surplus liquidity and others with financial requirements, using the least costly forms of financing.

Sensitivity to interest rate risk is monitored at Group level, by keeping the overall exposure in due consideration, through coordinated management of debt and available liquidity and of the relevant due dates.

At the reporting date there were no outstanding interest rate risk hedge derivatives aimed at transforming floating rate debt into fixed rate debt, nor did the Group make use of such derivatives in the previous year.

Sensitivity Analysis

Sensitivity analysis of interest rate risk on floating rate items

(In thousands of Euro)	Underlying asset	Increase/reduction in underlying interest rates	Market risk Impact on the income statement
2017			
POSITIVE CHANGE	USD	0.13%	14
	CNY	0.25%	(41)
	INR	4.39%	(332)
	SGD	0.20%	(29)
		Total	(388)
NEGATIVE CHANGE	USD	(0.13%)	(14)
	CNY	(0.25%)	41
	INR	(4.39%)	332
	SGD	(0.20%)	29
		Total	388
2016			
POSITIVE CHANGE	USD	0.22%	12
	CNY	0.19%	(86)
	INR	2.71%	(220)
	SGD	0.03%	(4)
		Total	(298)
NEGATIVE CHANGE	USD	(0.22%)	(12)
	CNY	(0.19%)	86
	INR	(2.71%)	220
	SGD	(0.03%)	4
		Total	298

The sensitivity analysis of the interest rate risk to which the Group is exposed was undertaken by considering the financial statement items which give rise to floating rate interests and by assuming parallel increases or decreases in the benchmark interest rate curves by individual currency in proportion to the respective annual volatility observed on the market. The result of the analysis undertaken on risk factors which generate significant exposure (interest rate curves in US Dollar, Chinese Renminbi, Indian Rupee and Singapore Dollar whose effects are indicated separately in the above table) showed potential losses or profits in the income statement amounting to 388 thousand Euro for 2017 compared with potential losses or profits amounting to 298 thousand Euro for 2016.

The increasing impact on the income statement of interest rate changes in the two years under review is mainly due to changes in the amounts of sensitive assets and liabilities, the trend in interest rates and the relevant market volatility. The possible upward or downward change in the market's benchmark interest rates has a minor impact on the Group's income statement.

Exchange rate risk

The exposure to exchange rate risk derives from operations in currencies other than the accounting currency. In particular, the exchange rate risk can be classified based on the nature of the exposure and of the relevant effects:

- on operating results, due to the different relevance of costs and revenues in foreign currency compared to the moment when the price conditions were defined (economic risk) and due to the translation of trade or financial receivables and payables denominated in foreign currency (settlement risk);
- on the consolidated financial statements, operating result and shareholders' equity, due to the translation of assets and liabilities of companies which prepare their financial statements in a different currency from the Group's functional currency (translation risk).

The Group operates internationally and therefore is exposed to risks arising from exchange rate fluctuations, which have an impact on the operating results and on the value of shareholders' equity.

The functional and presentation currency for the Group's financial data is the Euro.

In accordance with IFRS, for companies whose presentation currency is different from the Group's functional currency:

- income statements are translated into Euro at the average exchange rate for the period; if revenues and margins are equal in local currency, exchange rate changes may affect the value in Euro of revenues, costs and operating results;
- assets and liabilities are translated into Euro at the year-end exchange rate and therefore may have different countervalues as a consequence of exchange rate movements. This change has an impact on

shareholders' equity, where it is reclassified under 'Translation reserve', and is recorded in the statement of comprehensive income.

Besides absolute amounts, capital ratios may also vary, if the proportions between profit, assets, debt and shareholders' equity in the various currencies change due to exchange rate changes.

It is not the Group's policy to hedge its exposure to translation exchange risk.

The objective of the exchange rate risk hedging policy is to minimize the economic and settlement exchange rate risks, i.e. the risks arising from the possibility that currency parity changes unfavorably during the period between the moment in which a commitment to pay or a right to collect a currency other than the Euro is expected for a future date (definition of budgets, setting of price lists, arrangement of orders), the registration of the accounting document (invoicing) and the moment in which the receipt or payment effectively occurs, generating an effect in terms of translation differences, with an impact on the income statement. In keeping with the exchange rate risk management policy adopted in recent years, the Group manages exchange rate risk arising from its business, in line with the provisions of the exchange rate risk management policy and the risk management objectives that are periodically established at Corporate level, through the systematic hedging of commercial flows arising from sales forecast in currencies other than the Euro, with the aim of mitigating the expected risk of variability in margins arising from sales relating to future collections.

The Group has a strong presence on international markets, including through commercial companies located in countries which use currencies other than the Euro, mainly the US dollar, Japanese yen and Chinese renminbi. In the year ended 31 December 2017, the percentage of net revenues realized by the Company in US dollars was around 34% of net revenues, in Japanese yen around 6%, in Chinese renminbi around 7%, in South Korean won around 5% and in Mexican peso around 4%. In the year ended 31 December 2016, the percentage of net revenues realized by the Company in US dollars was around 35% of net revenues, in Japanese yen around 8%, in Chinese renminbi around 7%, in South Korean won around 5% and in Mexican peso around 3%. The currency risks originate mainly from exports of the Company in US dollars, Japanese yen, Chinese renminbi, South Korean won and Mexican peso.

In seeking ever greater efficiency and more specific control of risks, and also following the increase in the Group's investments in distribution companies operating in the strategic markets of the Far East, exchange rate risk management is centralized at the Parent company. Goods transferred for consideration to subsidiaries are settled directly in the currency of the country where they operate and sell. In relation to its business model, the Group incurs a significant part of its costs in Euro (costs relating to production and management of the corporate structure), while the revenues and costs recorded by Group companies are mainly expressed in the local currencies of the respective reference markets. In particular, the Group is exposed to changes in the exchange rate between the Euro and the US dollar, in relation both to sales in dollars on the North American market and on few other markets, mainly Asian ones. In this context, the Group is exposed to changes in the exchange rates of the currencies in which sales are denominated. This implies the risk that the corresponding value in Euro of revenues determined at the moment of collection is insufficient to cover production costs or to achieve the desired profit margin. This risk is heightened during the significant period between the moment when the sale prices of a collection are set and the moment when revenues are converted into Euro, which extends up to 18 months.

The Parent company (as a manufacturing company) enters into currency forward contracts or options, to establish the conversion rate in advance, or a predefined range of conversion rates at future dates with an estimated period of maximum 24 months. In the years under examination, the Group covered its exchange rate risk almost exclusively with currency forward exchange contracts.

To this end, based on market expectations and conditions, before establishing price lists, or at least starting the sales campaign, the Group arranges hedges for an amount generally between 50% and 90% of forecast sales in foreign currency. This proportion is calculated based on the expected overall exposure, rather than the individual foreign currency. In the period following the preparation of the price list, the total outstanding hedge is added for the orders effectively managed and put into production. In this way the company limits the commercial risk just to the risk arising from sales volumes, excluding the risk arising from the exchange rate.

To the above operations we may add residual operations of some Asian and Latin American subsidiaries which make purchases of goods in US dollars or in Euro and sell in the currency of the country in which they operate. The values of the contracts involved are significantly lower than those of the Parent company. Ferragamo Parfums S.p.A. hedges exchange rate risk by entering into foreign currency loans and foreign currency forward contracts with maturities usually of less than 1 year. Although exchange rate derivatives are entered into by these companies solely for hedging purposes based on accruing trade flows, they are not accounted for in accordance with hedge accounting rules and fair value changes have a direct impact on profit or loss.

In addition, the Group controls and hedges exposure deriving from changes due to exchange rate changes in the value of assets or liabilities denominated in currencies other than the accounting currency of the individual company, which may affect the income statement (typically intercompany financial receivables/payables)

through financial instruments, whose recognition in accordance with IFRS follows the rules of fair value hedge: the profit or loss arising from subsequent assessments of the present value of the hedging instrument is recorded in the income statement as well as the profit or loss on the hedged item.

The hedges of the Parent company's future transactions in foreign currencies (which can be classified as cash flow hedge pursuant to IFRS) are accounted for in accordance with hedge accounting rules.

The following table shows the development of the cash flow hedge reserve for the years ended 31 December 2017 and 31 December 2016:

Exchange rate risk	Cash flow hedge reserve	
(In thousands of Euro)	2017	2016
Opening balance	(9,058)	(6,188)
+ increases for recognition of new positive effectiveness	30,828	12,351
- decreases for recognition of new negative effectiveness	(2,483)	(15,456)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(10,071)	(10,096)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	9,389	10,331
Closing balance	18,605	(9,058)

Overall, the reserve, which consists of the value changes in hedges for expected transactions in foreign currency, increased by 27,663 thousand Euro overall during 2017, whereas it had declined by 2,870 thousand Euro in 2016. The changes in value reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro/US Dollar exchange rate was around 1.07 at the beginning of 2016; it gradually rose to approximately 1.15, and subsequently accelerated to the downside, bottoming out at 1.03; then, during 2017 it appreciated constantly and steadily, eventually peaking at over 1.20. As for the exchange rate between the Euro and the Japanese Yen, over the last two years the latter first rose against the Euro, moving from a high of more than 130 to a low of around 111, and then all but constantly depreciated throughout 2017, eventually exceeding 135 at the end of the year. The effective amount transferred directly from the Reserve to the income statement under "Revenues from sales" on occurrence of the underlying flows totaled 682 thousand Euro in 2017, compared to a negative 235 thousand Euro in 2016. During 2016-2017 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.

The following tables set out the average time horizon and the relevance by risk factor of exchange rate hedges which the Group held at the end of 2017 and 2016. The number of foreign currencies in the table show how exchange rate risk management is all but centralized at the Parent company.

Cash flow analysis (hedged items): Financial recognition

(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
31 December 2017						
Exchange rate risk						
Sales expected in USD	192,000	69,000	60,000	63,000	-	-
Sales expected in JPY	3,600,000	1,400,000	1,500,000	700,000	-	-
Sales expected in GBP	5,000	1,500	1,500	2,000	-	-
Sales expected in MXN	320,000	80,000	40,000	100,000	100,000	-
Sales expected in CHF	3,500	1,500	1,500	500	-	-
Sales expected in AUD	8,000	3,000	2,500	2,500	-	-
Sales expected in CAD	10,000	4,500	3,000	2,500	-	-
Sales expected in CNY	190,000	40,000	100,000	50,000	-	-
Sales expected in HKD	80,000	20,000	30,000	30,000	-	-
Sales expected in SGD	11,500	6,000	3,500	2,000	-	-
Sales expected in KRW	27,000,000	11,000,000	10,000,000	6,000,000	-	-

(In thousands) 31 December 2016	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	262,000	76,000	43,000	73,000	65,000	5,000
Sales expected in JPY	5,900,000	1,100,000	1,700,000	1,700,000	1,300,000	100,000
Sales expected in GBP	5,500	2,000	2,500	1,000	-	-
Sales expected in MXN	-	-	-	-	-	-
Sales expected in CHF	7,000	1,500	2,000	2,000	1,500	-
Sales expected in AUD	8,500	2,500	2,500	2,500	1,000	-
Sales expected in CAD	15,500	3,500	3,000	3,000	3,000	3,000
Sales expected in CNY	270,000	55,000	65,000	90,000	60,000	-
Sales expected in HKD	130,000	30,000	30,000	40,000	30,000	-
Sales expected in SGD	11,000	5,000	2,000	4,000	-	-
Sales expected in KRW	24,000,000	10,000,000	11,000,000	3,000,000	-	-

Cash flow analysis (hedged items): Impact on the income statement

(In thousands) 31 December 2017	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	210,500	73,500	54,000	76,000	7,000	-
Sales expected in JPY	4,700,000	1,400,000	1,400,000	1,800,000	100,000	-
Sales expected in GBP	5,600	1,800	1,700	1,400	700	-
Sales expected in MXN	320,000	80,000	40,000	100,000	100,000	-
Sales expected in CHF	4,000	1,700	1,300	1,000	-	-
Sales expected in AUD	9,000	3,000	2,500	3,500	-	-
Sales expected in CAD	11,500	4,000	4,000	3,500	-	-
Sales expected in CNY	210,000	40,000	90,000	80,000	-	-
Sales expected in HKD	110,000	50,000	15,000	35,000	10,000	-
Sales expected in SGD	12,200	3,700	5,500	3,000	-	-
Sales expected in KRW	29,000,000	11,000,000	9,000,000	9,000,000	-	-

(In thousands) 31 December 2016	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	280,000	80,000	41,000	79,000	52,500	27,500
Sales expected in JPY	7,500,000	2,100,000	1,000,000	2,000,000	1,200,000	1,200,000
Sales expected in GBP	6,100	2,000	2,200	1,500	400	-
Sales expected in MXN	-	-	-	-	-	-
Sales expected in CHF	7,800	1,800	1,800	2,400	1,000	800
Sales expected in AUD	12,000	5,000	2,500	3,000	1,500	-
Sales expected in CAD	16,500	3,500	3,000	3,000	3,000	4,000
Sales expected in CNY	290,000	75,000	20,000	125,000	30,000	40,000
Sales expected in HKD	140,000	30,000	10,000	60,000	20,000	20,000
Sales expected in SGD	11,500	3,500	2,000	6,000	-	-
Sales expected in KRW	30,000,000	12,000,000	11,000,000	7,000,000	-	-

The most important hedge, in terms of volumes of notional amounts in foreign currency being hedged, is aimed at mitigating the risk generated by fluctuations in the exchange rate between the Euro and the following currencies: US dollar, Japanese yen, Chinese renminbi, South Korean won, Mexican peso and Hong Kong dollar.

In terms of time, hedges lasting over one year amounted to zero as at 31 December 2017 and were included within eighteen months as at 31 December 2016. The above tables set out the financial recognition dates of underlying assets by currency and the dates on which the impact on the income statement is recognized. This is determined upon the invoicing of the estimated flows, which are the object of the exchange rate hedge, as at 31 December 2017 and 2016.

Sensitivity Analysis

The sensitivity analysis carried out in order to assess the Group's exposure to exchange rate risk was undertaken on the basis of percentage increases and decreases in the exchange rates of the various currencies, proportional to

their annual volatility, applied to all significant financial assets and liabilities expressed in original currencies. In particular the analysis involved all currencies and the following items:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

In addition, the table shows the most important effects and the related currencies and refers to the exposure to exchange rate risk in accordance with the requirements of IFRS 7 and therefore does not take into account the effects arising from the translation of financial statements of foreign companies whose functional currency is different from the Euro. Exchange rates were considered for currencies whose changes generate an impact on the income statement and shareholders' equity, in absolute terms, of over one million Euro.

31 December 2017		Increase/reduction in	Underlying asset	Impact on the	Impact on
(In thousands of Euro)		underlying foreign		income	shareholders'
		exchange rates		statement	equity
POSITIVE CHANGE	EUR/JPY	8.0%	Derivatives	275	2,586
			Non-derivatives	(39)	
	EUR/USD	7.3%	Derivatives	(827)	12,001
			Non-derivatives	(586)	
	EUR/KRW	8.8%	Derivatives	(126)	1,834
			Non-derivatives	(9)	
	EUR/CNY	6.4%	Derivatives	(154)	1,615
			Non-derivatives	(3)	
	EUR/MXN	12.7%	Derivatives	(172)	1,529
			Non-derivatives	(2)	
	EUR/CAD	8.4%	Derivatives	539	590
			Non-derivatives	12	
	USD/JPY	8.5%	Derivatives	1,752	-
			Non-derivatives	(7)	-
Total				653	20,155
31 December 2017		Increase/reduction in	Underlying asset	Impact on the	Impact on
(In thousands of Euro)		underlying foreign		income	shareholders'
		exchange rates		statement	equity
NEGATIVE CHANGE	EUR/JPY	(8.0%)	Derivatives	(430)	(4,041)
			Non-derivatives	45	
	EUR/USD	(7.3%)	Derivatives	1,083	(15,719)
			Non-derivatives	669	
	EUR/KRW	(8.8%)	Derivatives	174	(2,518)
			Non-derivatives	11	
	EUR/CNY	(6.4%)	Derivatives	157	(1,657)
			Non-derivatives	3	
	EUR/MXN	(12.7%)	Derivatives	258	(2,294)
			Non-derivatives	3	
	EUR/CAD	(8.4%)	Derivatives	(640)	(701)
			Non-derivatives	(15)	
	USD/JPY	(8.5%)	Derivatives	(1,998)	-
			Non-derivatives	8	-
Total				(672)	(26,930)

31 December 2016 (In thousands of Euro)		Increase/reduction in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
POSITIVE CHANGE	EUR/JPY	13.6%	Derivatives Non-derivatives	1,451 (94)	5,222
	EUR/USD	10.6%	Derivatives Non-derivatives	7,107 (566)	18,107
	EUR/KRW	11.7%	Derivatives Non-derivatives	495 (2)	1,485
	EUR/CNY	8.8%	Derivatives Non-derivatives	606 (2)	2,369
	EUR/MXN	16.0%	Derivatives Non-derivatives	- (4)	-
	EUR/CAD	9.9%	Derivatives Non-derivatives	885 5	827
	USD/JPY	12.6%	Derivatives Non-derivatives	2,569 -	-
Total				12,450	28,010
31 December 2016 (In thousands of Euro)		Increase/reduction in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
NEGATIVE CHANGE	EUR/JPY	(13.6%)	Derivatives Non-derivatives	(1,905) 118	(6,859)
	EUR/USD	(10.6%)	Derivatives Non-derivatives	(8,784) 689	(22,379)
	EUR/KRW	(11.7%)	Derivatives Non-derivatives	(626) 3	(1,879)
	EUR/CNY	(8.8%)	Derivatives Non-derivatives	(723) 2	(2,825)
	EUR/MXN	(16.0%)	Derivatives Non-derivatives	- 5	-
	EUR/CAD	(9.9%)	Derivatives Non-derivatives	(1,080) (6)	(1,010)
	USD/JPY	(12.6%)	Derivatives Non-derivatives	(2,955) -	-
Total				(15,262)	(34,952)

As the above table shows, a positive change in the listed exchange rates (*EUR/JPY*, *EUR/USD*, *EUR/KRW*, *EUR/CNY*, *EUR/MXN*, *EUR/CAD*, and *USD/JPY*) would have resulted in a 653 thousand Euro profit and 12,450 thousand Euro profit as at 31 December 2017 and 31 December 2016, respectively; a negative change in exchange rates would have caused a 672 thousand Euro loss and 15,262 thousand Euro loss as at 31 December 2017 and 31 December 2016, respectively. The increase in shareholders' equity caused by derivative instruments designated as hedges as a result of the assumed positive exchange rate changes would have amounted to 20,155 thousand Euro and 28,010 thousand Euro as at 31 December 2017 and 31 December 2016, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 26,930 thousand Euro and 34,952 thousand Euro as at 31 December 2017 and 31 December 2016, respectively. The sensitivity analysis carried out as described above, which is significantly affected by market volatility in the exchange rates considered, points to a material impact on the Group shareholders' equity from the potential change in the value of hedging derivatives. This is temporarily allocated to the cash flow hedge reserve and will be recognized through profit or loss in the following years when the expected sales occur. The higher or lower impact on the income statement and on equity in each of the years under consideration derives largely from the trend in the individual currencies at the reference dates and the change in the value of financial assets and liabilities exposed to fluctuations in exchange rates.

Liquidity risk

Liquidity risk represents the risk that the Group cannot meet its financial obligations due to problems in obtaining funds at current market price conditions (funding liquidity risk) or in liquidating assets on the market to find the necessary financial resources (asset liquidity risk).

The first consequence is a negative impact on the income statement, should the Company be forced to incur additional costs to meet its commitments.

The factors which mainly influence the Group's liquidity are the resources generated or absorbed by current operating and investing activities, the possible distribution of dividends and the expiry and possibility of renewal of debt or the expiry and possibility of liquidation of financial investments of surplus cash. Liquidity needs or surpluses are monitored on a daily basis by the Parent company in order to guarantee effective sourcing of financial resources or adequate investment of liquidity.

The negotiation and management of credit lines is coordinated by the Parent company with the aim of satisfying the short and medium-term needs of the individual companies according to efficiency and cost-effectiveness criteria. As at 31 December 2017, committed credit lines with a number of banks were outstanding for a total of 182,385 thousand Euro, of which 160,000 thousand Euro can be used on one or more occasions (revolving credit lines) and 22,385 thousand Euro in the form of medium/long-term loans in foreign currency which can be repaid in full upon expiry (term loans) and uncommitted short-term credit lines relating to the Parent company and some of its subsidiaries for a total of 598,394 thousand Euro.

As at 31 December 2017 the Group had unused committed credit lines (as revolving credit lines or term loans) for 160,000 thousand Euro and uncommitted lines for 539,426 thousand Euro, against gross debt of 81,343 thousand Euro and a net financial position amounting to a surplus of 127,491 thousand Euro. As at 31 December 2017 committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of thirty months. The credit lines and the related financial business are spread among leading national and international banks. As at the reporting date their maximum use is below three years.

It has always been the Group's policy to sign and constantly maintain with various and diversified banks a total amount of committed credit lines that is considered consistent with the needs of the individual companies and suitable to ensure at any time the liquidity needed to satisfy and comply with all the Group's financial commitments, at the established economic conditions, as well as guaranteeing the availability of an adequate level of operational flexibility for any expansion programs. In 2017, the Parent company repaid in advance or did not renew a number of committed credit lines to account for the Group's significant cash flows from current operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. Two separate term loans were extended relating to the subsidiaries Ferragamo Japan KK and Ferragamo Retail India Private Limited, which can be fully repaid upon expiry, with a residual duration as at 31 December 2017 of thirty-one and four months respectively. Cash surpluses are used with reference banks in short-term (usually between one day and three months) time deposit transactions, referring to the Euribor/Libor rate for the period or the benchmark of the investment currency on the specific interbank market. Liquidity investments are carried out with the prime objectives of making resources available at short notice and neutralizing the risk of capital losses, avoiding speculative transactions.

In seeking ever greater efficiency, also during 2017, the Group used a significant part of its cash surplus in order to take out intercompany loans, which are regulated at current market conditions, so as to reduce average gross bank debt, limit financial charges at a consolidated level and reduce the credit risk connected with the investment of liquidity with banks.

These choices, which also take account of the likely future trend in cash flows together with prompt renegotiation of credit lines (even before their expiry), enable a significant reduction in the exposure to the risk under review and allow to adjust the cost of debt to the best market conditions. The Group has constantly maintained access to a wide range of financing sources at competitive costs, despite the external scenario, which continues to be characterized by rigidity in the credit market. Despite the Group's capacity to generate high cash flows from current operations, the constant availability of an adequate amount of committed credit lines allowed the Group to calmly face the most turbulent market phases and volatility in credit flows. The total financial position of each company and that of the Group overall is measured every month, and compared with the latest Budget/Forecast. Management believes that the funds and credit lines currently available, with the addition of the funds which are likely to be generated from current operations, will enable the Group to safely address the repayment of loans at their natural expiries and to meet the needs arising from investment activities and working capital management.

Liquidity risk – Maturity analysis					31 December 2017
(In thousands of Euro)	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	196,987	6,626	-	-	203,613
Payables to banks	58,533	8,531	14,919	-	81,983
Payables to third parties	3,276	-	-	-	3,276
Guarantee deposits	13	148	111	-	272
Derivatives – non-hedging component	212	8	-	-	220
Derivatives – hedging component	188	755	-	-	943
Total	259,209	16,068	15,030	-	290,307

Liquidity risk – Maturity analysis					31 December 2016
(In thousands of Euro)	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	178,338	1,918	-	-	180,256
Payables to banks	94,480	28,150	-	-	122,630
Payables to third parties	3,379	-	-	-	3,379
Guarantee deposits	56	56	198	-	310
Derivatives – non-hedging component	113	185	43	-	341
Derivatives – hedging component	4,987	9,274	14	-	14,275
Total	281,353	39,583	255	-	321,191

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months. In 2017, payables to banks had a maximum residual duration below three years. Financial assets recorded in the statement of financial position have a similar residual life.

Credit risk

Credit risk represents the Company's exposure to potential losses arising from failure to meet trade or financial obligations taken on by counterparties. The Group's exposure to credit risk depends on the nature of the activities which have generated the relevant receivables. The Group's exposure to trade credit risk refers exclusively to wholesale sales and the receivables associated with licensing revenues, which combined represent nearly 34 percent of global turnover; the rest refers to retail sales, which are paid with cash or credit and debit cards at the time of purchase. Trade receivables mainly refer to wholesale sales and are generally due in 90 days or less. The Group generally favors trade dealings with customers with whom it has well-established and consolidated relations. It is the Group's policy to check credit ratings of customers who ask for extended payment terms, based both on information which can be obtained from specialist agencies and on the observation and analysis of historical data of established customers. In addition, the balance of trade receivables is constantly monitored during the year in order to ensure prompt intervention and to reduce the risk of losses. The allocation of the credit risk among a number of customers helps to further mitigate the risk.

Trade receivables are recorded net of write-downs, which are estimated based on the counterparty's insolvency risk, determined by considering the information available on the customer's solvency and its past history.

Besides obtaining, where possible, guarantees from wholesale customers or the adoption of means of payment which are less risky for the creditor, such as documentary letters of credit, another instrument used to manage commercial credit risk is the subscription of insurance policies, with the aim of preventing the risk of non-payment through careful selection of the customer portfolio jointly with the insurance companies, which agree to guarantee payment of the indemnity in the case of insolvency.

In general, the Company believes that the credit risk management policies implemented enabled overdue and bad debts, which required the adoption of legal credit collection measures, to be kept within reasonable limits.

The credit risk connected to financing, investing and operating activities in derivatives to hedge the exchange rate risk is represented by the inability of the counterparty or the issuer of the financial instruments to meet their contractual obligations, i.e. the so-called counterparty risk. The Group manages this type of risk by selecting counterparties with high credit ratings and who are considered solvent by the market and with whom it has routine and ongoing trade and banking service relations and by diversifying the accounting currency of surplus cash. During 2017, also with the aim of minimizing the counterparty risk, the Group used 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.

The Group negotiated and entered into master agreements, in accordance with the international standards (ISDA Master Agreement), with all counterparties of derivatives, in order to regulate the various cases.

The credit risk regarding the Group's other financial assets, consisting of cash and cash equivalents, available-for-sale financial assets and some derivatives, has a risk equal to the book value of these assets in case of insolvency of the counterparty.

(In thousands of Euro)	31 December 2017		31 December 2016	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Receivables from others (M/L term)	297	2,000	198	2,198
Trade receivables	148,583	-	179,678	-
Receivables due from credit cards	12,596	-	12,214	-
Cash and cash equivalents	212,088	-	117,249	-
Guarantee deposits	-	15,981	-	17,278
Derivatives	13,185	-	2,839	123
Total	386,749	17,981	312,178	19,599

The table shows how the Group's exposure to credit risk – both commercial and counterparty risk – is defined by the book value of the items representing outstanding financial assets as at 31 December 2017 and 31 December 2016, and is almost exclusively limited to the current portion. Excluding “Guarantee deposits”, which largely include cash deposits paid by several companies under property lease agreements and are recognized at their nominal amount, the non-current portion entirely consists of receivables due from Emanuel Ungaro Italia S.r.l. to Ferragamo Parfums S.p.A. under a licensing agreement that was renegotiated in July 2017. The new agreement includes a 297 thousand Euro payment in 2018 – which is reclassified as current – and a 2,000 thousand Euro payment based on the royalties recovered, which is expected to be paid in annual installments of equal amounts 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, in accordance with the discounted cash flow method. The negative market interest rates for some maturities until 2022 were assumed to be zero, resulting in a fair value equal to the nominal amount.

Concentration of credit risk by geographic area

(In thousands of Euro)	31 December 2017	%	31 December 2016	%
Italy	29,656	20.0%	32,473	18.1%
Europe	23,379	15.7%	33,962	18.9%
North America	20,115	13.5%	27,863	15.5%
Japan	10,335	7.0%	12,030	6.7%
Asia Pacific	53,472	36.0%	62,816	35.0%
Central and South America	11,626	7.8%	10,534	5.8%
Total	148,583	100.0%	179,678	100.0%

The table shows the concentration of commercial credit risk by geographic area of the Group activity in the two years under review.

(In thousands of Euro)	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	
31 December 2017	137,453	8,550	526	490	180	1,384	148,583
31 December 2016	155,894	17,154	2,542	1,631	758	1,699	179,678
Figures in % at 31 December 2017	92.5%	5.8%	0.4%	0.3%	0.1%	0.9%	100.0%
Figures in % at 31 December 2016	86.8%	9.6%	1.4%	0.9%	0.4%	0.9%	100.0%

The analysis carried out on the expiry dates of receivables which are past due but not impaired shows they are concentrated within thirty days for the years ended 31 December 2017 and 31 December 2016.

The concentration of sales to the main customers is shown in the table below; for the concentration of sales by geographic area, reference should be made to the contents in the specific section above:

Concentration of market risk	2017	2016
Percentage of revenues with the biggest customer	1.6%	1.7%
Percentage of revenues with the 3 biggest customers	4.6%	5.0%
Percentage of revenues with the 10 biggest customers	10.2%	11.1%

Capital management

The main objective of the Group's capital management activity is to ensure that a solid credit rating as well as adequate levels of equity indicators are maintained in order to support business and optimize value for shareholders. The Group manages the capital structure and modifies it according to changes in economic conditions. To maintain or adjust the capital structure, the Group can modify the dividends paid to shareholders, repay the capital or issue new shares. No change was made to the objectives, policies or procedures during 2017 and 2016.

The Group includes under net debt, interest-bearing loans, other financial payables, trade and other payables, net of cash and cash equivalents.

Other financial payables include agreements for the purchase of minority interests (reference should be made to note 38).

The table does not include the values and related effects produced by the derivatives used to manage exchange rate risk.

(In thousands of Euro)	31 December 2017	31 December 2016
Interest-bearing loans	81,343	121,251
Other financial payables	3,276	3,379
Trade and other payables	236,520	218,807
Cash and cash equivalents	212,088	117,249
Net debt	109,051	226,188
Group shareholders' equity	708,110	700,022
Minority interests	26,181	29,476
Shareholders' equity	734,291	729,498
Shareholders' equity and net debt	843,342	955,686
Net debt/shareholders' equity	14.9%	31.0%

4. Business combinations and purchases of minority interests

During 2017 there were no business combinations.

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

5. Property, plant and equipment

The breakdown of Property, plant and equipment as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	29,563	-	29,563	30,111	-	30,111
Buildings	65,686	31,977	33,709	68,336	31,946	36,390
Plant and equipment	31,023	24,306	6,717	28,763	22,147	6,616
Industrial and commercial equipment	116,833	84,192	32,641	117,737	80,075	37,662
Other assets	66,902	54,470	12,432	69,422	53,559	15,863
Leasehold improvements	258,092	163,871	94,221	274,255	168,684	105,571
Fixed assets in progress and payments on account	40,317	-	40,317	11,479	-	11,479
Total	608,416	358,816	249,600	600,103	356,411	243,692

The following tables show the change in property, plant and equipment for the years ended 31 December 2017 and 31 December 2016:

(In thousands of Euro)	Value at 01.01.2017	Translation difference	Additions	Disposals	Depreciation	Reclass.	Impairment	Assets held for sale	Value at 31.12.2017
Land	30,111	(548)	-	-	-	-	-	-	29,563
Buildings	36,390	(943)	642	-	(2,380)	-	-	-	33,709
Plant and equipment	6,616	(28)	2,035	-	(2,232)	326	-	-	6,717
Industrial and commercial equipment	37,662	(2,252)	10,386	(588)	(13,052)	551	(20)	(46)	32,641
Other assets	15,863	(825)	5,481	(201)	(6,590)	(1,296)	-	-	12,432
Leasehold improvements	105,571	(7,691)	22,833	(315)	(26,442)	419	(154)	-	94,221
Fixed assets in progress and payments on account	11,479	(316)	32,602	(3,448)	-	-	-	-	40,317
Total	243,692	(12,603)	73,979	(4,552)	(50,696)	-	(174)	(46)	249,600

(In thousands of Euro)	Value at 01.01.2016	Translation difference	Additions	Disposals	Depreciation	Impairment	Value at 31.12.2016
Land	29,912	199	-	-	-	-	30,111
Buildings	37,383	265	1,125	(9)	(2,374)	-	36,390
Plant and equipment	6,579	(2)	2,197	-	(2,158)	-	6,616
Industrial and commercial equipment	38,551	101	12,673	(194)	(13,364)	(105)	37,662
Other assets	18,445	43	5,459	(7)	(7,872)	(205)	15,863
Leasehold improvements	97,511	(667)	36,093	(480)	(26,499)	(387)	105,571
Fixed assets in progress and payments on account	8,071	19	39,298	(35,909)	-	-	11,479
Total	236,452	(42)	96,845	(36,599)	(52,267)	(697)	243,692

The increase:

- in the items "Buildings" and "Plant and equipment" mainly refers to renovation/improvement works as part of the plan implemented by the Parent company to renovate the whole facility at Osmannoro-

Sesto Fiorentino which already started in previous years and, to a lesser extent, to improvements to the property owned in the USA;

- in “Industrial and commercial equipment” mainly refers to the opening and renovation of stores (9,083 thousand Euro) and the purchase of equipment and molds (1,294 thousand Euro) for the fragrances product category;
- in “Other assets” mainly refers to IT equipment (2,911 thousand Euro) and furniture and furnishings (2,360 thousand Euro);
- in leasehold improvements refers mainly to work carried out for the opening or refurbishment of stores – and specifically the renovation of the store in Canton Road in Hong Kong, which has reopened in July;
- in fixed assets in progress and payments on account refers largely to expenses incurred and payments on accounts made for the new logistics center the Parent company is building in Osmannoro.

The increase in tangible assets (Leasehold improvements), recognized against the Provision for future operating risks and charges (note 19), included the costs for the restoration of premises leased to third parties, which amounted to 798 thousand Euro in 2017 (5.8 million Euro in 2016). Disposals mainly refer to assets relating to stores which have been renovated or closed during the year.

The item “Industrial and commercial equipment” declined by 46 thousand Euro due to the reclassification of the equipment and furniture and furnishings of Ferragamo Retail India Private Ltd.’s stores to Assets held for sale as per the resolution of Salvatore Ferragamo S.p.A.’s Board of Directors dated 14 December 2017, in accordance with IFRS 5 requirements.

As envisaged by the analysis procedure for impairment indicators adopted by the Group, at year-end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the Group operates, while internal sources are corporate strategies which can change the use of assets.

Impairment amounting to 174 thousand Euro in “Industrial and commercial equipment” and “Leasehold improvements” refers to the tangible assets of some stores in relation to their forthcoming renovation and/or closure.

From the analyses carried out no need emerged to record any further impairment on this item.

6. Investment property

The breakdown of the item as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	4,667	-	4,667	5,310	-	5,310
Buildings	10,992	9,520	1,472	12,506	10,466	2,040
Total	15,659	9,520	6,139	17,816	10,466	7,350

Investment property refers entirely to the buildings located in the United States.

The following tables show the change in investment property for the years ended 31 December 2017 and 31 December 2016:

(In thousands of Euro)	Value at 01.01.2017	Translation difference	Additions	Depreciation	Value at 31.12.2017
Land	5,310	(643)	-	-	4,667
Buildings	2,040	(227)	-	(341)	1,472
Total	7,350	(870)	-	(341)	6,139

(In thousands of Euro)	Value at 01.01.2016	Translation difference	Additions	Depreciation	Value at 31.12.2016
Land	5,141	169	-	-	5,310
Buildings	2,329	59	-	(348)	2,040
Total	7,470	228	-	(348)	7,350

As envisaged by the analysis procedure for impairment indicators adopted by the Group, at year-end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the Group operates, while internal sources are corporate strategies which can change the use of assets.

From the analyses carried out no need emerged to record any impairment on this item.

In addition, the Group periodically assesses the fair value of investment property recorded in the financial statements; on the basis of these estimates, the fair values are higher than the book values.

7. Intangible assets with a finite useful life

The breakdown of intangible assets with a finite useful life as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Historic Cost	Accumulated amortization	Net value	Historic Cost	Accumulated amortization	Net value
Industrial patents and use of intellectual property rights	28,663	23,955	4,708	26,741	22,399	4,342
Concessions, licenses and trademarks	8,880	7,195	1,685	8,567	6,846	1,721
Development costs	45,052	25,925	19,127	37,934	19,923	18,011
Others	27,242	21,338	5,904	29,788	21,741	8,047
Intangible assets with a finite useful life in progress	12,169	-	12,169	5,455	-	5,455
Total	122,006	78,413	43,593	108,485	70,909	37,576

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2017 and 31 December 2016:

(In thousands of Euro)	Value at	Translation	Additions	Disposals	Amortization	Impairment	Value at
	01.01.2017	difference					31.12.2017
Industrial patents and use of intellectual property rights	4,342	(167)	3,024	(13)	(2,478)	-	4,708
Concessions, licenses and trademarks	1,721	-	313	-	(349)	-	1,685
Development costs	18,011	-	7,802	-	(6,272)	(414)	19,127
Others	8,047	(447)	36	(2)	(1,605)	(125)	5,904
Intangible assets with a finite useful life in progress	5,455	(5)	9,007	(2,288)	-	-	12,169
Total	37,576	(619)	20,182	(2,303)	(10,704)	(539)	43,593

(In thousands of Euro)	Value at	Translation	Additions	Disposals	Amortization	Value at
	01.01.2016	difference				31.12.2016
Industrial patents and use of intellectual property rights	4,677	67	2,103	-	(2,505)	4,342
Concessions, licenses and trademarks	1,817	-	256	-	(352)	1,721
Development costs	12,908	-	10,409	-	(5,306)	18,011
Others	9,334	280	59	-	(1,626)	8,047
Intangible assets with a finite useful life in progress	4,860	1	3,786	(3,192)	-	5,455
Total	33,596	348	16,613	(3,192)	(9,789)	37,576

In 2017 intangible assets with a finite useful life rose mainly due to new investment in software application development costs (recognized under “Development costs”), software license costs (item “Industrial patents and use of intellectual property rights”) net of the amortization for the period.

The item “Development costs” mainly includes the capitalization of software development costs for the development of business software applications (SAP accounting system, ERP, reporting systems, and the e-commerce platform).

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.

The following table provides the breakdown by geographical area of the net book value of the key money item as at 31 December 2017 and 31 December 2016:

(In thousands of Euro)	31 December 2017	31 December 2016
Europe	3,165	3,717
North America	1,312	1,818
Asia Pacific	-	196
Central and South America	226	755
Total	4,703	6,486

As envisaged by the analysis procedure for impairment indicators adopted by the Group, at year-end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the Company operates. Internal sources are corporate strategies which can change the use of intellectual property and software, and with reference to key money, they consist of the economic benefit to the Group arising from the geographic area served by the store for which this cost has been incurred.

The 539 thousand Euro decline reflects the impairment of the Intangible Assets included within the item “Development costs”, relating to expenses capitalized in prior years and that no longer fit the Group’s strategies, as well as the item “Others”, for the key money paid in previous years for the stores in India. From the analyses carried out no need emerged to record any further impairment on this item.

8. Available-for-sale financial assets

In 2017, the company Polimoda Consulting S.r.l., in which the Salvatore Ferragamo Group held a non-controlling interest (0.82%) included within Available-for-sale financial assets (20 thousand Euro as at 31 December 2016), completed the liquidation process that began in 2013, resulting in a 15 thousand Euro loss on financial assets (equity investments).

9. Other non current assets

The breakdown of the item “Other non current assets” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Advances to suppliers	2,000	2,198	(198)
Other non current assets	2,963	5,074	(2,111)
Other receivables for long-term hedge derivatives	-	123	(123)
Total	4,963	7,395	(2,432)

Advances to suppliers relate to the non current portion of advances of royalties paid by Ferragamo Parfums S.p.A. for the use under license of the Ungaro brand, as provided for by the new license contract which was partially renegotiated in July 2017. These advances are recovered as the royalties become due starting from 2019 through 2022, and they were down 198 thousand Euro compared to 31 December 2016 because of the reclassification of the current portion.

The item “Other non current assets” mainly includes the impact relating to the straight line charging of rental income from investment property in the USA for 2,577 thousand Euro, as provided for by the relevant standards (straight lining), and it decreased by 2,059 thousand Euro compared with 31 December 2016.

As at 31 December 2016 “Other receivables for long-term hedge derivatives” included 123 thousand Euro referring to the fair value measurement of the non-current portion of outstanding derivatives (hedge component) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

10. Other non current financial assets

Other non current financial assets, totaling 15,981 thousand Euro as at 31 December 2017 (17,278 thousand Euro as at 31 December 2016), refer to guarantee deposits, mainly for existing rental contracts, and are accounted for at amortized cost.

11. Inventories

Inventories refer to the following categories:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Gross value of raw materials, accessories and consumables	60,726	51,423	9,303
Provision for obsolete inventory	(6,488)	(5,712)	(776)
Raw materials, accessories and consumables	54,238	45,711	8,527
Gross value of finished products and goods for resale	312,141	371,839	(59,698)
Provision for obsolete inventory	(40,863)	(42,840)	1,977
Finished products and goods for resale	271,278	328,999	(57,721)
Total	325,516	374,710	(49,194)

The change in raw materials compared to 2016 depends on production volumes for the period; the relevant provision reflects the obsolescence of raw materials (leather and accessories) which are no longer deemed suitable for the production plans. Inventories of finished products were down 57,721 thousand Euro from 31 December 2016 (-17.5%), largely because of the plan to sell products from previous collections through the Group's outlets and other commercial initiatives such as the extension of special and invitation-only offers, as part of the program to optimize stock levels, as well as because of the exchange rate effect. For a better understanding of how the above provisions for obsolete inventory were calculated, please see note 2 "Discretionary valuations and significant accounting estimates".

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

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Raw materials	776	(2,279)	3,055
Finished products	3,075	2,448	627
Total	3,851	169	3,682

12. Trade receivables

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Trade receivables	154,044	186,645	(32,601)
Provision for bad debt	(5,461)	(6,967)	1,506
Total	148,583	179,678	(31,095)

Trade receivables mainly refer to wholesale sales and are due for around 22,748 thousand Euro to fragrances (29,041 thousand Euro as at 31 December 2016) 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 year the Group reported 321 thousand Euro in credit losses after writing off non-performing trade receivables.

The changes in the provision for bad debt during 2017 were as follows:

(In thousands of Euro)	Value at 01.01.2017	Translation difference	Allocations	Uses	Value at 31.12.2017
Provision for bad debt	6,967	(79)	124	(1,551)	5,461

For an analysis of past due but not impaired trade receivables reference should be made to the section "Management of financial risks – Credit risk".

13. Tax receivables

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Due from tax authorities (value added tax and other taxes)	7,708	10,436	(2,728)
Due from tax authorities for direct taxes	19,935	21,402	(1,467)
Withholding taxes	11	16	(5)
Total	27,654	31,854	(4,200)

Tax receivables decreased by 4,200 thousand Euro compared to the prior year and mainly refer to VAT receivables and amounts due from tax authorities for income taxes relating to advances paid during the year and amounts exceeding the debt as at 31 December 2017 for direct income taxes.

14. Other current assets

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Other receivables	38,741	50,139	(11,398)
Accrued income	59	10	49
Prepaid expenses	15,912	15,174	738
Other receivables for short-term hedge derivatives	12,844	2,575	10,269
Total	67,556	67,898	(342)

As at 31 December 2017 other receivables mainly include:

- receivables due from credit card management companies for retail sales amounting to 12,596 thousand Euro (12,214 thousand Euro as at 31 December 2016);
- receivables due from the Holding company Ferragamo Finanziaria S.p.A. for 21,576 thousand Euro (32,410 thousand Euro as at 31 December 2016), broken down as follows:
 - (i) 19,551 thousand Euro (30,385 thousand Euro as at 31 December 2016) 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 2017 as a result of the reduction in direct tax expense charged on Salvatore Ferragamo S.p.A. already recorded in 2016 thanks to the tax benefit of the so-called "Patent box".
 - (ii) 2,025 thousand Euro to receivables concerning the income tax (IRES) refund claim (online request sent in 2013) regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, recognized in 2012.
- advances to suppliers amounting to 1,687 thousand Euro (1,809 thousand Euro as at 31 December 2016).

Prepaid expenses mainly include contributions to customers relating to the fit-out of tailored single brand stores and/or stores-in-stores for 7,675 thousand Euro, rents for 3,481 thousand Euro and insurance premiums for 1,123 thousand Euro.

"Other receivables for short-term hedge derivatives" amounting to 12,844 thousand Euro (2,575 thousand Euro as at 31 December 2016) refer to the fair value assessment 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.

15. Other current financial assets

"Other current financial assets" totaled 341 thousand Euro as at 31 December 2017 and referred to the fair value measurement of derivatives for the non-hedge component (264 thousand Euro as at 31 December 2016).

16. Cash and cash equivalents

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Time deposits	26,028	9,845	16,183
Bank and post office sight deposits	184,151	105,549	78,602
Cash and values on hand	1,909	1,855	54
Total	212,088	117,249	94,839

Time deposits at banks expire in no more than 31 days. Bank and post office deposits refer to temporary cash holdings mainly to meet imminent payments.

Also during 2017, the Group used 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 bank debt.

As at 31 December 2017 the Group had unused credit lines for 699,426 thousand Euro; as at 31 December 2016, unused credit lines totaled 757,604 thousand Euro.

For the purposes of the consolidated statement of cash flows, the item "Cash and cash equivalents" as at 31 December 2017 and 31 December 2016 was broken down as follows:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Cash and bank sight deposits	186,060	107,404	78,656
Time deposits	26,028	9,845	16,183
Total	212,088	117,249	94,839

Below is the reconciliation of the liabilities from financing activities as reported on the statement of cash flows for the years ended 31 December 2017 and 2016.

(In thousands of Euro)	Value at 01.01.2017	Cash flow	Translation difference	Value at 31.12.2017
Non current interest-bearing loans & borrowings	-	15,784	(970)	14,814
Current interest-bearing loans & borrowings (excluding bank overdrafts)	121,251	(48,888)	(5,834)	66,529
Total liabilities from financing activities	121,251	(33,104)	(6,804)	81,343

(In thousands of Euro)	Value at 01.01.2016	Cash flow	Translation difference	Value at 31.12.2016
Non current interest-bearing loans & borrowings	23,312	(24,438)	1,126	-
Current interest-bearing loans & borrowings (excluding bank overdrafts)	123,641	(1,307)	(1,083)	121,251
Total liabilities from financing activities	146,953	(25,745)	43	121,251

17. Assets held for sale

Assets held for sale of 990 thousand Euro include the stocks of finished products (944 thousand Euro) and equipment and furniture and furnishings (46 thousand Euro) of Ferragamo Retail India Private Limited, which are valued at the lower of the book value and the estimated realizable value as can be inferred from the current status of negotiations, which, according to the management's decisions (see the section "Significant events occurred during the year"), meet the requirements outlined in IFRS 5 for the classification as such.

18. Share capital and reserves

The authorized share capital of the Parent company as at 31 December 2017 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.

Share capital contributions of 2,995 thousand Euro, which refer entirely to the Parent company, were paid in a single amount in 2003 by the Holding company Ferragamo Finanziaria S.p.A. and were reduced in 2007, due to demerger.

The legal reserve of 4,188 thousand Euro was set up in previous years and refers entirely to the Parent company. This reserve cannot be distributed.

The extraordinary reserve of 429,505 thousand Euro, which refers entirely to the Parent company, was set up with retained earnings; the increase registered in the period included 113,423 thousand Euro in profit for the year 2016 net of 77,643 thousand Euro in dividends paid out, which were approved in 2017.

The cash flow hedge reserve was positive for 14,140 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2017, given the hedges against exchange rate risk, and is shown net of the tax effect.

The translation reserve, negative for 33,129 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 presentation currency of the consolidated financial statements.

Retained earnings amounting to 155,626 thousand Euro include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. This reserve, during 2017, was affected by the joint impact of several factors. On the one hand, it rose by 88,561 thousand Euro due to the capitalization of the profit for 2016, net of the Parent company's profit which was allocated to the extraordinary reserve. On the other hand, the reserve was down 77,643 thousand Euro because of the dividends paid by the Parent company during 2017, 1,142 thousand Euro because of minor translation effects, and 3,720 thousand Euro because of the recognition of put and call agreements on pre-existing minority interests (note 38) as well as of the price adjustment (804 thousand Euro) Salvatore Ferragamo S.p.A. paid for the acquisition of the non-controlling interests in the companies based in South Korea and South-East Asia, which was completed in December 2016.

The items "Other reserves" and "Effect IAS 19 equity" (net total of 13,405 thousand Euro) include as at 31 December 2017 the values recorded for the valuation differences required by IFRS compared to the local standards of Group companies. In addition, the item "Other reserves" includes:

- the specific reserve set up in 2016 to service the future free share capital increase of the Parent company for 60 thousand Euro (nominal value of 0.10 Euro each) for the 2016-2020 Stock Grant Plan;
- the Stock Grant Reserve (1,311 thousand Euro) referring to the fair value measurement as at 31 December 2017 of the rights to receive shares in the Parent company: their impact on the period amounted to 870 thousand Euro. For details on the Stock Grant Plan reference should be made to note 37.

The amounts are net of the tax effects where applicable.

The changes in shareholders' equity items occurred in 2017 and 2016 are shown in the related statements.

Here below is a breakdown of reserves and retained earnings:

(In thousands of Euro)	Reserves made up of profits	Translation reserve	Other reserves	Total
31 December 2017				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	429,505	-	-	429,505
Cash flow hedge reserve	-	-	14,140	14,140
Translation reserve	-	(33,129)	-	(33,129)
Retained earnings	155,626	-	-	155,626
Other reserves	-	-	13,405	13,405
Total	589,319	(33,129)	30,540	586,730
31 December 2016				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	316,082	-	-	316,082
Cash flow hedge reserve	-	-	(6,884)	(6,884)
Translation reserve	-	(4,035)	-	(4,035)
Retained earnings	149,570	-	-	149,570
Other reserves	-	-	12,359	12,359
Total	469,840	(4,035)	8,470	474,275

19. Provisions for risks and charges

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

(In thousands of Euro)	Value at 01.01.2017	Translation reserve	Additions	Uses	Value at 31.12.2017
Legal disputes	1,622	-	1,036	(364)	2,294
Other	12,706	(903)	881	(1,184)	11,500
Total	14,328	(903)	1,917	(1,548)	13,794

Legal disputes mainly refer to allocations against likely future liabilities relating to legal proceedings against the Parent company and some proceedings regarding subsidiaries as well as labor disputes with reference to both litigation and estimated amounts that Group companies expect to have to disburse for out-of-court settlements. The use of the provision for legal disputes mainly refers to the settlement of a number of labor and legal proceedings and/or disputes during the year, while allocations to the provision refer to labor, legal and fiscal disputes that have arisen during 2017.

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 (10,043 thousand Euro as at 31 December 2017); in addition, it includes the additional allowance set aside by Ferragamo Parfums S.p.A. for agents operating in Italy. The provision for the period included 798 thousand Euro referring to costs for the restoration of premises.

As regards contingent liabilities at Group level, for which no provisions have been made, reference should be made to the Directors' Report on Operations, section "Significant events occurred during the year – Tax and customs disputes and audits".

20. Employee benefit liabilities

The following table shows the breakdown of employee benefits as at 31 December 2017 and 31 December 2016:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Employee defined benefit liabilities	11,312	12,177	(865)
Other employee benefit liabilities	197	106	91
Total	11,509	12,283	(774)

The item "Employee defined benefit liabilities" includes employee severance indemnities of Italian companies and other employee defined benefit liabilities.

The following table shows the changes in employee defined benefit liabilities in 2017 and 2016:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Employee benefit obligations	Fair value of plan assets	Employee defined benefit liabilities	Employee benefit obligations	Fair value of plan assets	Employee defined benefit liabilities
Value at 01.01	16,286	(4,109)	12,177	15,038	(3,506)	11,532
Current Service Cost	525	-	525	528	-	528
Financial charges/(income)	259	(62)	197	298	(63)	235
Changes included in net profit/(loss) for the period	784	(62)	722	826	(63)	763
Returns on plan assets	-	(73)	(73)	-	2	2
Actuarial loss/(gain) arising from:						
- financial assumptions	59	-	59	600	-	600
- demographic assumptions	(54)	-	(54)	82	-	82
- experience-based adjustments	(210)	-	(210)	(7)	-	(7)
Translation differences	(751)	403	(348)	306	(188)	118
Changes included in other comprehensive income items	(956)	330	(626)	981	(186)	795
Contributions paid by the employer	-	(440)	(440)	-	(490)	(490)
Benefits paid	(878)	357	(521)	(559)	136	(423)
Other changes	(878)	(83)	(961)	(559)	(354)	(913)
Value at the end of the period	15,236	(3,924)	11,312	16,286	(4,109)	12,177

Employee defined benefit liabilities of the Group's Italian companies (the Parent company and Ferragamo Parfums S.p.A.) amounted to 8,439 thousand Euro, down by 438 thousand Euro compared to 31 December 2016.

Here below are the main financial assumptions used in determining the present value of employee severance indemnities:

	31 December 2017	31 December 2016
Annual rate of salary increase	3.40%	3.56%
Annual discount rate	1.28%	1.13%
Inflation rate	2.00%	2.00%

As regards the demographic assumptions used in determining defined benefit liabilities of the Group's Italian companies, the figure used as a benchmark for the mortality rate is that for the Italian population recorded by ISTAT in 2000, less 25%, broken down by age and gender while the staff turnover rate has been estimated at 5.50% per year.

Employee defined benefit liabilities of the Group's non-Italian companies refer to Ferragamo Japan KK, Ferragamo Retail Taiwan Limited, Ferragamo France S.A.S., Ferragamo Monte-Carlo SAM, Ferragamo Belgique SA, Ferragamo Mexico S.de R.L.de C.V., Ferragamo Usa Inc., Ferragamo (Thailand) Limited and Ferragamo Retail India Private Limited. They amounted to 2,873 thousand Euro, down by 427 thousand Euro compared to 31 December 2016. The value is net of the fair value of plan assets mainly consisting of insurance policies.

Here below are the main financial assumptions used in determining the present value of employee benefit liabilities:

	31 December 2017	31 December 2016
Annual rate of salary increase	2.0% - 6.0%	2.0% - 5.25%
Annual discount rate	0.46% - 7.64%	0.35% - 7.20%

As for the demographic assumptions used in measuring the defined benefit liabilities of the Group's non-Italian companies, the figure used as a benchmark for the mortality rate is the standard one for each local population, broken down by age and gender, while for the staff turnover rate annual frequencies have been calculated based on the individual companies' data.

Here below is a quantitative sensitivity analysis for the main assumptions as at 31 December 2017 and 31 December 2016 concerning employee benefit obligations of Italian companies, which have the highest impact on total defined benefit obligations:

(In thousands of Euro)	2017			2016		
	% change	Additions	Disposals	% change	Additions	Disposals
Annual rate of salary increase	+/- 0.5%	25	(23)	+/- 0.5%	30	(28)
Annual discount rate	+/- 0.5%	(389)	420	+/- 0.5%	(445)	483
Mortality rate	+/- 0.025%	(2)	2	+/- 0.025%	(3)	3
Staff turnover rate	+/- 0.5%	(36)	38	+/- 0.5%	(49)	52

The above sensitivity analyses are based on reasonable changes in the key assumptions at the end of the two reporting periods being compared.

The average number of employees (in terms of full-time equivalents) by category is shown in the following table:

Average staff		
(Full time equivalent)	2017	2016
Top managers, middle managers and store managers	757.10	729.99
White collars	2,872.41	2,780.43
Blue collars	267.74	261.26
Temporary Agency staff	106.59	131.94
Total	4,003.84	3,903.62

Average staff increased compared to the previous year mainly due to retail activities.

21. Other non current liabilities

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Payables for deferred rents	58,864	60,499	(1,635)
Other payables	203	253	(50)
Other payables for hedge derivatives	-	4	(4)
Total	59,067	60,756	(1,689)

Payables for deferred rents mainly refer to the straight lining of rents over the contract period for the property leased in the United States (45,408 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 31 December 2017 the item “Other payables” refers mainly to guarantee deposits received for lease contracts.

The item “Other payables for hedge derivatives” shows the fair value measurement at the end of the year of the non current portion of outstanding derivatives (hedge component) entered into by the Parent company to manage exchange rate risk. For further details, reference should be made to note 28.

22. Other non current financial liabilities

The item “Other non current financial liabilities” amounts to 93 thousand Euro as at 31 December 2017 (355 thousand Euro as at 31 December 2016) and refers to the fair value measurement of the non current portion of outstanding derivatives (non-hedge component).

23. Trade payables

The breakdown of trade payables was as follows:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Trade payables	201,978	179,165	22,813
Advances from customers	1,635	1,091	544
Total	203,613	180,256	23,357

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 the costs for the purchase of raw materials, parts, and costs relating to manufacturing in outsourcing, as well as payables to be settled at 31 December 2017 related to the construction work on the new logistics hub at Osmannoro (approximately 9.6 million Euro).

24. Interest-bearing loans & borrowings

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Medium/long-term financial payables to banks	14,814	-	14,814
Short-term financial payables to banks	66,529	121,251	(54,722)
Total	81,343	121,251	(39,908)

The Group's financial requirements are covered by short-term payables relating to short- and medium/long-term bank credit lines. During 2017 the Group used a considerable part of its cash surplus to take out intercompany loans, regulated at current market conditions, so as to reduce its bank debt. In 2017, the Parent company repaid in advance or did not renew a number of committed credit lines to account for the Group's significant cash flows from current operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. Two separate term loans were extended relating to the subsidiaries Ferragamo Japan KK and Ferragamo Retail India Private Limited, which can be fully repaid upon expiry, with a residual duration as at 31 December 2017 of thirty-one and four months respectively. 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 or the benchmark of the loan currency on the specific interbank market) increased by a spread which depends on the type of credit line used. For term loans with maturity of more than one year, the interest period and the market rate used (Euribor/Libor), does not exceed three months, including for drawdowns beyond the year. Drawdowns range from one day to a maximum of less than three years (term loans). The margins applied are in line with the best market standards.

The financial instruments used are:

- i) uncommitted credit lines made available in the currency and country of residence of the individual Company in order to meet short-term financial needs linked to the management of working capital;
- ii) committed, short- and medium/long-term credit lines (revolving credit lines or term loans), negotiated on a bilateral basis by the Parent company; some of these revolving lines can be used by a number of borrowers in their own accounting currency which may be different from the Euro (the so-called multiborrower and/or multicurrency credit lines).

As at 31 December 2017 committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of thirty months. The credit lines and the related financial business are spread among leading national and international banks. As at the reporting date uses are below three years.

As far as financial payables to banks are concerned, the following table provides a breakdown by type of the credit lines granted to the Group and the relevant uses:

(In thousands of Euro)	31 December 2017		31 December 2016	
	Agreed	Used	Agreed	Used
Committed credit lines	182,385	22,385	304,309	27,488
Revolving credit lines	160,000	-	280,000	3,179
Term loans	22,385	22,385	24,309	24,309
Uncommitted credit lines	598,384	58,958	574,546	93,763
Total	780,769	81,343	878,855	121,251

The following table provides the breakdown and changes in the net financial position as at 31 December 2017 and 31 December 2016, in accordance with the model included in CONSOB Communication no. DEM/6064293 of 28 July 2006.

(In thousands of Euro)	31 December	31 December	Change
	2017	2016	2017 vs. 2016
A. Cash	1,909	1,855	54
B. Other cash equivalents	210,179	115,394	94,785
C. Cash and cash equivalents (A)+(B)	212,088	117,249	94,839
Derivatives – non-hedging component	341	264	77
Other financial assets	-	-	-
D. Current financial receivables	341	264	77
E. Current bank payables	66,529	121,251	(54,722)
F. Derivatives – non-hedging component	226	526	(300)
G. Other current financial payables	3,276	3,379	(103)
H. Current financial debt (E)+(F)+(G)	70,031	125,156	(55,125)
I. Current financial debt, net (H)-(C)-(D)	(142,398)	7,643	(150,041)
J. Non current bank payables	14,814	-	14,814
K. Derivatives – non-hedging component	93	355	(262)
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	14,907	355	14,552
O. Net financial debt/(surplus) (I)+(N)	(127,491)	7,998	(135,489)

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 are included only in some local loan contracts entered into by Asian companies, even though they are uncommitted credit lines.

As at 31 December 2017 the financial and non-financial covenants were complied with by all the companies involved.

25. Tax payables

As at 31 December 2017 tax payables amounted to 19,772 thousand Euro (21,615 thousand Euro as at 31 December 2016) and concerned payables for income taxes pertaining to the period, VAT and other taxes due by Group companies. The net 1,843 thousand Euro decline compared to 31 December 2016 was largely attributable to payables for direct taxes – also as a result of the tax benefits granted to the Parent company (please refer to the section “Significant events occurred during the year” in the Directors' report on operations).

26. Other current liabilities

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

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Other payables	22,907	28,311	(5,404)
Payables to social security institutions	5,041	5,407	(366)
Accrued expenses	2,519	2,872	(353)
Deferred income	2,440	1,961	479
Other payables for hedge derivatives	362	12,766	(12,404)
Total	33,269	51,317	(18,048)

Other payables mainly include the Group’s payables to employees for amounts accrued but not yet paid at the reporting date (18,670 thousand Euro); they also include payables to suppliers and service providers that had not been invoiced at the reporting date.

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 hedge derivatives” shows the fair value valuation at the end of the year of outstanding derivatives (hedge component) entered into by the Parent company to manage exchange rate risk. For further details, reference should be made to note 28.

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)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Short-term derivatives	226	526	(300)
Other current financial payables	3,276	3,379	(103)
Total	3,502	3,905	(403)

The item “Other current financial payables” as at 31 December 2017 includes:

- the put option (2,022 thousand Euro) granted to the minority shareholders of Ferragamo Japan KK, 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 2016, this item amounted to 2,212 thousand Euro.
- 1,254 thousand Euro for payables to the minority shareholder of Ferragamo Retail India Private Limited. As at 31 December 2016, this item amounted to 1,167 thousand Euro.

For further details, reference should be made to note 38.

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 IAS 39 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 31 December 2017 and 31 December 2016.

Classification of financial instruments and presentation of their fair value

FINANCIAL ASSETS	31 December 2017			31 December 2016		
	Book value		Fair Value	Book value		Fair Value
	Current	Non current		Current	Non current	
(In thousands of Euro)	portion	portion		portion	portion	
Financial assets at fair value through profit or loss						
Derivatives – non-hedging component	341	-	341	264	-	264
Available-for-sale financial assets	-	-	-	-	20	20
Receivables and loans						
Receivables from others (M/L term)	297	2,000	2,285	198	2,198	2,396
Receivables due from credit cards	12,596	-	12,596	12,214	-	12,214
Trade receivables	148,583	-	148,583	179,678	-	179,678
Guarantee deposits	-	15,981	15,981	-	17,278	17,278
Cash and cash equivalents	212,088	-	212,088	117,249	-	117,249
Derivatives – hedging component	12,844	-	12,844	2,575	123	2,698
Total	386,749	17,981	404,718	312,178	19,619	331,797
FINANCIAL LIABILITIES	31 December 2017			31 December 2016		
	Book value		Fair Value	Book value		Fair Value
	Current	Non current		Current	Non current	
(In thousands of Euro)	portion	portion		portion	portion	
Liabilities at amortized cost						
Trade payables and payments on account	203,613	-	203,613	180,256	-	180,256
Payables to banks	66,529	14,814	81,343	121,251	-	121,251
Other financial payables	3,276	-	3,276	3,379	-	3,379
Guarantee deposits	69	203	272	56	253	309
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	226	93	319	526	355	881
Derivatives – hedging component	362	-	362	12,766	4	12,770
Total	274,075	15,110	289,185	318,234	612	318,846

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 the fair value calculation 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 Group 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 297 thousand Euro payment in 2018 – which is recognized 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. This amount is expected to be paid 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, in accordance with the discounted cash flow method. The negative market interest rates for some maturities until 2022 were assumed to be zero, resulting in a fair value equal to the nominal amount. Also for

“Guarantee deposits” the book value is a reasonable approximation of the fair value. 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 sales and purchases through currency forward contracts), the related expiry dates (not over twelve months), and the Group's and counterparties' ratings, 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 (through netting) all the outstanding financial assets and liabilities arising from these derivatives.

The table summarizes the effects on the income statement and shareholders' equity in reference to each category of outstanding financial instruments for the Group in the years 2017 and 2016.

(In thousands of Euro)	2017	2016
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	6,215	(8,597)
Derivatives – hedging component	682	(235)
<i>Net gains/(losses) on financial instruments recognized in shareholders' equity:</i>		
Derivatives – hedging component	27,663	(2,870)
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	671	662
Interest expense	4,039	5,533
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>	410	580
<i>Interest income accrued on financial instruments written-off</i>	-	-
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	124	1,434

Comments on the main income statement items

For a better understanding of the development in income statement items, reference should also be made to the comments in the Directors' report on operations relating to the comparison between the data for 2017 and 2016.

29. Revenues

In the years ended 31 December 2017 and 31 December 2016 revenues totaled 1,393,472 thousand Euro and 1,437,923 thousand Euro respectively and can be broken down as shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Retail revenues	905,334	912,361	(7,027)
Wholesale revenues	465,295	502,648	(37,353)
Licenses and services	10,150	9,960	190
Rental income investment properties	12,693	12,954	(261)
Total	1,393,472	1,437,923	(44,451)

The item "Licenses and services" includes royalties deriving from the license contract with the Marchon Group for the production and distribution of glasses and with the Timex Group for the production and distribution of watches ("Ferragamo" brand).

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.

30. Cost of goods sold and operating costs

Cost of goods sold and operating costs in the years ended 31 December 2017 and 31 December 2016 were 1,219,153 thousand Euro and 1,191,144 thousand Euro respectively and were classified by function as follows:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Cost of goods sold	494,755	472,808	21,947
Style, product development and logistics costs	44,151	44,167	(16)
Sales & distribution costs	474,674	469,191	5,483
Marketing & communication costs	70,708	71,217	(509)
General and administrative costs	115,682	113,663	2,019
Other operating costs	19,183	20,098	(915)
Total	1,219,153	1,191,144	28,009

Costs were up 2.4% from 2016 because of the rising cost of goods sold as a result of the increase in sales through the secondary channel (outlets) compared to the primary channel, the enhancement of the distribution structure, and the higher costs associated with the change in the Group's management and the actions taken.

31. Breakdown by nature of income statement cost items

The breakdown by nature of the cost of goods sold and operating costs is set out in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Raw materials, finished products and consumables used	302,929	262,879	40,050
Costs for services	616,163	630,154	(13,991)
Personnel costs	218,424	214,912	3,512
Amortization and depreciation	61,741	62,404	(663)
Write-downs of tangible/intangible assets	713	697	16
Other charges	19,183	20,098	(915)
Total	1,219,153	1,191,144	28,009

32. Other income and revenues

Other income and revenues are broken down as follows:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Expense recovery	2,531	2,840	(309)
Rental income from operating properties	832	2,335	(1,503)
Advertising contributions	126	7	119
Other income and revenues	7,440	7,212	228
Gains on disposal of tangible/intangible assets	33	45	(12)
Windfall profit	773	1,510	(737)
Total	11,735	13,949	(2,214)

Other income and revenues, totaling 11,735 thousand Euro, were down 2,214 thousand Euro from 31 December 2016 because of, among other things, the decline in rental income from subleases of operating properties in the United States following the reduction in total leased space.

Other income and revenues included also the recognition of the 2.7 million Euro Tax Credit for Research and Development Expenditure granted to the Parent company Salvatore Ferragamo S.p.A. in 2017 (2.4 million Euro in 2016 because of the cumulative impact of the benefits for the years 2015 and 2016).

33. Financial operations

Financial operations are broken down as follows:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Financial charges			
Interest expense	3,232	4,819	(1,587)
Discount charges and other financial charges	2,209	2,389	(180)
Losses on disposal of available-for-sale assets	15	-	15
Losses on exchange rate differences	33,299	19,269	14,030
Financial charges for fair value adjustment of derivatives	13,324	16,050	(2,726)
Total	52,079	42,527	9,552

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Financial income			
Interest income	629	546	83
Other financial income	42	116	(74)
Gains on exchange rate differences	19,160	19,357	(197)
Financial income for fair value adjustment of derivatives	19,539	7,453	12,086
Total	39,370	27,472	11,898

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 were recorded mainly by the Parent company Salvatore Ferragamo S.p.A., and derive from sales in currencies other than the Euro, to both Group companies (intercompany level) and to third parties. During 2017 net exchange rate losses amounted to 14,139 thousand Euro compared to net exchange rate gains of 88 thousand Euro in 2016.

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. In 2017, the Group reported 6,215 thousand Euro in net financial income for fair value adjustment of derivatives, compared to 8,597 thousand Euro in net financial charges in 2016.

34. Income taxes

The taxes recorded in the income statement were as follows:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Current taxes	(37,251)	(46,054)	8,803
Deferred taxes	(21,811)	(1,261)	(20,550)
Total	(59,062)	(47,315)	(11,747)
Tax rate	34.1%	19.3%	

Current taxes included the tax benefit of the Parent company for direct taxes (IRES, the Italian corporate income tax, and IRAP, the regional manufacturing tax) related to the so-called “Patent Box”, amounting to 9,828 thousand Euro in 2017 (in 2016, the Group recognized a cumulative 32,040 thousand Euro for the years 2015 and 2016). Reference should be made to the Directors’ report on operations, section “Significant events occurred during the year”. The decline in current taxes compared to 2016 was partially attributable to the reduction in the tax bases – closely associated with the decline in the financial performance of Group companies – and, to a lesser extent, the reduction in the IRES tax rate for Italian companies (from 27.5% in 2016 to 24% in 2017).

Deferred taxes include the reversal in the year of deferred tax assets on tax losses totaling 3,189 thousand Euro. The steady increase in deferred taxes recognized through profit or loss compared to 2016 was attributable to two key factors: (i) the reversal of deferred tax assets because of the decline in inventories of finished products, and (ii) the adjustment to deferred tax assets caused by the reduction in the US federal income tax rate from 35% to 21%.

Deferred tax assets and liabilities

The following table provides a breakdown by nature of the assets and liabilities for deferred taxes as at 31 December 2017 and 31 December 2016.

(In thousands of Euro)	31 December 2017	31 December 2016	31 December 2017	31 December 2016	2017	2016
	Statement of financial position		Shareholders’ equity		Income statement	
Deferred tax assets						
- on employee benefits	1,306	1,854	814	906	(344)	(67)
- on tangible assets	4,535	6,092	-	-	(1,096)	1,890
- on intangible assets	1,197	1,112	-	-	84	73
- on the cash flow hedge reserve	-	1,210	-	2,174	964	183
- on the valuation of inventories	10,397	12,450	-	-	(1,326)	(919)
- on the elimination of the profit unrealized in inventories	37,167	53,015	-	-	(15,848)	(3,642)
- on tax losses	5,672	9,312	-	-	(3,189)	5,469
- on taxed provisions	2,890	3,448	-	-	(386)	(814)
- for other temporary differences	16,460	21,784	-	-	(3,289)	(769)
Deferred tax assets	79,624	110,277	814	3,080	(24,430)	1,404
Deferred tax liabilities						
- on employee benefits	(39)	(37)	-	-	(2)	8
- on tangible assets	(462)	(482)	-	-	13	67
- on the cash flow hedge reserve	(2,351)	-	(4,465)	-	2,114	-
- on the valuation of inventories	(2,981)	(3,020)	-	-	14	(1,244)
- for other temporary differences	(2,402)	(3,022)	-	-	480	(1,496)
Deferred tax liabilities	(8,235)	(6,561)	(4,465)	-	2,619	(2,665)
Net effect	71,389	103,716	(3,651)	3,080	(21,811)	(1,261)

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 the effective possibility to be realized.

Deferred tax assets on previous tax losses as at 31 December 2017 and 31 December 2016 were as follows:

(In thousands of Euro)		31 December 2017	
Expiry	Previous tax losses	Tax rate	Deferred tax assets
Without time limits	18,137	26.59%	4,823
Within 1 year	464	25.00%	116
1 to 3 years	425	25.00%	106
Over 5 years	2,176	28.81%	627
Total	21,202	26.75%	5,672

(In thousands of Euro)		31 December 2016	
Expiry	Previous tax losses	Tax rate	Deferred tax assets
Without time limits	15,782	25.85%	4,079
Within 1 year	59	25.00%	15
1 to 3 years	730	25.00%	182
3 to 5 years	160	25.00%	40
Over 5 years	13,210	37.82%	4,996
Total	29,941	31.10%	9,312

Tax losses of Group companies as at 31 December 2017 and 31 December 2016 on which deferred tax assets have not been calculated and the related expiries are shown in the following table:

(In thousands of Euro)		Expiry				
31 December 2017		Without time limits	Within 1 year	1 to 3 years	3 to 5 years	over 5 years
83,644		50,706	669	9,571	6,464	16,234

(In thousands of Euro)		Expiry				
31 December 2016		Without time limits	Within 1 year	1 to 3 years	3 to 5 years	over 5 years
65,563		41,177	792	4,737	10,088	8,769

The reconciliation between the theoretical tax charge and the effective tax charge is as follows:

(In thousands of Euro)	2017	2016
Profit before taxes	173,345	245,673
<i>IRES rate in force for the year</i>	<i>(24.0%)</i>	<i>(27.5%)</i>
Theoretical tax charge	(41,603)	(67,560)
IRAP effect	(6,308)	(9,655)
(Non-deductible costs) net of non-taxable income	105	(1,676)
Differences arising from different rates – foreign countries*	(15,245)	2,251
Other effects	672	(233)
Effects from non-registration of deferred taxes	(7,377)	(3,231)
Patent Box impact (IRES and IRAP)**	9,828	32,040
Research and Development Tax Credit impact (IRES-IRAP)**	866	749
Total differences	(17,459)	20,245
Total taxes from the income statement	(59,062)	(47,315)
Effective tax rate	(34.1%)	(19.3%)

* In 2017, the item included the adjustment to deferred tax assets caused by the reduction in the US federal income tax rate from 35% to 21%.

** In 2016, these amounts included the benefits of the Patent Box as well as the Research and Development Tax Credit (IRES - IRAP) for the years 2016 and 2015.

35. Earnings per share

As required by IAS 33, information is provided on the data used to calculate the earnings per share and the diluted earnings per share. The basic earnings per share is calculated by dividing the profit 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 37.

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

	2017	2016
Net profit (loss) – shareholders of the Parent company (Euro)	118,641,439	201,983,790
Average number of ordinary shares	168,790,000	168,790,000
Basic earnings per share – ordinary shares (Euro)	0.703	1.197
Average number of ordinary shares	168,790,000	168,790,000
Dilution effect: number of shares which could have been issued (Stock Grant Plan)	67,980	15,872
Diluted average number of ordinary shares	168,857,980	168,790,000
Diluted earnings per share – ordinary shares (Euro)	0.703	1.197

Other information

36. Dividends

In order to implement the resolution of the Shareholders' Meeting of 27 April 2017, the Parent company Salvatore Ferragamo S.p.A. paid shareholders a single dividend of 0.46 Euro per share, relating to the profit for 2016, for a total amount of 77,643,400 Euro, with coupon detachment on 22 May 2017 and payment of the dividend as from 24 May 2017.

Other Group companies with third-party minority shareholders did not pay any dividends to their third-party shareholders during 2017.

37. 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, in 2016 the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below. For more details on the Plan's objectives, scope, and term as well as the method for measuring fair value, please refer to the Annual Report as at 31 December 2016.

Plan Aims

The objectives the Company aims to achieve by implementing the Plan can be identified in providing incentives for the key personnel of the Group, thus encouraging their loyalty to the Group, through the allocation of instruments representing the value of the Company and which can (i) align the remuneration of top managers who are the beneficiaries of the Plan with the interests of shareholders and the provisions of the Corporate Governance Code for listed companies drafted by Borsa Italiana S.p.A., (ii) retain the Group's key personnel, and (iii) help management to take decisions aimed at creating further value for the Group in the medium-long term.

Object of the Plan

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 and approved the performance targets for each Cycle – specifically, on 30 June 2016 for the first Cycle and 22 June 2017 for the Second Cycle.

The performance period is from 1 January 2016 through 31 December 2018 for the First Cycle, and from 1 January 2017 through 31 December 2019 for the Second Cycle.

Specifically, the Board of Directors set two targets for both Cycles, and each of them accounts for 50% of the total options granted:

- A. Total Shareholder Return ("TSR") compared to a peer group. The number of shares for the portion related to this measure will be granted based on the Company's TSR compared to its peers. All or part of the shares will be granted only if the TSR of the Company will be positive and at least equal to the median of the peer group (so-called market condition), as shown in the table below.
- B. Consolidated gross profit (before taxes). This target will be measured using the three-year average of the actual consolidated gross profit (before taxes) compared to the three-year average of consolidated gross profit (before taxes) defined in the annual Budgets. The number of shares

granted will be based on the above ratio as shown in the following table (so-called non market condition).

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%

The shares to service the Plan (to be granted by the Board of Directors at the end of each Performance Period for the two Cycles – 2016/2018 and 2017/2019 – contingent on the achievement of the performance targets) arise, in whole or in part, from a specific free Share Capital increase of up to 600,000 ordinary shares amounting to 60,000 Euro, in accordance with article 2349, paragraph 1 of the Italian Civil Code, submitted to the approval of the Extraordinary Shareholders' Meeting of 21 April 2016 and/or, alternatively, through the grant of any treasury shares held by the Company Salvatore Ferragamo S.p.A. at the date of the grant.

At the meetings held on 30 June 2016, 2 August 2016, and 14 March 2017, as part of the 1st Cycle, and on 22 June 2017, as part of the 2nd Cycle, the Board of Directors, with the favorable opinion of the Nomination and Remuneration Committee, granted 555,000 rights to receive ordinary shares in Salvatore Ferragamo S.p.A. to managers of both Salvatore Ferragamo S.p.A. (including the Managing Director Eraldo Poletto) and its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., Ferragamo Mexico S. de R.L. de C.V., and Ferragamo Japan K.K.). The Board of Directors may assign further rights to receive shares to the beneficiaries joining the Group during the Plan period.

Expiry of the Plan

The 1st Cycle of the Plan will end on 30 June 2019 or the date of the Grant of the Shares to the Beneficiaries of the 1st Cycle, whichever is earlier. The 2nd Cycle of the Plan will end on 30 June 2020 or the date of the Grant of the Shares to the Beneficiaries of the 2nd Cycle, whichever is earlier.

Changes in the period of the number of rights assigned to receive shares*	
(i) outstanding at the start of the year	215,000
(ii) assigned in the period	325,000
(iii) cancelled in the period	270,000
(iv) exercised in the period	-
(v) expired in the period	-
(vi) outstanding at the end of the period	270,000
(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

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

	31 December 2017		31 December 2016	
	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	155,000	318	-	-
- assigned in the year	270,000	1,005	170,000	349
- cancelled in the period	245,000	685	15,000	31
- at the end of the period	180,000	867	155,000	318
<u>Rights to receive shares assigned to the subsidiaries' top managers</u>				
- at the start of the year	60,000	123	-	-
- assigned in the period	55,000	227	60,000	123
- cancelled in the period	25,000	51	-	-
- at the end of the period	90,000	444	60,000	123
<u>Total rights to receive shares assigned to Ferragamo Group's top managers</u>				
- at the start of the year	215,000	441	-	-
- assigned in the period	325,000	1,232	230,000	472
- cancelled in the period	270,000	736	15,000	31
- at the end of the period	270,000	1,311	215,000	441

The rights to receive shares cancelled in the period, corresponding to 270,000 shares, had been granted to employees of both Salvatore Ferragamo S.p.A. and some of the Group's foreign subsidiaries as well as the Managing Director Eraldo Poletto, who, at the date of the approval of the financial statements, were no longer eligible for participating in the plan, under which at the grant date there must be an employment and/or partnership and/or administrative relationship between the beneficiary and the Parent company or one of its subsidiaries.

(c) Fair value measurement

Considering the above 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	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 start date of the **2nd Cycle's** vesting period.

- Start date of the vesting period of the Rights of 22 June 2017

	Assessment A (TSR)	Assessment B (CGP before Taxes)
Share price at the vesting period start date (in Euro)	25.46	25.46
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	20% <X<38%	-
- Correlation of the share price between Ferragamo and similar companies	30%	-
- Expected dividends	1.98%	1.98%
- Risk-free interest rate**	(0.56%)	-
Fair Value per share at the vesting period start date (in Euro)	13.8455	24.2311

*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.

38. Put and call agreements on minority interests

In recent years the Salvatore Ferragamo Group has expanded largely through internal growth. In some areas, mainly in Asia, it has also grown through partnerships with local distributors. In relation to these partnerships, the Shareholders' Agreements regulate dealings between the partners, define the governance rules and contain some provisions on put and call options which shareholders can exercise under certain conditions.

The subsidiaries involved in these kinds of agreements are Ferragamo Japan K.K., Ferrimag Limited, Ferragamo Moda (Shanghai) Co. Ltd., Ferragamo Retail Macau Limited and Ferragamo Retail India Private Limited.

Below are the details on the agreements on minority interests and the effects of the options which have been recognized in the consolidated financial statements as at 31 December 2017.

Ferragamo Japan K.K.'s Shareholders' Agreement allows minority shareholders, collectively holding a 29% stake, to sell their shares to Salvatore Ferragamo S.p.A. at a contractually set price in the case of proven financial need or in the case of a change in their investment strategies in the luxury sector. Consequently, as at 31 December 2010 a financial liability was recorded taking into account the possibility of minority shareholders exercising the put option on their 29% stake. Due to this recognition, as at 31 December 2017 financial debt amounted to 2,022 thousand Euro. Since the Salvatore Ferragamo Group believes it does not have access to the economic benefits associated with this interest, at each measurement date, any changes in the value of the put will be recognized directly in equity.

As for the investment in Ferragamo Retail India Private Limited, under the agreements in place since 2010 with the local partner, among other things, the Salvatore Ferragamo Group had the right to immediately acquire the minority interest (i.e. 49% of the company) at a preset price, plus interest calculated based on preset parameters, until 30 June 2016; after this date, the partner would have been able to exercise the put option at similar conditions. Given a preset option price and contract terms ensuring the minority shareholder solely a return on capital, the Salvatore Ferragamo Group believes it already has access to the economic benefits connected to the share of capital covered by the option and, as from 2010 it has consolidated the investment in Ferragamo Retail India Private Limited on a line-by-line basis. On 19 December 2016, the partner concerned sold its minority interest (49%) in Ferragamo Retail India Private Limited to a new local partner, thus terminating the Shareholders' Agreement with the Salvatore Ferragamo Group. The Parent company Salvatore Ferragamo S.p.A. has entered into new agreements with the new partner, which grant a call option to the Salvatore Ferragamo Group and a put option to the partner for the sale of its minority interest. The Salvatore Ferragamo Group believes it still has access to the economic benefits associated with the interest concerned by the option and, as in previous years, consolidated the investment in Ferragamo Retail India Private Limited using the line-by-line method. Due to this recognition, as at 31 December 2017 financial debt was 1,254 thousand Euro.

39. Segment reporting

Accounting Standard IFRS 8 – Operating segments 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)	2017	2016
Retail net revenues	905,334	912,361
Wholesale net revenues	465,295	502,648
Licenses and services	10,150	9,960
Rental income investment properties	12,693	12,954
Revenues	1,393,472	1,437,923
Gross profit	898,717	965,115
Gross profit %	64.5%	67.1%
Personnel costs	(204,893)	(201,099)
Rental costs	(213,254)	(209,682)
Amortization, depreciation and write-downs of non current assets	(61,471)	(62,163)
Communication costs	(64,674)	(65,726)
Other costs (net of other income)	(168,371)	(165,717)
Operating profit	186,054	260,728
Net financial (charges)/income	(12,709)	(15,055)
Profit before taxes	173,345	245,673
Income taxes	(59,062)	(47,315)
Net profit/(loss)	114,283	198,358
EBITDA*	248,508	323,829

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

(In thousands of Euro)	31 December 2017	31 December 2016
Inventories	325,516	374,710
Trade receivables	148,583	179,678
Tangible assets and investment property	255,739	251,042
Intangible assets with a finite useful life	43,593	37,576
Other assets	195,778	234,722
Assets held for sale	990	-
Total assets gross of cash and cash equivalents and current financial receivables	970,199	1,077,728
Net financial debt	(127,491)	7,998
Trade payables	203,613	180,256
Other liabilities	145,646	166,860
Shareholders' equity	748,431	722,614
Total liabilities and shareholders' equity (net of cash and cash equivalents and current financial receivables)	970,199	1,077,728

As regards the information required by IFRS 8, reference should be made to the 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 (excluding 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
31 December 2017	165,806	58,365	18,970	70,810	6,325	320,276
31 December 2016	132,693	74,335	22,381	76,020	7,759	313,188

40. Transactions with related parties

This section describes the transactions with related parties undertaken in the years ended 31 December 2017 and 31 December 2016.

(In thousands of Euro)	2017		31 December 2017			
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	-	(37)	-	21,576	(16)	-
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	19	(7,265)	9	70	(287)	-
Lungarno Alberghi S.r.l.	172	(1,932)	64	-	(11)	-
Fondazione Ferragamo	2	(199)	-	-	(59)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	27	(49)	14	-	(28)	-
Bacco S.r.l.	-	(3)	-	-	-	-
Baia di Scarlino S.r.l.	5	-	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(7)	-	-	(5)	-
Castiglion del Bosco Hotel S.r.l.	13	-	-	-	-	-
Il Borro S.r.l.	8	(1)	3	-	-	-
Marchesi Antinori S.p.A.	12	-	-	-	-	-
The European House Ambrosetti S.p.A.	4	(26)	-	-	-	-
Nautor Holding S.r.l.	1	-	1	-	-	-
Osteria del Borro S.r.l.	-	(4)	-	-	(1)	-
Prisma Property Investment Management S.r.l.	-	-	1	-	-	-
Harbour City Estates Limited	-	(9,184)	-	2,475	-	-
Imaginex Management Co. Ltd.	-	(479)	-	-	(32)	-
Times Square Ltd.	-	(2,876)	-	718	-	-
Lane Crawford (Hong Kong) Limited	-	(2)	-	-	-	-
Long Jin Complex Development (Chengdu) Co. Ltd.	-	(1,980)	-	597	-	-
Dalian Times Square Commercial Co. Ltd.	-	(991)	-	298	-	-
Pedder Group Limited	44	-	24	-	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(562)	-	151	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(248)	-	374	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(75)	-	19	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(86)	-	6	-	-
Wheelock Travel Ltd.	-	(1)	-	-	(1)	-
Walton Brown Holdings Limited	-	4	-	-	-	-
Changsha Times Outlet Commerce Limited	-	(38)	-	4	-	-
Chengdu Times Outlets Commerce Co. Ltd.	-	(174)	-	4	-	-
Chengdu Harriman Property Management Co. Ltd.	-	(33)	-	-	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletti Ferragamo	-	(82)	-	-	-	-
Massimo Ferragamo	-	(133)	-	-	-	-
Giacomo Ferragamo	-	(561)	-	-	-	-
Maria Sole Ferragamo	2	(1)	-	-	-	-
Angelica Visconti	-	(207)	-	-	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(4,967)	-	-	-	(1,527)
Total	309	(32,199)	116	26,292	(440)	(1,527)
Group total	1,393,472	(712,663)	148,583	83,537	(203,613)	(33,269)
% ratio	0.0%	4.5%	0.1%	31.5%	0.2%	4.6%

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(In thousands of Euro)	2016		31 December 2016			
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	-	(360)	-	32,410	-	(1,490)
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	22	(7,399)	5	70	(118)	-
Lungarno Alberghi S.r.l.	135	(757)	45	-	(127)	-
Fondazione Ferragamo	2	(191)	-	-	(62)	-
Companies connected to members of the Board of Directors						
Caretti & Associati S.p.A.	-	(251)	-	-	-	-
Viesca Agricola S.r.l.	(4)	-	-	-	-	-
Bacco S.r.l.	-	(3)	-	-	-	-
Il Borro S.r.l.	9	(1)	-	-	-	-
Osteria del Borro S.r.l.	-	(4)	-	-	(1)	-
Halldis Italia S.r.l.	-	(2)	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(10)	-	-	(8)	-
Castiglion del Bosco Hotel S.r.l.	12	-	-	-	-	-
Nautor Holding S.r.l.	4	-	4	-	-	-
The European House Ambrosetti S.p.A.	7	-	1	-	-	-
Rubino S.r.l.	-	(114)	-	16	-	-
Arpa S.r.l.	41	(42)	14	-	(22)	-
Studio Legale Portale Visconti	-	(240)	-	-	(131)	-
Baia di Scarlino S.r.l.	4	-	-	-	-	-
Imaginex Management Co. Ltd.	1	(534)	-	-	(19)	(39)
Wharf T&T Ltd.	-	(21)	-	-	-	-
Times Square Ltd.	-	(3,145)	-	-	-	(3)
Wharf Realty Ltd.	-	(9,741)	-	-	-	-
LongJin Zonghe Kaifa (Chengdu) LTD	-	(2,050)	-	578	-	-
Dalian Times Square Commercial Co. Ltd.	-	(1,111)	-	318	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(621)	-	161	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(461)	-	399	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(87)	-	6	-	-
Chengdu Times Outlets Commerce Co. Ltd.	-	(173)	-	4	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletto Ferragamo	-	(81)	-	-	-	-
Massimo Ferragamo	-	(136)	-	-	(25)	-
Giacomo Ferragamo	-	(624)	-	-	-	(170)
Angelica Visconti	-	(190)	-	-	-	(54)
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(8,347)	-	-	-	(2,004)
Total	233	(36,696)	69	33,962	(513)	(3,760)
Group total	1,437,923	(704,387)	179,678	85,176	(180,256)	(51,317)
% ratio	0.0%	5.2%	0.0%	39.9%	0.3%	7.3%

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) and in favor of Lungarno Alberghi S.r.l. (488 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 19,551 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 2016. 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 Italian Law Decree no. 201 of 6 December 2011, which was recognized in 2012.

The costs and the relevant payables mainly referred to the lease of an industrial shed adjacent to the Osmannoro facility, which the Parent company converted into a design and prototyping laboratory for the development of leather goods, as well as a parking area next to the Osmannoro facility.

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 of Salvatore Ferragamo S.p.A. in Florence and for some stores of the Italian chain. Other assets refer to guarantee deposits.

Lungarno Alberghi S.r.l.

Revenues (and the related accounts receivable balances) refer to product sales; the costs (and the related accounts payable balances) refer largely to rents for the premises used as stores in the Italian chain.

Fondazione Ferragamo

The costs (and the related accounts payable balances) incurred refer for 109 thousand Euro to the services provided for the management of the Salvatore Ferragamo historical archive (101 thousand Euro in 2016) and for 90 thousand Euro to donations to support the institutional activities of the Foundation (90 thousand Euro in 2016). Payables refer to the balance due for services concerning the management of the historical archive.

Companies connected to members of the Board of Directors

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:

Harbour City Estates Limited

Costs mainly refer to rents for premises for some stores by Ferragamo Retail HK Limited. Other assets refer to the relevant guarantee deposit.

Imaginex Management Co. Ltd.

Costs (and the related accounts payable balances) mainly refer to rents for premises for an outlet store and the office in Hong Kong.

Times Square Ltd.

Costs mainly refer to rents for premises for a store in Hong Kong whereas other assets refer to the related guarantee deposit.

Long Jin Complex Development (Chengdu) Co. Ltd (formerly LongJin Zonghe Kaifa (Chengdu) LTD

Costs refer to rents for premises for a store of Ferragamo Moda (Shanghai) Co. Ltd. whereas other assets refer to the relevant guarantee deposit.

Dalian Times Square Commercial Co. Ltd.

Costs refer to rents for premises for a store of Ferragamo Moda (Shanghai) Co. Ltd. and other assets refer to the relevant guarantee deposit.

Shanghai Wheelock square Development Co. Ltd.

Costs refer to rents for premises for offices of Ferragamo Fashion Trading (Shanghai) Co. Ltd. and Ferragamo Moda (Shanghai) Co. Ltd.. Other assets refer to guarantee deposits.

Shanghai Longxing Property Development Co. Ltd.

Costs refer to rents for premises for a store of Ferragamo Moda (Shanghai) Co. Ltd. and other assets refer to the relevant 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 Ferragamo.

Massimo Ferragamo

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

Giacomo Ferragamo

Costs refer to the cost incurred by the Parent company in relation to the employment relationship between Giacomo Ferragamo and the Parent company and to the Stock Grant Plan cost.

Angelica Visconti

Costs refer to the cost incurred by the Parent company in relation to the employment relationship between Angelica Visconti and the Parent company and to the Stock Grant Plan cost.

Directors, Statutory Auditors and Managers with strategic responsibilities

For information on Directors and Statutory Auditors reference should be made to the following note, while information on Managers with strategic responsibilities is provided in the table below:

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

Full name	Role
Eraldo Poletto*	Managing Director
Ugo Giorcelli**	Manager of Administration, Finance and Control
Ernesto Greco***	General Manager of Administration, Finance, Control and Information Systems
Massimo Barzaghi****	Deputy General Manager of Market Coordination and Supply Chain Manager

* Eraldo Poletto in office until 8 March 2018;

** Ugo Giorcelli in office as from 15 March 2017;

***Ernesto Greco was in office until 14 March 2017. He terminated the employment relationship on 30 April 2017;

**** Massimo Barzaghi was in office until 15 June 2017. He terminated the employment relationship on 31 July 2017.

The costs associated with the managers with strategic responsibilities (excluding the fees and payables related to the Managing Director, reported in the section Directors) referred to the cost incurred by the Group as part of the employment relationship and, in addition, they included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles. In 2017, these totaled 1,486 thousand Euro, of which 166 thousand Euro related to the 2016-2020 Stock Grant Plan, and included also the costs incurred for managers with strategic responsibilities that were no longer with the Group as at 31 December 2017 (1,718 thousand Euro in 2016). The managers with strategic responsibilities receive non-monetary benefits such as cars, mobile phones, insurance policies, and accommodation.

41. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)				2017					Total
Full name	Position held	Term of office	End of term of office	Fees for the position held	as committee members	Non-monetary benefits	Other fees	Stock Grant	
Ferruccio Ferragamo	Chairman	1.01-31.12	a)	700	-	b) c) d)	-	-	700
Eraldo Poletto	Managing Director	1.01-31.12	f)	800	-	b) c) d) e)	455	-	1,255
Giovanna Ferragamo	Deputy Chairman	1.01-31.12	a)	200	-		-	-	200
Fulvia Ferragamo	Director	1.01-31.12	a)	185	15		-	-	200
Leonardo Ferragamo	Director	1.01-31.12	a)	35	15		-	-	50
Francesco Caretti	Director	1.01-31.12	a)	285	-		-	-	285
Diego Paternò Castello di San Giuliano	Director	1.01-31.12	a)	285	-		-	-	285
Peter Woo Kwong Ching	Director	1.01-31.12	a)	-	-		-	-	-
Piero Antinori	Director	1.01-31.12	a)	35	-		-	-	35
Umberto Tombari	Director	1.01-31.12	a)	35	35		-	-	70
Marzio Saà	Director	1.01-31.12	a)	35	35		-	-	70
Chiara Ambrosetti	Director	1.01-31.12	a)	35	15		-	-	50
Lidia Fiori	Director	1.01-31.12	a)	35	15		-	-	50
Total				2,665	130		455	-	3,250

a) upon approval of the 2017 financial statements

b) car

c) mobile phone

d) insurance policies

e) accommodation

f) until the Board of Directors' Meeting approving the 2017 draft financial statements (8 March 2018)

Statutory Auditors

(In thousands of Euro)			2017				
Full name	Position held	Term of office	End of term of office	Fees for the position held	Other fees*	Other fees received from subsidiaries	Grand total
Andrea Balelli	Chairman	27.04 -31.12	a)	43	9	-	52
Fulvio Favini	Acting Statutory Auditor	1.01-31.12	a) b)	53	11	-	64
Alessandra Daccò	Acting Statutory Auditor	1.01-1.10		38	8	-	46
Paola Caramella	Acting Statutory Auditor	11.10 - 31.12	c)	11	2	-	13
Gerolamo Gavazzi	Acting Statutory Auditor	1.01-27.04		16	3	-	19
Total				161	33	-	194

a) upon approval of the 2019 financial statements

b) Chairman as from 01.01.2017 until 27.04.2017

c) Acting Statutory Auditor as from 11.10.2017 until approval of 2017 financial statements

(*) Other fees refer to amounts due for the position as Chairman or member of the Supervisory Board pursuant to Italian Leg. Decree 231/2001.

It should be noted that for Directors and Statutory Auditors no severance indemnities are envisaged.

42. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2017	31 December 2016
Sureties provided by third parties in the interests of Group companies	8,012	8,665
Guarantees provided by third parties in the interests of Group companies	3,817	3,669
Guarantees provided by Group companies in the interests of third parties	53,941	45,063
Total	65,770	57,397

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 and sureties issued by banks in favor of VAT authorities for reimbursements requested by Italian 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 5,003 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.

The following table shows the minimum future payments due at 31 December 2017 and 31 December 2016 relating to operating leases, broken down by expiry date:

(In thousands of Euro)	31 December 2017	31 December 2016
Within 1 year	129,392	141,244
1 to 5 years	316,942	354,420
Over 5 years	194,407	226,924
Total	640,741	722,588

The Group's operating leases largely refer to the lease of premises used as commercial and, to a lesser extent, office space. The costs incurred by the Group and recognized through profit or loss in 2017 totaled 213,345 thousand Euro (209,821 thousand Euro in 2016).

43. Significant non-recurring events and transactions

During 2017, the Salvatore Ferragamo Group did not carry out significant non-recurring transactions and no significant non-recurring events occurred.

44. 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.

45. Subsidiaries highlights

Subsidiaries highlights are shown in the table below.

(In thousands)							
Company	Currency	2017			2016		
		Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	37,844	718	21,119	38,276	3,609	20,401
Ferragamo Japan K.K.	JPY	13,675,680	(1,390,326)	800,650	13,543,572	(963,771)	2,166,427
Ferragamo Korea Ltd.	KRW	141,204,156	3,565,757	75,060,259	150,001,423	5,087,733	71,494,503
Ferragamo Espana S.L.	EURO	9,995	444	3,642	10,419	(80)	3,199
Ferrimag Limited	HKD	-	(1,363)	121,180	-	(1,299)	122,543
Ferragamo Retail HK Limited	HKD	493,205	(65,271)	169,927	489,275	(41,944)	235,199
Ferragamo Retail Taiwan Limited	TWD	715,439	2,028	320,020	805,948	(4,105)	316,705
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,161,807	83,280	461,264	1,043,591	93,260	376,301
Ferragamo Retail Nederland B.V.	EURO	6,058	(97)	2,501	5,650	270	2,598
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	1,048,594	35,633	410,543	972,176	16,786	374,910
Ferragamo (Singapore) Pte. Ltd.	SGD	38,550	(8,161)	(5,419)	41,707	(4,905)	2,742
Ferragamo (Thailand) Limited	THB	208,193	(30,897)	31,501	215,207	(18,783)	62,169
Ferragamo (Malaysia) Sdn Bhd	MYR	51,518	(178)	22,340	46,291	(1,666)	22,518
Ferragamo Hong Kong Ltd.	USD	237,046	18,036	208,206	272,329	27,413	217,521
Ferragamo USA Group	USD	362,674	(5,751)	87,586	370,989	(8,173)	93,273
Ferragamo Deutschland GmbH	EURO	11,566	(1,596)	9,668	12,431	(692)	11,263
Ferragamo Belgique SA	EURO	1,626	(124)	1,146	1,845	(54)	1,270
Ferragamo Monte-Carlo S.A.M.	EURO	881	(247)	752	1,096	(116)	998
Ferragamo (Suisse) SA	CHF	9,708	(1,454)	2,909	8,975	(103)	4,363
Ferragamo U.K. Limited	GBP	22,356	267	8,806	17,146	(1)	8,538
Ferragamo France S.A.S.	EURO	22,037	213	10,004	23,369	(542)	9,773
Ferragamo Parfums S.p.A.	EURO	87,033	3,325	23,314	86,061	3,304	19,831
Ferragamo Chile S.A.	CLP	993,162	(89,943)	18,468	902,809	17,792	108,412
Ferragamo Austria GmbH	EURO	3,729	22	3,735	4,075	113	3,713
Ferragamo Retail India Private Limited	INR	306,708	(316,774)	(869,761)	437,330	(130,974)	(553,725)
Ferragamo Retail Macau Limited	MOP	141,644	(9,562)	82,399	150,126	(502)	91,961
Ferragamo Moda (Shanghai) Co. Ltd.	CNY	239,649	(6,260)	(56,389)	252,775	(16,773)	(50,129)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	19,139	607	19,383	19,395	(8,990)	18,776
Ferragamo Argentina S.A.	ARS	24,054	(10,028)	(11,049)	23,782	(2,065)	(5,222)
Ferragamo Denmark ApS	DKK	4,766	(3,545)	4,674	5,382	(3,297)	719

46. Significant events occurred after 31 December 2017

On 27 February 2018, Salvatore Ferragamo S.p.A. announced that, as mutually agreed by the parties, Mr. Eraldo Poletto will finish his term as Director and Managing Director of the Company at the Board of Directors meeting on 8 March 2018 for the approval of the 2017 draft separate financial statements.

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(In thousands of Euro)	Subject which supplied the service	Recipient	Notes	Total fees for 2017
Type of services				
Audit	Independent Auditors of the Parent company	Parent company		191
Other services	i) Independent Auditors of the Parent company	Parent company		1
	ii) Independent Auditors' network of the Parent company	Parent company	1	116
Subtotal				308
Audit	i) Independent Auditors of the Parent company	Subsidiaries		109
	ii) Independent Auditors' network of the Parent company	Subsidiaries		797
Tax assistance services	Independent Auditors' network of the Parent company	Subsidiaries		99
Other services	Independent Auditors' network of the Parent company	Subsidiaries		22
Subtotal				1,027
Total				1,335

1) The item refers mainly to IT support services.

Florence, 8 March 2018

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Statement pursuant to paragraph 154 bis of Italian Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)

1. The undersigned Eraldo Poletto in his capacity as “Managing Director” 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 consolidated financial statements for the 1 January – 31 December 2017 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2017 consolidated financial statements 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 consolidated financial statements for the year ended 31 December 2017:

- 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 subsequent integrations;
- b. correspond with accounting books and records;
- c. are suitable to provide a true and fair representation of the financial conditions, results of operations and cash flows of the Company and of the group of companies included in the consolidation area as of 31 December 2017 and for the year then ended.

3.2 The Directors’ report on operations includes a reliable analysis of operating performance and results, as well as of the situation of the Company and of the group of companies included in the consolidation area, as well as a description of the main risks and uncertainties to which they are exposed.

Florence, 8 March 2018

Managing Director
Eraldo Poletto

Manager charged with preparing Company’s Financial Reports
Ugo Giorcelli



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

(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Salvatore Ferragamo Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of Salvatore Ferragamo S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

EY S.p.A.
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We identified the following key audit matters:

Key Audit Matter	Audit Response
Accounting for exchange rate risk hedging instruments and related disclosures	
<p>In order to mitigate its exposure to exchange rate risk, the Group enters into a significant number of derivative financial instruments (forward currency) in connection to transactions with foreign countries carried out in the ordinary course of business.</p> <p>These financial instruments are recorded at fair value within current assets for 12.8 million of euro and within current liabilities for 0.4 million of euro at December 31, 2017, and accounted for as hedging instruments (hedge accounting). The application of the hedge accounting, including the valuation of hedging instruments, was considered a key audit matter due to the fact that (i) the Group holds a significant amount of financial instruments, in terms of population and dollar value, managed through a specific module of the company's Enterprise Resource Planning (ERP) system to record each contract and calculate its valuation at the balance sheet date, (ii) the assessment of the effectiveness of the hedging policy affects the accounting of such instruments and (iii) the performance of the variables underlying these contracts is influenced by the market conditions that are not controlled by the management.</p> <p>The disclosure relating to the exchange risk management is included in Note 3 "Management of financial risks (IFRS 7)", and the disclosure relating the assumptions underlying the calculation of the fair value is included in Note 28 "Financial instruments and fair value measurement".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) assessment of the processes and key controls implemented by the Group to determine the effectiveness of the hedging policy, necessary for the application of hedge accounting techniques, and to determine the fair value of derivatives, with the assistance of our experts in valuation of financial instruments; ii) testing key controls in place at the company, including application controls within the company's ERP system, also with the assistance of our IT specialists; iii) testing of the validity of the input data in the valuation models on transactions and contracts completed during the year, on a sample basis; iv) testing of the effectiveness of the hedging policy in order to verify the accounting treatment, on a sample basis; v) obtaining written confirmation from contractual counterparties for derivative financial instruments. <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements.</p>



Key Audit Matter	Audit Response
Risk of inventory obsolescence	
<p>The Group is subject to the risk that the unsold products at the end of the season or, in case of fragrances, at the end of the life cycle, quickly become obsolete and that, therefore, the inventories of these products are subject to impairment; to account for such risk, the consolidated financial statements include an obsolescence reserve of 40.9 million of euro recorded as a reduction in inventories of finished products and goods, and include an obsolescence reserve of 6.5 million of euro recorded as a reduction in inventories of raw materials.</p> <p>The estimate of the inventories' recoverable amount for the risk of obsolescence was considered a key audit matter as it requires the application of judgment by the management, particularly in defining the key assumptions on which the assessment is based, either endogenous (disposal or disposal policies on secondary sales channels / markets) and exogenous (market demand and expected sales forecasts in the future).</p> <p>The disclosure relating to the estimation of the inventories' obsolescence reserve is included in Note 2 in the paragraph "Discretionary valuations, and significant accounting estimates".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <p>i) assessment of the processes and key controls implemented by the Group surrounding the estimate of the inventories' obsolescence reserve;</p> <p>ii) the assessment of the key assumptions used by the management to calculate the estimated recoverable amount of slow moving, excess or obsolete items, such as the ageing of items and sales forecasts;</p> <p>iii) the assessment of the consistency of the assumptions used by management in the actual estimate with respect to the final figures and the corresponding assumptions of the previous year and, where discrepancies are noted, the assessment of the appropriateness of the estimate change;</p> <p>iv) testing of the data used by the Management to estimate the inventories obsolescence reserve, on a sample basis; and</p> <p>v) verification of the mathematical accuracy of the calculations performed by management.</p> <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements</p>

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease



operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify



during our audit.

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

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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Salvatore Ferragamo S.p.A. (the Company), in the general meeting held on 30 March 2011, engaged us to perform the audits of the consolidated financial statements of each years ending 31 December 2011 to 31 December 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Group Salvatore Ferragamo as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Salvatore Ferragamo Group as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Salvatore Ferragamo Group as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative



Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Florence, 23 March 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.

Salvatore Ferragamo S.p.A.

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Financial statements

Statement of financial position – assets

(In Euro)					
	Notes	31 December 2017	of which with related parties	31 December 2016	of which with related parties
NON CURRENT ASSETS					
Property, plant and equipment	5	100,531,944		72,329,144	
Intangible assets with a finite useful life	6	34,378,334		25,617,741	
Investments in subsidiaries	7	204,965,752		207,079,231	
Available-for-sale financial assets	8	-		20,000	
Other non current assets	9	380,129		542,012	
Other non current financial assets	10	331,137	70,000	308,490	86,000
Deferred tax assets	36	9,271,566		9,435,245	
TOTAL NON CURRENT ASSETS		349,858,862	70,000	315,331,863	86,000
CURRENT ASSETS					
Inventories	11	97,027,992		97,520,221	
Trade receivables	12	156,668,058	114,514,060	183,341,451	133,233,033
Tax receivables	13	13,541,398		16,703,550	
Other current assets	14	38,270,095	21,217,372	41,265,383	32,347,739
Other current financial assets	15	30,993,204	30,669,535	36,924,959	36,696,617
Cash and cash equivalents	16	127,412,597		59,478,013	
TOTAL CURRENT ASSETS		463,913,344	166,400,967	435,233,577	202,277,389
TOTAL ASSETS		813,772,206	166,470,967	750,565,440	202,363,389

Statement of financial position – liabilities and shareholders' equity

(In Euro)					
	Notes	31 December 2017	of which with related parties	31 December 2016	of which with related parties
SHAREHOLDERS' EQUITY					
Share capital	17	16,879,000		16,879,000	
Reserves	17	480,914,791		355,216,419	
Net profit/(loss) for the period		113,012,652		191,066,413	
TOTAL SHAREHOLDERS' EQUITY		610,806,443		563,161,832	
NON CURRENT LIABILITIES					
		-			
Provisions for risks and charges	18	23,794,232		18,022,453	
Employee benefit liabilities	19	6,619,989		7,133,665	
Other non current liabilities	20	1,024,509		733,575	
Deferred tax liabilities	36	5,248,462		2,897,557	
TOTAL NON CURRENT LIABILITIES		36,687,192		28,787,250	
CURRENT LIABILITIES					
Trade payables	21	149,294,042	4,327,420	126,913,899	7,489,094
Interest-bearing loans & borrowings	22	-		-	
Tax payables	23	5,270,919		4,544,934	
Other current liabilities	24	10,354,231	1,526,946	25,839,531	2,228,826
Other current financial liabilities	25	1,359,379		1,317,994	
TOTAL CURRENT LIABILITIES		166,278,571	5,854,366	158,616,358	9,717,920
TOTAL LIABILITIES		202,965,763	5,854,366	187,403,608	9,717,920
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		813,772,206	5,854,366	750,565,440	9,717,920

Income statement

(In Euro)			of which with related parties		of which with related parties
	Notes	2017		2016	
Revenues from sales and services	27	762,380,166	505,010,264	823,626,465	558,429,657
Change in inventories of finished products		(7,716,990)	-	6,338,948	-
Costs for raw materials, goods and consumables	28	(210,695,690)	(818,002)	(221,797,962)	(2,689,668)
Costs for services	29	(288,015,894)	(16,925,595)	(306,685,970)	(20,462,135)
Personnel costs	30	(63,540,594)	(2,253,984)	(63,245,570)	(2,532,770)
Amortization, depreciation and write-downs	31	(16,569,997)	-	(15,455,238)	-
Other operating costs	32	(50,327,601)	(47,284,574)	(8,513,815)	(4,091,689)
Other income and revenues	33	11,905,892	3,935,975	9,332,961	1,356,998
Operating profit		137,419,292		223,599,819	
Financial charges	34	(47,775,246)		(32,696,982)	
Financial income	35	49,352,825	23,498,264	34,035,901	5,836,018
Profit before taxes		138,996,871		224,938,738	
Income taxes	36	(25,984,219)		(33,872,325)	
Net profit/(loss) for the period		113,012,652		191,066,413	

Statement of comprehensive income

(In thousands of Euro)			
	Notes	2017	2016
Net profit/(loss) for the period (A)		113,013	191,066
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>			
- Net gain/(loss) from cash flow hedge	3	14,837	(3,025)
- Income taxes		(3,562)	656
		11,275	(2,369)
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		11,275	(2,369)
<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	170	(262)
- Income taxes		(41)	63
		129	(199)
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		129	(199)
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		11,404	(2,568)
Total comprehensive income for the period, net of taxes (A+B)		124,417	188,498

Statement of cash flows

(In Euro)		Notes	2017	of which with related parties	2016	of which with related parties
Net profit/(loss) for the period			113,012,652		191,066,413	
Adjustments to reconcile net profit (loss) to net cash provided by/ (used in) operating activities:						
Amortization, depreciation and write-downs of tangible and intangible assets	5 - 6		16,569,997		15,455,238	
Allocation / (use of) deferred taxes	36		(1,086,971)		1,151,554	
Provision for employee benefit plans	19		80,896		109,084	
Allocation to / (use of) the provision for obsolete inventory	11		206,068		(1,965,200)	
Allocation to / (use of) the provisions for risks and charges			158,982		1,525,735	
Losses and provision for bad debt	12		5,393,323	5,393,323	466,992	
Losses / (gains) on disposal of tangible and intangible assets			(600)		(21,687)	
Write-down / (restatement value) of investments in subsidiaries	7		10,158,366		(3,266,116)	
Stock Grant Plan costs	37		549,305		318,017	
Other non-monetary items			396,756		(119,146)	
Changes in operating assets and liabilities:						
Trade receivables			13,422,269	13,325,650	(2,225,114)	(4,310,979)
Inventories	11		286,162		(150,534)	
Trade payables	21		11,409,049	(3,161,674)	(4,632,855)	4,425,291
Tax receivables			3,201,031		(4,486,950)	
Tax payables	23		725,986		317,477	
Employee benefits payments	19		(425,002)		(376,339)	
Other assets	10 - 14		13,241,760	11,146,367	(32,274,007)	(30,385,351)
Other liabilities	24		(3,081,841)	(701,880)	(16,360,813)	(16,159,187)
Other – net			(65,000)		(53,013)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES			184,153,188	26,001,786	144,478,736	(46,430,226)
Cash flow from investing activities:						
Purchase of tangible assets	5		(27,371,361)		(13,385,074)	(12,860)
Purchase of intangible assets	6		(15,190,922)		(12,113,701)	
Net change in available-for-sale financial assets			5,353		-	
Purchase of financial assets (investments in subsidiaries)	7		(2,045,957)		(19,126,552)	
Net change in financial receivables*	15		6,027,083	6,027,083	(24,294,144)	(24,294,146)
Proceeds from the sale of tangible and intangible assets			600		30,022	
NET CASH FROM (USED IN) INVESTING ACTIVITIES			(38,575,204)	6,027,083	(68,889,449)	(24,307,006)
Cash flow from financing activities:						
Dividends paid	41		(77,643,400)	(56,933,565)	(77,643,400)	(57,080,278)
NET CASH FROM (USED IN) FINANCING ACTIVITIES			(77,643,400)	(56,993,565)	(77,643,400)	(57,080,278)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			67,934,584		(2,054,113)	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			59,478,013		61,532,126	
Increase/(decrease) in cash and cash equivalents	16		67,934,584		(2,054,113)	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			127,412,597		59,478,013	
ADDITIONAL INFORMATION						
Interest paid			14,525		17,333	
Income taxes paid			14,524,988		83,810,413	
Interest received			447,941		303,941	
Dividends received			23,142,825		5,652,243	

* For a better explanation, the net change in financial receivables (formerly shown in the cash flow from financing activities) has been included in the net cash flow from (used in) investing activities, adjusting the comparative data relating to 2016 by 24,294 thousand Euro accordingly.

Statement of changes in shareholders' equity

Changes in Shareholders' equity (In thousands of Euro) Note 17	Share capital	Legal reserve	Share capital contributions	Extraordinary reserve	Revaluation reserve	Cash flow hedge reserve	Effect IAS 19 Equity	Other reserves	Net profit/(loss) for the period	Total shareholders' equity
As at 01.01.2017	16,879	4,188	2,995	316,082	25,478	(3,826)	(1,310)	11,610	191,066	563,162
Profit/(loss) for 2017									113,013	113,013
Other comprehensive income/(losses)						11,275	129			11,404
Total comprehensive income (loss)	-	-	-	-	-	11,275	129	-	113,013	124,417
Allocation of 2016 result				113,423					(113,423)	-
Distribution of dividends									(77,643)	(77,643)
Stock Grant Reserve								870		870
Other income/(losses)										-
As at 31.12.2017	16,879	4,188	2,995	429,505	25,478	7,449	(1,181)	12,480	113,013	610,806

Changes in Shareholders' equity (In thousands of Euro)	Share capital	Legal reserve	Share capital contributions	Extraordinary reserve	Revaluation reserve	Cash flow hedge reserve	Effect IAS 19 Equity	Other reserves	Net profit/(loss) for the period	Total shareholders' equity
As at 01.01.2016	16,879	4,188	2,995	191,676	25,478	(1,457)	(1,111)	11,109	202,109	451,866
Profit/(loss) for 2016									191,066	191,066
Other comprehensive income/(losses)						(2,369)	(199)			(2,568)
Total comprehensive income (loss)	-	-	-	-	-	(2,369)	(199)	-	191,066	188,498
Allocation of 2015 result				124,466					(124,466)	-
Distribution of dividends									(77,643)	(77,643)
Stock Grant Reserve								441		441
Reclassifications				(60)				60		-
Other income/(losses)										-
As at 31.12.2016	16,879	4,188	2,995	316,082	25,478	(3,826)	(1,310)	11,610	191,066	563,162

Explanatory notes to the separate financial statements

1. Corporate information

Salvatore Ferragamo S.p.A. is incorporated as a joint-stock company in Italy under Italian law and adopts a conventional organizational model, with the Shareholders' Meeting, the Board of Directors, and the Board of Statutory Auditors. The Company's Shares are listed on the Mercato Telematico Azionario (an electronic stock market) organized and managed by Borsa Italiana S.p.A..

The Company is one of the main players in the luxury sector and dates back to 1927.

The separate financial statements for the year ended 31 December 2017 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 8 March 2018.

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

1.1 Management and coordination

Pursuant to art. 2497 ff. of the Italian Civil Code, the Company Salvatore Ferragamo S.p.A. is subject to management and coordination by Ferragamo Finanziaria S.p.A., whose consolidated financial statements are available at the registered office in Florence, Via Tornabuoni, 2.

In compliance with the provisions of art. 2497-bis, paragraph 4 of the Italian Civil Code, the key data from the financial statements of the Holding company Ferragamo Finanziaria S.p.A. as at 31 December 2016 and 2015 is given below.

Ferragamo Finanziaria S.p.A.	31 December	31 December
(In Euro)	2016	2015*
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	201,352,175	190,294,420
C) Current assets	57,979,981	48,630,145
D) Accrued expenses and deferred income	4,049	-
TOTAL ASSETS	259,336,205	238,924,565
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	134,325,990	129,593,530
- Profit (loss) for the year	41,699,767	40,131,470
B) Provisions for risks and charges	677,580	759,989
D) Payables	32,813,951	18,689,616
E) Accrued expenses and deferred income	68,957	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	259,336,205	238,924,565
Guarantees, commitments and other risks	-	-
INCOME STATEMENT		
A) Value of production	402,168	3,367,420
B) Costs of production	(1,975,976)	(2,141,586)
Difference between value and costs of production	(1,573,808)	1,225,834
C) Financial income and charges	42,536,331	39,072,940
Profit before taxes	40,962,523	40,298,774
Income taxes for the year, current and deferred	737,244	(167,304)
Profit (loss) for the year	41,699,767	40,131,470

*For comparative purposes only, the items of the statement of financial position and the income statement for the year ended 31 December 2015 have been restated, reclassified and modified in accordance with OIC 29 "Changes in accounting policies, changes in accounting estimates, corrections of errors, events after the reporting period".

2. Statement of compliance with IFRS and basis of presentation

The Separate Financial Statements of Salvatore Ferragamo S.p.A. have been prepared in compliance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board ("IASB") adopted by the European Union and in force at the reporting date. The explanatory notes to the separate financial statements have been supplemented with the extra information requested by CONSOB and by the provisions it has issued in implementation of art. 9 of Italian Leg. Decree 38/2005 (resolutions 15519 and 15520) dated 27 July 2006 and communication DEM/6064293 dated 28 July 2006, pursuant to art. 78 of the Issuers' Regulation, the EC document of November 2003 and, where applicable, the Italian Civil Code. The term "IFRS" used herein includes International Accounting Standards ("IAS") which are still in force as well as all the interpretations issued by the IFRS Interpretation Committee, previously referred to as International Financial Reporting Interpretations Committee ("IFRIC") and before that Standing Interpretations Committee ("SIC").

Financial statement structure adopted

The Separate Financial Statements of Salvatore Ferragamo S.p.A. as at 31 December 2017 comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in shareholders' equity and the related explanatory notes.

The statement of financial position, the income statement and the statement of cash flows are presented in Euro, while the statement of comprehensive income and the statement of changes in shareholders' equity and the related explanatory notes are presented in thousands of Euro, unless otherwise indicated.

The Company's statement of financial position distinguishes between current and non current assets and liabilities, where:

- non current assets refer to positive balances to be realized after more than 12 months and include intangible, tangible and financial assets and deferred tax assets;
- current assets refer to positive balances to be realized within 12 months;
- non current liabilities refer to payables due after more than 12 months, including financial payables, provisions for risks and charges, employee benefit liabilities and deferred tax liabilities;
- current liabilities refer to payables due within 12 months, including the short-term portion of medium/long-term loans, provisions for risks and charges and employee benefit liabilities.

The income statement is shown in accordance with a classification of costs by nature. The statement of cash flows has been prepared according to the indirect method and is presented in compliance with IAS 7, breaking down financial flows into operating, investing and financing activities.

It should be noted that in reference to CONSOB Resolution no. 15519 of 27 July 2006 and Communication no. DEM/6064293 of 28 July 2006, the financial statements show significant transactions with related parties, in order to provide better disclosure.

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

Accounting standards

General notes

The Separate Financial Statements have been prepared according to the historical cost principle, except for derivatives and financial assets classified as held for sale, which are recorded at fair value, and on a going concern basis.

The accounting standards adopted in the Separate Financial Statements as at 31 December 2017 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2017.

Discretionary valuations and significant accounting estimates

The preparation of the Separate Financial Statements and the Explanatory Notes 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 Company's products are subject to fashion market 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 Company's various distribution channels. 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;

- provisions for bad debt relating to wholesale sales, which are 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 12;
- provisions for risks and charges, in particular expected future expenses and costs relating to ongoing or foreseeable disputes, as well as for marginal cases relating to the return of goods by customers;
- useful life of property, plant and equipment and intangible assets, as well as ensuring that development costs meet the recognition and measurement requirements for intangible assets;
- employee benefits, which are measured using actuarial assumptions; for the main actuarial assumptions, reference should be made to note 19;
- 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 Company's management estimates the likely timing and amount of future taxable profit;
- fair value of financial instruments, chief among them derivative instruments, which the Company uses extensively to hedge exchange rate risk; for details about the assumptions underlying the measurement of fair value, reference should be made to note 26;
- fair value of share-based payment plans, settled in either cash or shares, that the 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 37.

The Company 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 of Tangible assets (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 calculation of the fair value less the costs of sale is based on the data available from sale binding transactions between free and independent parties involving similar assets or observable market prices, less the extra costs relating to the disposal of the asset. The value in use is calculated based on discounted cash flow models using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset. The cash flows are taken from the business plans prepared by Top Management in compliance with the strategic guidelines submitted to the Board of Directors, which represent the best estimate made by the Company on the economic conditions set for the plan period. The plan forecasts refer to a time period of three years (of which the first budget year is approved by the Board of Directors), the long-term growth rate (g) – used to estimate the terminal value of the asset – for prudential reasons is lower than the long-term growth rate for the sector, country or reference market. Cash flows do not include restructuring activities for which the Company does not have a current obligation, or significant future investments which will increase the yield on the assets that make up the cash flow generating unit that is being valued. The recoverable amount is very dependent on the discount rate used in the discounted cash flow model and also on the expected future incoming cash flows and on the growth rate used for the purposes of the extrapolation.

Disclosure on impairment

In the current economic scenario, although reassured by a positive trend in the economy, the Company considers disclosure regarding impairment of assets as particularly important. The Company has adopted a procedure to analyze indicators of impairment and a procedure for impairment testing. The results are listed in the notes relating to the individual assets.

Property, plant and equipment

Tangible assets are recorded at historic cost, including the additional costs directly attributable and necessary to use the asset for the purpose for which it has been bought. This cost includes the costs to replace part of the plant and equipment when incurred, if they comply with the recognition criteria. The net value (cost less accumulated depreciation) of parts of replaced plant and equipment is recognized in the income statement at the time of replacement.

Maintenance and repair expenses, which do not involve the creation of value from and/or extension of the residual life of the assets, are recognized in the income statement in the year in which they are incurred, otherwise they are capitalized.

Tangible assets are shown net of the related accumulated depreciation and any impairment determined in accordance with the method described below. Depreciation is calculated on a straight-line basis according to the estimated useful life of the asset, which is reviewed on an annual basis and any changes, if necessary, are applied on a prospective basis.

The useful lives of the main classes of tangible assets are as follows:

	Useful life
Buildings	33 years
Plant and Equipment	5 years
Industrial and commercial equipment	5 years
Other assets:	
- Office furniture and furnishings	5.5 years
- Electronic machines	3 years
- Historic collection	5 years
- Vehicles	4 years
Leasehold improvements	On the basis of the residual duration of the asset's lease contract

The residual value of the asset, its useful life, and the depreciation methods applied are reviewed at the end of each year and adjusted on a prospective basis if necessary.

Should significant parts of these tangible assets have different useful lives, these components are accounted for separately. Land, whether it is free of construction or attached to buildings, is recorded separately and is not depreciated since it has an unlimited useful life.

The book value of property, plant and equipment is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. If there is an indication of impairment and, should the book value exceed the presumed realizable value, assets are written down to reflect their realizable value. The realizable value of property, plant and equipment is the higher of the net sale price and the value in use.

In defining the value in use, the expected future cash flows are discounted using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset. The realizable value of an asset which does not generate broadly independent cash flows is determined in relation to the cash flow generating unit to which this asset belongs. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

At the time of its sale or when there are no future economic benefits expected from the use of the asset, the asset is eliminated from the statement of financial position and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized in the income statement in the year of the elimination.

Leases

The definition of a contract as a lease transaction (or as containing a lease transaction) is based on the content of the agreement and requires an assessment as to whether the fulfillment of the agreement depends on the use of one or more specific assets and whether the agreement transfers the right to use this asset. A review is undertaken after the beginning of the contract only if one of the following conditions occurs:

- a) change in the contract conditions other than a renewal or extension of the contract;
- b) exercise of a renewal option or grant of an extension, unless the terms of the renewal or extension were not initially included in the terms of the lease transaction;
- c) change in the condition under which fulfillment depends on the use of a specific asset; or
- d) substantial change in the asset.

In case of a review, the recognition of the lease will start or end on the date on which there is a change in the circumstances which gave rise to the review for scenarios a), c) or d) and on the date of renewal or extension for scenario b).

For contracts signed prior to 1 January 2010, the start date is taken to be 1 January 2010 in accordance with the transition provisions of IFRS 1.

The Company as lessee

A lease contract is classified as a financial lease or an operating lease at the start of the lease. A lease contract which substantially transfers to the Company all the risks and benefits of ownership of the leased asset is classified as financial lease. Financial leases are capitalized at the start date of the lease at the fair value of the leased asset, or, if lower, at the present value of the lease payments. Lease payments are divided between capital and interest so as to ensure the application of a constant interest rate on the residual balance of the amount due. Financial charges are recognized in the income statement. Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership of the asset at the end of the contract, leased assets are amortized over the shorter of the estimated useful life of the asset and the duration of the lease contract.

Payments on operating leases are recognized in the income statement on a straight-line basis over the duration of the contract.

The Company as lessor

Lease contracts in which the Company largely retains all the risks and benefits of ownership of the asset are classified as operating leases.

Lease payments are recognized on a straight-line basis over the duration of the lease contracts in place at the reporting date and, if they derive from investment property, they are classified under Rental income investment properties.

Business Combinations

Business combinations are accounted for using the acquisition method.

The acquisition cost is valued as the total of the transferred consideration measured at fair value at the acquisition date and the amount of any minority interests in the acquired company.

Business combinations between entities subject to joint control do not fall within the scope of application of IFRS 3. Should the business combination between entities subject to joint control not be of an economic nature but a mere corporate reorganization, the company will apply the business combination accounting method called “pooling of interest”, thus aggregating the assets and liabilities to the book values on a line-by-line basis.

Intangible assets

Intangible assets are recorded among assets at purchase cost when the use of the asset is likely to generate future income and when the cost of the asset can be reliably established. Intangible assets acquired through business combinations are recorded at fair value as established at the acquisition date, if this value can be reliably established. Intangible assets with a finite useful life are amortized on a straight-line basis over their estimated useful life; the useful life is reviewed on an annual basis and any changes, where necessary, are applied on a prospective basis.

Intangible assets are shown net of the related accumulated amortization and any accumulated impairment determined in accordance with the method described below.

The useful lives of the main categories of intangible assets with a finite useful life are the following:

	Useful life
Industrial patents and intellectual property rights	2-5 years
Concessions, licenses and trademarks	10 years
Development costs	3-5 years

At the time of disposal of an intangible asset, the asset is eliminated from the statement of financial position and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized in the income statement when such asset is eliminated.

The book value of intangible assets is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

Development costs

Research costs are charged to the income statement when they are incurred.

Development costs incurred in relation to a particular project are capitalized only when the Company can demonstrate the technical possibility of completing the intangible asset in such a way as to make it available for use or for sale, as well as its intention to complete the asset in order to use it or sell it, the means by which it will generate probable future income, the availability of technical, financial or other resources to complete the development and its ability to make a reliable assessment of the cost attributable to the asset during its development.

During the development period, the asset is reviewed annually to assess any impairment. Following the initial recognition, development costs are assessed at cost less any accumulated amortization or impairment loss. Amortization of the asset starts when the development is completed and the asset is available for use. It is amortized in reference to the period in which the project is likely to generate revenues for the Company. During the period in which the asset is not yet being used, it will be reviewed annually to assess any impairment.

Industrial patents and intellectual property rights

Industrial patents and intellectual property rights refer to costs for software licenses and to costs for the deposit and registration of trademarks and patents relating to Company products.

Concessions, licenses, trademarks and similar rights

This item refers to costs for the deposit and registration of the Salvatore Ferragamo trademark. Purchase costs are amortized over the useful life of the right purchased.

Investments

Investments in subsidiaries are valued at purchase cost, in compliance with the provisions of IAS 27.

Should there be indications that the cost is no longer recoverable in full or in part, the carrying amount is reduced to the relevant recoverable amount, in accordance with the provisions of IAS 36. When, subsequently, this loss is reversed or reduced, the carrying amount is increased to the new estimated recoverable amount, which cannot exceed the original cost.

Financial instruments

Financial instruments are initially recorded at fair value and, following their initial recognition, are valued in relation to their classification, pursuant to International Accounting Standard 39. For financial assets, this treatment is differentiated among the following categories:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

In reference to financial liabilities, just two categories are available:

- Financial liabilities at fair value through profit or loss
- Liabilities at amortized cost.

The Company establishes the classification of its financial assets and liabilities when they are initially recognized.

The methods for determining fair value in reference to these financial instruments, for accounting or disclosure purposes, are summarized below in reference to the main financial instrument categories, to which they have been applied:

- Derivatives: adequate pricing models have been adopted, based on the market values of interest and exchange rates;
- Receivables and payables and unlisted financial assets: for financial instruments expiring after more than one year, the discounted cash flow method has been applied, i.e. the discounting of expected cash flows given current interest rate and creditworthiness conditions;
- Listed financial instruments: the market value at the reference date is used.

Elimination of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the statement of financial position when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive the cash flows of the asset, or has retained the right to receive cash flows from the asset but has assumed a contractual obligation to pay the cash flows in full and without delay to a third party;
- the Company has transferred the right to receive the cash flows from the asset and (a) has transferred substantially all the risks and benefits relating to the ownership of the financial asset or (b) has not transferred substantially all the risks and benefits relating to the asset, but has transferred control of the asset.

When the Company has transferred the rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits or has not lost control over the asset, the asset is recorded in the Company's financial statements to the extent of the Company residual involvement in the asset itself. Residual involvement which takes the form of a guarantee over the transferred asset is valued at the lower of the initial book value of the asset and the maximum consideration which the Company might be required to pay.

When the residual involvement takes the form of an option which has been issued and/or acquired in relation to the transferred asset (including cash-settled or similar options), the Company's involvement corresponds to the amount of the transferred asset which the Company may repurchase; however, in the case of a put option issued over an asset measured at fair value (including cash-settled or similar options), the Company's residual involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Impairment of financial assets

The Company verifies at each reporting date whether a financial asset or group of financial assets has suffered impairment. A financial asset or a group of financial assets must be considered impaired if, and only if, there is objective evidence of impairment as the result of one or more events which have occurred since the initial recognition (when "an impairment event" occurs) and this impairment event has an impact, which can be reliably estimated, on the expected future cash flows of the financial asset or group of financial assets. Evidence of impairment may be indicators such as financial difficulties, the inability to meet obligations, insolvency in paying interest or major payments, which debtors, or a group of debtors, are experiencing, the likelihood that it will go bankrupt or be subject to some other forms of financial reorganization, and where observable data indicate that there is a measurable fall in estimated future cash flows, such as changes in circumstances or in economic conditions related to obligations.

Should financial assets be recorded at amortized cost, if there is objective evidence of impairment, the total loss is measured as the difference between the book value of the asset and the current value of the estimated future cash flows (excluding future expected bad debts which have not yet occurred). The current value of cash flows is discounted at the original effective interest rate of the financial asset. If a loan is at a floating interest rate, the discount rate for the assessment of any impairment is the effective current rate. The book value of the asset is reduced by using a provision for bad debt and the amount of the impairment is recorded in the income statement. In the case of equity instruments which are classified as available for sale, the objective evidence would include a significant or prolonged reduction in the fair value of the instrument to below its cost. 'Significant' is intended with respect to the original cost of the instrument and 'prolonged' is intended with respect to the duration of the period in which the fair value has been below the original cost. Where there is evidence of impairment, the cumulative impairment – measured as the difference between the purchase cost and the current fair value, less any loss for impairment of that financial asset which has already been recorded in the income statement – is reversed from the other items of the comprehensive income statement and is recorded in the income statement.

Elimination of financial liabilities

A financial liability is eliminated when the obligation underlying the liability is extinguished, cancelled or fulfilled.

Should an existing financial liability be replaced by another liability from the same lender at significantly different conditions, or should the conditions of an existing liability be substantially modified, this replacement or change is treated as an accounting elimination of the original liability and the recording of a new liability, with the recognition in the income statement of possible differences between the book values.

Available-for-sale financial assets

Available-for-sale financial assets are those financial assets, excluding derivatives, which have been designated as such or which are not classified in another financial instrument category. After their initial recognition, available-for-sale financial assets are valued at fair value and the gains and losses are recorded directly in the statement of comprehensive income. Investments in other companies, representing non current financial assets which are not held for trading (the so-called available for sale investments), are initially recognized at fair value. Subsequently, gains and losses deriving from changes in fair value are charged directly to shareholders' equity until the assets are sold or impaired; in that moment overall gains or losses which have been previously recognized under shareholders' equity are charged to the income statement for the period. Investments in other smaller companies for which the fair value cannot be reliably established, are recognized at cost, possibly written down for impairment.

Financial assets and other non current assets

These assets are valued based on amortized cost, using the effective interest rate method, net of any provision for impairment.

The amortized cost is calculated by considering all purchase discounts or premiums and includes fees, which are an integral part of the effective interest rate and of the transaction costs.

Trade receivables

Receivables are initially recognized at fair value, which generally corresponds to the nominal value and subsequently at amortized cost, except when the short duration of the receivables makes the application of the amortized costs negligible. They are written down in the case of impairment. In addition, they are adjusted to their presumed realizable value by recording a specific adjustment provision.

Other receivables and other financial assets

They are initially recognized at fair value and are subsequently valued using the amortized cost method.

Cash and cash equivalents

Cash and short-term deposits refer to cash on hand and sight/short-term deposits, in the latter case originally expiring in no more than three months.

Trade payables

Trade payables, whose expiry falls within normal conditions, are not discounted since the discounting effect on cash flows is negligible and they are recorded at their nominal value.

Interest-bearing loans & borrowings

Loans are initially recognized at cost, corresponding to the fair value of the amount received, net of ancillary charges to take out the loan. Following initial recognition, loans are valued at amortized cost, using the effective interest method.

Inventories

Inventories are valued at the lower of purchase and/or production cost, determined using the weighted average cost method, and the net realizable value. Purchase cost includes ancillary charges; production cost includes direct costs and a share of indirect costs which may be reasonably attributable to products. The presumed net realizable value is the normal estimated sale price less the estimated costs to complete the product and the estimated costs to complete the sale.

Provisions for risks and charges

Provisions for risks and charges are allocated when the Company must meet a current (legal or implicit) obligation resulting from a past event, whose occurrence is deemed as likely and whose amount can be reasonably estimated.

When the Company believes that an allocation to the provision for risks and charges will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the compensation is recorded separately among assets if, and only if, it is almost certain. In this case, in the income statement the cost of any allocation is shown net of the amount recorded for the compensation.

If there is a significant effect from discounting the value of money, the allocations are discounted using a pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting is carried out, the increase in the allocation due to the passing of time is recorded as a financial charge.

Employee benefit liabilities

The Company's net obligation deriving from defined-benefit plans is calculated separately for each plan by estimating the amount of the future benefit which employees have accrued in return for the service provided in the current and previous years; this benefit is discounted in order to calculate the current value. Actuarial gains and losses are recorded directly in the statement of comprehensive income, as provided for by IAS 19.

Effective 1 January 2007, the 2007 Budget Law and the relevant enabling legislation have introduced significant changes to employee severance indemnities, requiring to allocate them to either supplementary pension schemes or the Treasury Fund of the Italian Social Security Institute (INPS). Starting from said date, in accordance with IAS 19, severance indemnities are classified as "Defined-contribution plans", while the amounts paid into the provision for employee severance indemnities up to 31 December 2006 still qualify as "Defined-benefit plans". The actuarial assessment of liabilities has been entrusted to an independent actuary.

Derivatives

Derivatives are used solely with the purpose of hedging financial risks relating to exchange rate changes affecting commercial transactions in foreign currency.

In keeping with the provisions of IAS 39, hedge derivatives can be accounted for in accordance with the methods established for hedge accounting only when:

- at the start of the hedge, there is formal designation and documentation of the hedge itself;
- the hedge is likely to be highly effective;
- the effectiveness can be reliably measured; and
- the hedge itself is highly effective during the various accounting periods for which it is designated.

All derivatives are measured at fair value. When derivatives possess the necessary features to be accounted for in accordance with hedge accounting, the following accounting treatments are applied:

- Fair value hedge – if a derivative is designated as a hedge against changes in the current value of an asset or a liability which may have an impact on the income statement, the change in the fair value of the hedging instrument is recorded in the income statement and the change in the fair value of the hedged instrument attributable to the risk covered is recorded as part of the book value of the item being hedged and is also recorded in the income statement.
- Cash flow hedge – if a derivative is designated as a hedge against the changes in cash flows from an asset or liability or from a transaction which is considered as highly likely and which could affect the income statement, the effective portion of the gains or losses on the derivative is recorded under shareholders' equity and accounted for in the statement of comprehensive income; the accumulated gain or loss is reversed from shareholders' equity and charged to the income statement in the same period in which the hedged transaction is recorded; the gain or loss associated with a hedge or that part of the hedge which has become ineffective, is recorded in the income statement when its ineffectiveness is recognized.

Should the conditions to apply hedge accounting not occur, the effects arising from the fair value assessment of the derivative are charged directly to the income statement.

Fair Value

IFRS 13 establishes a single source of guidance for fair value measurement and for the relevant disclosures when such measurement is required or permitted. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets or liabilities whose fair value is measured or recognized are categorized based on the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – valuation techniques using unobservable inputs for the asset or liability.

The fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Revenues and costs

Revenues are recorded if the relevant economic benefits are likely to be accrued by the Company and the related amount can be reliably determined, regardless of the date on which payment is received. Revenues are valued at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding taxes and duties.

Sale of goods

Revenues and costs are shown in accordance with the accruals principle. Revenues and income are recorded net of returns, discounts, allowances and premiums.

Revenues for product sales are recognized when the Company has transferred to the purchaser all the significant risks and benefits related to the product ownership, i.e. at the time of the transfer of ownership, generally, corresponding to the shipment of goods.

Royalties

Revenues from royalties are recorded on an accrual basis in accordance with contract conditions.

Costs are recognized according to their nature considering the standards applicable under IFRS.

Advertising and research costs, in accordance with IAS 38, are charged in full to the income statement, when the service has been provided and delivered to the Company.

Share-based payment plans

The Company recognizes additional benefits to some employees, directors and collaborators with particular positions, through equity-settled share-based payments, which provide for the physical delivery of shares. In accordance with the provisions of IFRS 2 – Share-based payments – rights in favor of employees are valued at fair value when the beneficiary is informed of their allocation, and this value is determined using the binomial model. This model takes account of all the features of the rights (duration, exercise price and conditions, etc.), as well as the value of the underlying shares at the grant date and their expected volatility.

If the right can be exercised after a certain period (vesting period) and on the occurrence of specific performance conditions, the cost of transactions settled with equity instruments, together with the corresponding increase in shareholders' equity, is recorded in the period in which the conditions relating to the achievement of objectives and/or the provision of the service are satisfied, ending at the time the beneficiaries have fully accrued the right to receive payment ("vesting date").

At the end of each year, the fair value of the rights which has been determined previously is not reviewed, but on this date the estimate of the number of rights which will vest up to the expiry is updated. The accumulated costs recorded for these transactions at the end of each year up to the vesting date are proportionate to the expiries of the vesting period and to the best available estimate of the number of options which will actually vest. The cost

or revenue recorded in the income statement for the year represents the change in the accumulated cost recorded at the start and at the end of the year.

No cost is recorded for rights which do not ultimately vest, except in the case of rights whose allocation is subordinate to market conditions.

The impact of the dilution of the rights not yet exercised is reflected in the calculation of the dilution of earnings per share.

Cash-settled transactions

In case of cash-settled share-based transactions, the cost of the cash-settled transactions is initially valued at the fair value at the date the beneficiary is informed of their allocation. This fair value is recognized in the income statement in the period until vesting, with the recognition of a corresponding liability. Until the liability is settled, the fair value is recalculated at each year-end date and at the settlement date, charging the related changes to the income statement.

Financial income and charges

Financial income and charges are recorded on an accrual basis according to the interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

Dividends

Dividends are recognized when the shareholders' right to receive payment arises.

Income taxes

Current taxes

Current income taxes are determined in relation to taxable income and in compliance with the rates and provisions in force; payables for current taxes are recognized in the statement of financial position, net of any tax advances paid.

Current taxes relating to items recorded directly under shareholders' equity or in the statement of comprehensive income are also charged directly to shareholders' equity or to the statement of comprehensive income.

Deferred taxes

Deferred taxes are calculated on the temporary differences existing at the reporting date between the fiscal values taken as a reference for assets and liabilities and the values recognized in the financial statements.

Deferred tax liabilities are recorded for all taxable temporary differences, except:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction, has no effect on the profit/(loss) for the year calculated for financial statement purposes or on the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences relating to investments in subsidiaries, associated companies and joint ventures, when the reversal of temporary differences may be managed and it is not likely to occur in the foreseeable future.

Deferred tax assets are recorded against all deductible temporary differences and for tax assets and liabilities which are carried forward, to the extent that adequate future tax profits are likely to exist which make it possible to use the deductible temporary differences and the tax assets and liabilities which have been carried forward, except when:

- the deferred tax asset connected to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, does not affect profit/(loss) for the year calculated for financial statement purposes or the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences relating to investments in subsidiaries, associated companies and joint ventures, deferred tax assets are only recorded to the extent that the deductible temporary differences are likely to be reversed in the immediate future and there are adequate tax profits against which the temporary differences may be used.

The value to be recorded for deferred tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer likely that sufficient tax profits will be available in the future so as to allow all or part of this credit to be used. Unrecognized deferred tax assets are reviewed annually at the reporting date and are recorded to the extent that it has become likely that the tax profit is sufficient to ensure that these deferred tax assets can be recovered.

To determine whether taxable profit will be available against which a deductible temporary difference can be utilized, the entity shall consider whether local tax laws restrict the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference.

Deferred tax assets and liabilities are measured on the basis of the tax rates which are expected to be applied in the year in which the assets are realized or the liabilities are settled, taking into account the rates in force and those already issued or basically issued at the reporting date.

Current and deferred taxes relating to items recorded directly under shareholders' equity or in the statement of comprehensive income are also charged directly to shareholders' equity or to the statement of comprehensive income.

Deferred tax assets and liabilities are offset when there is a legal right to offset current tax assets against current tax liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

Revenues, costs and assets are recorded net of value added taxes except when:

- this tax, applied to the purchase of goods or services, is non-deductible, in which case it is recognized as part of the purchase cost of the asset or part of the cost item charged to the income statement;
- it refers to trade receivables and payables for which the invoice has already been issued or received and which are shown including the tax amount.

The net amount of indirect taxes on sales and purchases which may be recovered from or paid to the Inland Revenue Office is recorded among tax receivables or payables depending on the nature of the balance.

Put and call agreements on minority interests

Put and call agreements are financial instruments in compliance with the provisions of IAS 39.

The fair value of the financial instruments traded on an active market is determined at each reporting date with reference to market prices or operators' prices (ask price for long-term positions and bid price for short-term positions), without any deduction for transaction costs.

For financial instruments which are not traded on an active market, the fair value is determined using a valuation technique. This technique may include: the use of recent transactions at market conditions; reference to the current fair value of another instrument which is substantially the same; an analysis of discounted cash flows or other valuation models.

The accounting policy chosen by the Company envisages the recognition in the income statement and the recognition under financial liabilities of the fair value at the valuation date.

Changes in international accounting standards

Amendments to IAS 12 Income taxes

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. The amendments are effective for annual periods beginning on or after 1 January 2017, and early adoption is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. This amendment did not have any impact on the Company's financial statements.

Amendments to IAS 7 Statement of Cash Flows

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The amendments are effective for annual periods beginning on or after 1 January 2017, and early adoption is permitted. This amendment did not have any impact on the Company's financial statements, as there were no changes in liabilities associated with financing activities (the Company reported no financial payables to banks as at 31 December 2017 and 31 December 2016).

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

Standards issued but not yet in force

Set out below are the standards which, when preparing the separate financial statements had already been issued but were not yet in force. The list refers to the standards and interpretations which the Company expects will in all likelihood be applicable in the future. The Company intends to adopt these standards when they come into 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 Company will adopt the new standard starting from its effective date and it will not provide comparative information. In 2017, the Company 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. This assessment was based on currently available information and may be subject to change following a more in-depth analysis as well as in light of any additional information that may become available to the Company in 2018. In general, the Company does not expect material impacts on its statement of financial position and shareholders' equity, and anticipates limited impacts from the implementation of the impairment requirements in IFRS 9. As discussed below, the Company expects it will not have to set aside an amount significantly different from the one resulting from current procedures to cover losses. In addition, the Company does not anticipate changes to the classification of financial instruments.

a) Classification and measurement

The Company does not expect the application of the classification and measurement requirements in IFRS 9 to materially affect its financial statements and equity, as the financial instruments held by the Company that can give rise to a difference when applying the new standard are only receivables, financial liabilities and derivative instruments, while the Company does not hold debt and equity instruments. The Company expects it will continue measuring at fair value all financial assets currently 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. The Company assessed the characteristics of the contractual cash flows of these instruments and concluded that they meet all the conditions for measurement at amortized cost in accordance with IFRS 9.

b) Impairment

IFRS 9 requires the Company 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 Company will apply the simplified approach and will recognize the expected losses on all trade receivables based on their remaining life. At the moment, the Company has analyzed the historical default rate and the segmentation of the receivables portfolio based on credit risk characteristics (type of receivable, country risk, remaining life, and debt collection procedures used) to determine how the current impairment procedure must be adapted to match the requirements of the new standard. Considering the analyses carried out and the above observations, the requirements of IFRS 9 do not materially impact the Company's shareholders' equity – even though they require revising certain procedures.

c) Hedge accounting

The Company 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 was issued in May 2014 and introduces a new five-step model to be applied to revenue arising from contracts with customers, replacing all existing revenue requirements in IFRS (IAS 18, IAS 11, IFRIC 13, IFRIC 15, IFRIC 18, and SIC 31). 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 is effective for annual periods beginning on or after 1 January 2018, with a full or modified retrospective application. Early adoption is permitted.

The Company will apply the new standard from the mandatory effective date, i.e. 1 January 2018. During 2016 and 2017, the Company 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 Company level. Considering the nature of its business, the Company estimates the impact to be immaterial. In addition, please note that the Company elected to use the modified retrospective application method during the transition period: therefore, it will not restate the comparative data (year 2017).

In applying IFRS 15, the Company 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 is not expected to have a significant impact on the Company. The Company expects that revenue will be recognized when control over the asset has been transferred to the customer, generally upon delivery as in the case of other currently applicable standards.

In addition, IFRS 15 requires to estimate variable consideration from the contract date and to consider it when control over the asset is transferred, and thus the right to receive the consideration arises. Therefore, the Company has considered whether the current portfolio of contracts with its main customers includes variable consideration and, if any, its nature, and looked at all available information and processes to assess any potential impact of the application of the new standard.

Finally, in identifying the different performance obligations, the Company identified the right of return as the reason for this impact.

- Right of return: When a contract with a customer includes a right to return the products, the Company currently recognizes the right of return using an approach based on the weighted average probability of return, which is similar to the expected value method set out in IFRS 15. Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company has not identified any changes in the estimate of variable consideration compared to the estimate made under the current accounting standards. When transitioning to IFRS 15, the Company will include: 17.9 million Euro worth of contract liabilities in Trade Payables, and 11.2 million Euro worth of contract assets in Inventories. The Company is considering whether to present a contract liability and a contract asset separately in the statement of financial position.

(b) Royalties

The Company 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 already allocated based on when the final service is rendered to the customer throughout the distribution chain. Therefore, the Company will not be affected by the application of IFRS 15.

(c) Presentation and disclosure requirements

The provisions in IFRS 15 concerning presentation and disclosure requirements, which are fundamentally new, are more detailed compared to existing standards. Considering that the analysis of the contracts and revenue streams shows 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), the Company does not expect to face significant implementation challenges concerning the inclusion of additional disclosures. In accordance with IFRS 15, the Company will disaggregate the revenue from contracts with customers into categories that depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. In 2017, the Company continued testing the systems, internal controls, policies, and procedures necessary to collect this information and provide the required disclosures.

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.

Lessor accounting in IFRS 16 is substantially unchanged from today’s accounting under IAS 17, except for the fact that IAS 17 considers the substance of the transaction similar to the purchase of an asset, whereas IFRS 16 is based on the right to use a specific asset. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

In 2017, the Company started collecting data and assessing the situation to estimate the impact of the new accounting standard on the financial statements and the reporting system concerning all lease agreements outstanding at 31 December 2017. This process will continue into 2018.

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 Company currently does not fall under the scope of the standard, and it will evaluate the impact of these amendments on its separate financial statements should the need arise in the future.

Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors’ interests in the associate or joint venture. The IASB has postponed the effective date of these amendments indefinitely, but if an entity decides to apply them early, it should do so prospectively.

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 Company will adopt the amendments starting from their effective date. The Company currently does not fall under the scope of the standard, and it

will evaluate the impact of these amendments on its separate financial statements should the need arise in the future.

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 Company.
- **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 Company.

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. Since its current accounting policy is aligned with the interpretation, the Company does not expect any impact on its separate financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12; it does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company will adopt the interpretation starting from its effective date. Since its current accounting policy is aligned with the interpretation, the Company does not expect any impact on its separate financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendment clarifies that an entity shall apply IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. Early adoption is permitted. The Company will adopt the interpretation starting from its effective date.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment clarifies that the measurement of the payment for the early termination of the contract by a lender is irrespective of which party pays or receives it. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. Early adoption is permitted. The Company will adopt the interpretation starting from its effective date.

Annual improvements cycle 2015-2017

These improvements include:

- IFRS 3 Business Combinations: The amendment clarifies that, when an entity obtains control of a business that is a joint operation, it shall remeasure its previously held interest in the joint operation;
- IFRS 11 Joint Arrangements: The amendment clarifies that, when an entity obtains joint control of a business that is a joint operation, it shall not remeasure its previously held interest in the joint operation;
- IAS 12 Income taxes: The amendment clarifies that an entity shall recognize all income tax consequences of dividends using the same method;
- IAS 23 Borrowing costs: The amendment clarifies that an entity shall treat any borrowing originally made to develop an asset as part of general borrowings when the asset is ready for its intended use or sale.

The amendment is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted. The Company will adopt the interpretation starting from its effective date.

3. Management of financial risks (IFRS 7)

Salvatore Ferragamo S.p.A. monitors, also on a Group basis, the exposure in different measure to the various financial risks related to its business, in particular to the market risk category which includes the following types of risk:

- interest rate risks relating to the impact of changes in market interest rates;
- exchange rate risks, due to operations in currency areas other than that of the accounting currency;
- liquidity risks relating to the availability of financial resources and the ease of access to the credit market and connected to the need to fulfill the Group's financial commitments in the short term;
- credit, commercial or counterparty risks, representing the risks of default on commercial or financial obligations assumed by the various counterparties and arising from normal commercial transactions or from use, financing and risk hedging activities.

Financial risks are managed on the basis of guidelines defined by the Company, in compliance with the goals set centrally by the Board of Directors. This enables the supervision and coordination of the operations of the individual Group companies, also through more effective financial planning and control, the systematic monitoring of the levels of exposure to financial risks as well as the trend in cash management, and the provision of useful indications in order to optimize the management of dealings with the reference credit institutions.

In accordance with these directives, control over the management of individual financial risks is ensured through intervention aimed at containing their impact, also by using derivatives. Derivatives are used for hedging purposes only. In application of IFRS, some derivatives have been classified as held for trading, although they have been entered into solely for hedging purposes.

Financial liabilities mainly consist of trade payables and payables to banks and other financial payables. The management of these liabilities is largely aimed at financing the Group's operations.

Interest rate risk

Movements in market interest rates affect the level of net financial charges and the market value of financial assets and liabilities.

Interest rate risk can be classified as follows:

- flow risk, which refers to the variability in interest income and expense received and paid following changes in market interest rates;

- price risk, relating to the sensitivity of the assets and liabilities market value to changes in the level of interest rates (it refers to fixed rate assets or liabilities).

Salvatore Ferragamo S.p.A. is mainly exposed to flow risk, i.e. to the risk of recording in the income statement an increase in financial charges due to an unfavorable change in interest rates. The Company uses third-party financial resources largely in the form of floating rate bank debt and deploys the available liquidity mainly in money market instruments. Changes in market interest rates only affect the cost of loans and the yield on uses and thus the level of the Company's financial charges and income, and not their fair value.

Bank debt is wholly represented by short-term, floating-rate loans. The cost of bank debt is benchmarked to the market rate (generally Euribor/Libor for the period or the benchmark of the loan currency on the specific interbank market) in the period increased by a spread which depends on the type of line of credit used. Uses of the lines range from one day to a maximum of one year. The margins applied are in line with best market standards.

Cash surpluses are used with reference banks in short-term time deposit transactions, referring to the Euribor/Libor rate for the period or the specific benchmark of the investment currency or in intercompany loans, regulated at current market conditions, in order to reduce the Group's exposure to the banking system, limit the counterparty risk and the impact of financial charges.

Sensitivity to interest rate risk is monitored by keeping the overall exposure in due consideration, through coordinated management of debt and available liquidity and of the relevant due dates.

At the reporting date there were no outstanding interest rate risk hedge derivatives aimed at transforming floating rate debt into fixed rate debt, nor did the Company make use of such derivatives in the previous year.

The Company carried out the sensitivity analysis of the interest rate risk to which it is exposed by considering the financial statement items which give rise to floating rate interests and by assuming parallel increases or decreases in the benchmark interest rate curves by individual currency in proportion to the respective annual volatility observed on the market. The result of the analysis carried out for 2017 and 2016, considering the amounts of sensitive assets and liabilities, interest rate trends, and the relevant market volatility, which reached negative levels or levels close to zero, showed no contingent gains or losses through profit or loss.

The possible upward or downward change in the market's benchmark interest rates has an immaterial impact on the Company's income statement.

Exchange rate risk

The exposure to exchange rate risk derives from operations in currencies other than the accounting currency, i.e. the Euro.

In particular, the exchange rate risk can be classified based on the nature of the exposure and of the effects on operating results due to the different relevance of costs and revenues in foreign currency compared to the moment when the price conditions were defined (economic risk) and due to the translation of trade or financial receivables and payables denominated in foreign currency (settlement risk).

The Company operates internationally and therefore is exposed to risks arising from exchange rates fluctuations, which have an impact on the operating results and on the value of shareholders' equity.

The objective of the exchange rate risk hedging policy is to minimize the economic and settlement exchange rate risks, i.e. the risks arising from the possibility that currency parity changes unfavorably during the period between the moment in which a commitment to pay or a right to collect a currency other than the Euro is expected for a future date (definition of budgets, setting of price lists, arrangement of orders), the registration of the accounting document (invoicing) and the moment in which the receipt or payment effectively occurs, generating an effect in terms of translation differences, with an impact on the income statement.

In keeping with the exchange rate risk management policy adopted in recent years, the Company manages exchange rate risk arising from its business, in line with the provisions of the exchange rate risk management policy and the risk management objectives that are periodically established, through the systematic hedging of commercial flows arising from sales forecast in currencies other than the Euro, to both subsidiaries and third parties, with the aim of mitigating the expected risk of variability in margins arising from sales relating to future collections.

The Group has a strong presence on international markets, including through commercial companies located in countries which use currencies other than the Euro, mainly the US dollar, Japanese yen and Chinese renminbi. In the year ended 31 December 2017, the percentage of net revenues realized by the Company in US dollars was around 34% of net revenues, in Japanese yen around 6%, in Chinese renminbi around 7%, in South Korean won around 5% and in Mexican peso around 4%. In the year ended 31 December 2016, the percentage of net revenues realized by the Company in US dollars was around 35% of net revenues, in Japanese yen around 8%, in Chinese renminbi around 7%, in South Korean won around 5% and in Mexican peso around 3%. The currency risks originate mainly from exports of the Company in US dollars, Japanese yen, Chinese renminbi, South Korean won and Mexican peso.

In relation to its business model, the Group incurs a significant part of its costs in Euro (costs relating to production and management of the corporate structure borne by Salvatore Ferragamo S.p.A.), while the revenues and costs recorded by Group companies are mainly expressed in the local currencies of the respective reference markets. Exchange rate risk management is mostly focused on the Company through the direct invoicing in the accounting currency of the subsidiary in order to hedge the exposure deriving from sales in currencies other than the Euro by entering into derivatives. In particular, the Company is exposed to changes in the exchange rate between the Euro and the US dollar, in relation both to sales in Dollars on the North American market and on some markets, mainly in Asia. In this context, the Company is exposed to changes in the exchange rates of the currencies in which sales are denominated. This implies the risk that the corresponding value in Euro of revenues determined at the moment of collection is insufficient to cover production costs or to achieve the desired profit margin. This risk is heightened during the significant period between the moment when the sale prices of a collection are set and the moment when revenues are converted into Euro, which extends up to 18 months.

The Company (as a manufacturing company) enters into currency forward exchange contracts or options, to establish the conversion rate in advance, or a predefined range of conversion rates at future dates with an estimated period of maximum 24 months. In the years under examination, the Company covered its exchange rate risk almost exclusively with currency forward exchange contracts.

To this end, on the basis of market expectations and conditions, before establishing price lists, and in any case not after the beginning of the sales campaign, hedging is arranged for an amount generally between 50% and 90% of forecast sales in foreign currency. This proportion is calculated based on the expected overall exposure, rather than the individual foreign currency. In the period following the preparation of the price list, the total outstanding hedge is added for the orders effectively managed and put into production. In this way the Company limits the commercial risk just to the risk arising from sales volumes, excluding the risk arising from the exchange rate.

In addition, the Company checks the exposure and the related exchange rate risk management procedures of some Asian and Latin American subsidiaries which make purchases of goods in US dollars or in Euro and sell in the currency of the country in which they operate. The values of the contracts involved are, nonetheless, significantly lower than those concluded directly by the Company to mitigate the exchange rate risk arising from sales in the accounting currency of the various subsidiaries.

In addition, the Company controls and hedges exposure deriving from changes due to exchange rate changes in the value of assets or liabilities denominated in currencies other than the accounting currency of the individual company, which may affect the income statement (typically intercompany financial receivables/payables) by offsetting financial receivables and payables denominated in the same currency or through financial instruments, whose recognition in accordance with IFRS follows the rules of fair value hedge: the profit or loss arising from subsequent assessments of the present value of the hedging instrument is recorded in the income statement as well as the profit or loss on the hedged item.

The hedges of the Company's future transactions in foreign currencies (which can be classified as cash flow hedge pursuant to IFRS) are accounted for in accordance with hedge accounting rules.

The following table shows the development of the cash flow hedge reserve for the years ended 31 December 2017 and 31 December 2016:

Exchange rate risk (In thousands of Euro)	Cash flow hedge reserve	
	2017	2016
Opening balance	(5,035)	(2,010)
+ increases for recognition of new positive effectiveness	30,828	12,351
- decreases for recognition of new negative effectiveness	(2,483)	(15,457)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(18,746)	(8,859)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	5,238	8,940
Closing balance	9,802	(5,035)

Overall, the 'Reserve', which consists of the value changes in hedges for expected transactions in foreign currency, increased by 14,837 thousand Euro overall during 2017, whereas it had declined by 3,025 thousand Euro in 2016. The changes in value reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro/US Dollar exchange rate was around 1.07 at the beginning of 2016, gradually rose to approximately 1.15, and subsequently accelerated to the downside, bottoming out at 1.03; then, during 2017 it appreciated constantly and steadily, eventually peaking at over 1.20. As for the exchange rate between the Euro and the Japanese Yen, over the last two years the latter first rose against the single currency, moving from a high of more than 130 to a low of around 111, and then all but constantly depreciated throughout 2017, eventually exceeding 135 at the end of the year. The effective amount transferred directly from the "Reserve" to the income statement under "Revenues from sales" on occurrence of the underlying flows was a positive total of 13,508 thousand Euro in 2017 while it was a negative total of 81 thousand Euro in 2016. During 2017-2016 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.

The following table sets out the average time horizon and the relevance by risk factor of exchange rate hedges which the Company held at the end of 2017 and 2016. The number of foreign currencies in the table show how exchange rate risk management is all but centralized at the Parent company.

Cash flow analysis (hedged items)

(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
31 December 2017						
Exchange rate risk						
Sales expected in USD	192,000	69,000	60,000	63,000	-	-
Sales expected in JPY	3,600,000	1,400,000	1,500,000	700,000	-	-
Sales expected in GBP	5,000	1,500	1,500	2,000	-	-
Sales expected in MXN	320,000	80,000	40,000	100,000	100,000	-
Sales expected in CHF	3,500	1,500	1,500	500	-	-
Sales expected in AUD	8,000	3,000	2,500	2,500	-	-
Sales expected in CAD	10,000	4,500	3,000	2,500	-	-
Sales expected in CNY	190,000	40,000	100,000	50,000	-	-
Sales expected in HKD	80,000	20,000	30,000	30,000	-	-
Sales expected in SGD	11,500	6,000	3,500	2,000	-	-
Sales expected in KRW	27,000,000	11,000,000	10,000,000	6,000,000	-	-
<hr/>						
(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
31 December 2016						
Exchange rate risk						
Sales expected in USD	262,000	76,000	43,000	73,000	65,000	5,000
Sales expected in JPY	5,900,000	1,100,000	1,700,000	1,700,000	1,300,000	100,000
Sales expected in GBP	5,500	2,000	2,500	1,000	-	-
Sales expected in MXN	-	-	-	-	-	-
Sales expected in CHF	7,000	1,500	2,000	2,000	1,500	-
Sales expected in AUD	8,500	2,500	2,500	2,500	1,000	-
Sales expected in CAD	15,500	3,500	3,000	3,000	3,000	3,000
Sales expected in CNY	270,000	55,000	65,000	90,000	60,000	-
Sales expected in HKD	130,000	30,000	30,000	40,000	30,000	-
Sales expected in SGD	11,000	5,000	2,000	4,000	-	-
Sales expected in KRW	24,000,000	10,000,000	11,000,000	3,000,000	-	-

Cash flow analysis (hedged items): impact on the income statement

(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
31 December 2017						
Exchange rate risk						
Sales expected in USD	137,000	54,000	76,000	7,000	-	-
Sales expected in JPY	3,300,000	1,400,000	1,800,000	100,000	-	-
Sales expected in GBP	4,400	1,600	2,100	700	-	-
Sales expected in MXN	240,000	40,000	100,000	100,000	-	-
Sales expected in CHF	2,800	1,500	1,300	-	-	-
Sales expected in AUD	6,000	2,500	3,500	-	-	-
Sales expected in CAD	7,500	4,000	3,500	-	-	-
Sales expected in CNY	170,000	90,000	80,000	-	-	-
Sales expected in HKD	60,000	15,000	35,000	10,000	-	-
Sales expected in SGD	8,500	5,500	3,000	-	-	-
Sales expected in KRW	18,000,000	9,000,000	9,000,000	-	-	-

(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
31 December 2016						
Exchange rate risk						
Sales expected in USD	200,000	41,000	79,000	52,500	27,500	-
Sales expected in JPY	5,400,000	1,000,000	2,000,000	1,200,000	1,200,000	-
Sales expected in GBP	4,800	2,600	1,800	400	-	-
Sales expected in MXN	-	-	-	-	-	-
Sales expected in CHF	6,400	1,500	2,500	1,500	900	-
Sales expected in AUD	7,000	2,500	3,000	1,500	-	-
Sales expected in CAD	13,000	3,000	3,000	3,000	3,000	1,000
Sales expected in CNY	215,000	20,000	125,000	30,000	40,000	-
Sales expected in HKD	110,000	10,000	60,000	20,000	20,000	-
Sales expected in SGD	8,000	2,000	6,000	-	-	-
Sales expected in KRW	18,000,000	11,000,000	7,000,000	-	-	-

The most important hedge, in terms of volumes of notional amounts in foreign currency being hedged, is aimed at mitigating the risk generated by fluctuations in the exchange rate between the Euro and the following currencies: US dollar, Japanese yen, Chinese renminbi, South Korean won, Mexican peso and Hong Kong dollar.

From a time viewpoint, hedges lasting over one year show nil values as at 31 December 2017 and are included within eighteen months as at 31 December 2016. The above tables set out the financial recognition dates of underlying assets by currency and the dates on which the impact on the income statement is recognized. This is determined upon the invoicing of the estimated flows, which are the object of the exchange rate hedge, as at 31 December 2017 and 2016.

Sensitivity Analysis

The sensitivity analysis carried out in order to assess the Company's exposure to exchange rate risk was undertaken on the basis of percentage increases and decreases in the exchange rates of the various currencies, proportional to their annual volatility, applied to all significant financial assets and liabilities expressed in original currencies. In particular the analysis involved all currencies and the following items:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

In addition, the table shows the most important effects and the related currencies and refers to the exposure to exchange rate risk in accordance with *IFRS* requirements. Exchange rates were considered for currencies whose changes generate an impact on the Income statement and Shareholders' equity, in absolute terms, of over one million Euro.

Sensitivity analysis: exchange rate risk

31 December 2017		Increase/reduction in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
(In thousands of Euro)					
POSITIVE CHANGE	EUR/JPY	8.0%	Derivatives	1,045	1,816
			Non-derivatives	(1,133)	
	EUR/USD	7.3%	Derivatives	3,364	7,811
			Non-derivatives	(3,760)	
	EUR/KRW	8.8%	Derivatives	569	1,138
			Non-derivatives	(558)	
	EUR/CNY	6.4%	Derivatives	154	1,308
			Non-derivatives	(709)	
	EUR/MXN	12.7%	Derivatives	210	1,147
			Non-derivatives	(1,821)	
	EUR/CAD	8.4%	Derivatives	744	385
			Non-derivatives	(774)	
Total				(2,669)	13,605
NEGATIVE CHANGE	EUR/JPY	(8.0%)	Derivatives	(1,228)	(2,133)
			Non-derivatives	1,331	
	EUR/USD	(7.3%)	Derivatives	(3,897)	(9,048)
			Non-derivatives	4,356	
	EUR/KRW	(8.8%)	Derivatives	(679)	(1,358)
			Non-derivatives	666	
	EUR/CNY	(6.4%)	Derivatives	(175)	(1,486)
			Non-derivatives	806	
	EUR/MXN	(12.7%)	Derivatives	(272)	(1,482)
			Non-derivatives	2,353	
	EUR/CAD	(8.4%)	Derivatives	(880)	(455)
			Non-derivatives	915	
Total				3,296	(15,962)
31 December 2016		Increase/reduction in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
(In thousands of Euro)					
POSITIVE CHANGE	EUR/JPY	13.6%	Derivatives	1,451	5,222
			Non-derivatives	(536)	
	EUR/USD	10.6%	Derivatives	7,107	18,107
			Non-derivatives	(6,224)	
	EUR/KRW	11.7%	Derivatives	495	1,485
			Non-derivatives	(746)	
	EUR/CNY	8.8%	Derivatives	606	2,369
			Non-derivatives	(815)	
	EUR/MXN	16.0%	Derivatives	-	-
			Non-derivatives	(2,330)	
	EUR/CAD	9.9%	Derivatives	885	827
			Non-derivatives		
Total				(107)	28,010
NEGATIVE CHANGE	EUR/JPY	(13.6%)	Derivatives	(1,905)	(6,859)
			Non-derivatives	705	
	EUR/USD	(10.6%)	Derivatives	(8,784)	(22,379)
			Non-derivatives	7,692	
	EUR/KRW	(11.7%)	Derivatives	(626)	(1,879)
			Non-derivatives	943	
	EUR/CNY	(8.8%)	Derivatives	(723)	(2,825)
			Non-derivatives	971	
	EUR/MXN	(16.0%)	Derivatives	-	-
			Non-derivatives	3,218	
	EUR/CAD	(9.9%)	Derivatives	(1,080)	(1,010)
			Non-derivatives		
Total				411	(34,952)

As the table above shows, a positive change in the exchange rates (*EUR/JPY*, *EUR/USD*, *EUR/KRW*, *EUR/CNY*, *EUR/MXN* and *EUR/CAD*) would have resulted in a 2,669 thousand Euro loss and a 107 thousand Euro loss as at 31 December 2017 and 31 December 2016, respectively; similarly, a negative change in the exchange rates would have caused a 3,296 thousand Euro profit and a 411 thousand Euro profit as at 31 December 2017 and 31 December 2016, respectively. The increase in shareholders' equity caused by derivative instruments designated as hedges as a result of the assumed positive exchange rate changes would have amounted to 13,605 thousand Euro and 28,010 thousand Euro as at 31 December 2017 and 31 December 2016, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 15,962 thousand Euro and 34,952 thousand Euro as at 31 December 2017 and 31 December 2016, respectively. The sensitivity analysis carried out as described above, which is significantly affected by market volatility in the exchange rates considered, points to a material impact on the Company shareholders' equity from the potential change in the value of hedging derivatives. This is temporarily allocated to the "Cash flow hedge reserve" and will be recognized through profit or loss in the following years when the expected sales occur. The higher or lower impact on the income statement and on the statement of financial position in each of the years under consideration derives largely from the trend in the individual currencies at the reference dates and the change in the value of financial assets and liabilities exposed to fluctuations in exchange rates.

Liquidity risk

Liquidity risk represents the risk that the Company cannot meet its financial obligations due to problems in obtaining funds at current market price conditions (funding liquidity risk) or in liquidating assets on the market to find the necessary financial resources (asset liquidity risk).

The first consequence is a negative impact on the income statement, should the Company be forced to incur additional costs to meet its commitments.

The factors which mainly influence the Company's liquidity are the resources generated or absorbed by current operating and investing activities, the possible distribution of dividends and the expiry and possibility of renewal of debt or the expiry and possibility of liquidation of financial investments of surplus cash.

Liquidity needs or surpluses are monitored on a daily basis by the Company's Treasury Department in order to guarantee effective sourcing of financial resources or adequate investment of liquidity.

The negotiation and management of credit lines is coordinated by the Company at Group level with the aim of satisfying the short and medium/long-term needs of the individual companies according to efficiency and cost-effectiveness criteria.

As at 31 December 2017 there were outstanding uncommitted short-term credit lines with a number of banks made available to the Company to meet financing needs connected to the management of working capital for a total of 285,000 thousand Euro as well as committed, revolving short and medium/long-term credit lines negotiated on a bilateral basis by the Company for a total of 160,000 thousand Euro.

As at 31 December 2017, Salvatore Ferragamo S.p.A. had not drawn down on either uncommitted revocable credit lines or committed credit lines; considering also the financing needs of the other Group companies that can access them, at the reporting date these lines had not been drawn down. As at 31 December 2017, the Parent company's net financial position amounted to a positive 157,047 thousand Euro; as at 31 December 2016, the Company's net financial position amounted to a positive 95,085 thousand Euro.

As at 31 December 2017 committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of thirty months. The credit lines and the related financial business are spread among leading national and international banks. It has always been the Company's policy to sign and constantly maintain with various and diversified banks a total amount of committed credit lines that is considered consistent with the needs of the individual companies and suitable to ensure at any time the liquidity needed to satisfy and comply with all the Group's financial commitments, at the established economic conditions, as well as guaranteeing the availability of an adequate level of operational flexibility for any expansion programs. In 2017, the Parent company repaid in advance or did not renew a number of committed credit lines to account for the Group's significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. Cash surpluses are used with reference banks in short-term (usually between one day and thirty-one days) time deposit transactions, usually referring to the Euribor/Libor rate for the period or the benchmark of the investment currency on the specific interbank market or in intercompany loans, regulated at current market conditions, in order to reduce the Group's exposure to the banking system and limit the counterparty risk and the impact of financial charges. Liquidity investments are carried out with the prime objectives of making resources available at short notice and neutralizing the risk of capital losses, avoiding speculative transactions. These choices, which also take account of the likely future trend in cash flows together with prompt renegotiation of credit lines (even before their expiry), enable a significant reduction in the exposure to the risk under review and allow to adjust the cost of debt to the best market conditions. The Company has constantly maintained access to a wide range of financing sources at competitive

costs, despite the external scenario, which continues to be characterized by rigidity in the credit market. Despite the Group's capacity to generate high cash flows from current operations, the constant availability of an adequate amount of committed credit lines, the most turbulent market phases and volatility in credit flows could be faced calmly. The financial position of the Company and of the Group is measured on a monthly basis and compared with the latest Budget/Forecast. Management believes that the funds and credit lines currently available, with the addition of the funds which are likely to be generated from current operations, will enable the Company to safely address the repayment of loans at their natural expiries and to meet the needs arising from investment activities and working capital management.

Liquidity risk – Maturity analysis (In thousands of Euro)					31 December 2017
	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	143,785	1,577	-	-	145,362
Payables to subsidiaries	3,932	-	-	-	3,932
Derivatives – non-hedging component	1,367	-	-	-	1,367
Derivatives – hedging component	188	755	-	-	943
Total	149,272	2,332	-	-	151,604

Liquidity risk – Maturity analysis (In thousands of Euro)					31 December 2016
	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	118,888	999	-	-	119,887
Payables to subsidiaries	7,027	-	-	-	7,027
Derivatives – non-hedging component	1,248	122	-	-	1,370
Derivatives – hedging component	4,987	9,274	14	-	14,275
Total	132,150	10,395	14	-	142,559

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months, with nil values as at 31 December 2017 and values amounting to 14 thousand Euro as at 31 December 2016 for maturities of over 12 months. Financial assets recorded in the Statement of financial position have a similar residual life.

Credit risk

Credit risk represents the Company's exposure to potential losses arising from failure to meet trade or financial obligations taken on by counterparties.

The Company's exposure to credit risk depends on the nature of the activities which have generated the relevant receivables.

The Company's exposure to commercial credit risk refers only to sales to third parties and to receivables arising from revenues generated by licensing activities, which together represent around 24 percent of global turnover: the remaining turnover refers to intercompany and retail sales with payment in cash or through credit and debit cards upon purchase. Trade receivables mainly refer to wholesale sales and are generally due in 90 days or less.

The Company generally favors trade dealings with customers with whom it has well-established and consolidated relations. Pursuant to its policy, Salvatore Ferragamo S.p.A. checks credit ratings of customers who ask for extended payment terms, based both on information which can be obtained from specialist agencies and on the observation and analysis of historical data of established customers. In addition, the balance of trade receivables is constantly monitored during the year in order to ensure prompt intervention and to reduce the risk of losses. The allocation of the credit risk among a number of customers and obtaining, where possible, guarantees or the adoption of means of payment which are less risky for the creditor, such as documentary letters of credit, are all actions aimed at further mitigating this risk.

Trade receivables are recorded net of write-downs, which are estimated based on the counterparty's insolvency risk, determined by considering the information available on the customer's solvency and its past history.

In general, the Company believes that the credit risk management policies implemented enabled overdue and bad debts, which required the adoption of legal credit collection measures, to be kept within reasonable limits.

The credit risk connected to financing, investing and operating activities in derivatives to hedge the exchange rate risk is represented by the inability of the counterparty or the issuer of the instruments to meet their contractual obligations, i.e. the so-called counterparty risk. The Company manages this type of risk by selecting counterparties with high credit ratings and who are considered solvent by the market and with whom it has routine and ongoing trade and banking service relations. The Company negotiated and entered into master agreements, in accordance with the international standards (ISDA Master Agreement), with all foreign counterparties of derivatives, in order to regulate the various cases.

The credit risk regarding the Company's other financial assets, consisting of cash and cash equivalents, available-for-sale financial assets and some derivatives, has a risk equal to the book value of these assets in case of insolvency of the counterparty.

Maximum credit risk exposure

(In thousands of Euro)

	31 December 2017		31 December 2016	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Trade receivables	156,668	-	183,341	-
Receivables due from credit cards	507	-	372	-
Cash and cash equivalents	127,413	-	59,478	-
Guarantee deposits	-	366	-	343
Derivatives	13,167	-	2,803	123
Total	297,755	366	245,994	466

The table shows how the Company's exposure to credit risk – both commercial and counterparty risk – is defined by the book value of the items representing outstanding financial assets as at 31 December 2017 and 31 December 2016, and is almost exclusively limited to the current portion. The non current portion refers to the item 'Guarantee deposits' which mainly includes the cash deposits made by the Company for property lease contracts and is recognized at nominal value.

Concentration of credit risk by geographic area

(In thousands of Euro)

	31 December 2017	%	31 December 2016	%
Italy	26,396	16.8%	29,054	15.8%
Europe	25,011	16.0%	30,995	16.9%
North America	40,757	26.0%	51,071	27.9%
Japan	2,325	1.5%	2,531	1.4%
Asia Pacific	39,854	25.4%	46,556	25.4%
Central and South America	22,325	14.2%	23,134	12.6%
Total	156,668	100.0%	183,341	100.0%

The table shows the concentration of commercial credit risk by geographic area of the Company's activity in the two years under review.

(In thousands of Euro)

	Receivables neither past due nor impaired	Receivables past due but not impaired					Total
		<30 days	30-60 days	60-90 days	90-120 days	>120 days	
31 December 2017	142,726	852	1,039	2,921	4,106	5,024	156,668
31 December 2016	161,439	2,535	1,606	3,221	3,871	10,669	183,341
Figures in % at 31 December 2017	91.1%	0.5%	0.7%	1.9%	2.6%	3.2%	100.0%
Figures in % at 31 December 2016	88.1%	1.4%	0.9%	1.8%	2.1%	5.8%	100.0%

The table provides an analysis of the expiries of receivables which are past due but not impaired for the years ended 31 December 2017 and 31 December 2016.

The concentration of sales to the main third party customers is shown in the table below; for the concentration of sales by geographic area, reference should be made to the contents in the specific section above:

Concentration of market risk	2017	2016
Percentage of revenues with the biggest customer	0.8%	1.2%
Percentage of revenues with the 3 biggest customers	2.4%	2.9%
Percentage of revenues with the 10 biggest customers	6.3%	6.9%

Capital management

The main objective of the Company's capital management activity is to ensure that a solid credit rating as well as adequate levels of share capital indicators are maintained in order to support business and optimize value for shareholders. The Company manages the capital structure and modifies it according to changes in economic conditions. To maintain or adjust the capital structure, the Company can modify the dividends paid to shareholders, repay the capital or issue new shares. No change was made to the objectives, policies or procedures during 2017 and 2016.

The Company includes under net debt interest-bearing loans, other financial payables, trade and other payables, net of cash and cash equivalents. Other financial payables totaled 1,254 thousand Euro (1,167 thousand Euro as at 31 December 2016) and refer to the put option measured at fair value which is the liability to the minority shareholders of Ferragamo Retail India Private Limited at the reporting date. The table does not include the values and related effects produced by the derivatives used to manage exchange rate risk.

(In thousands of Euro)	31 December 2017	31 December 2016
Other financial payables	1,254	1,167
Trade and other payables	159,286	139,988
Cash and cash equivalents	127,413	59,478
Net debt	33,127	81,677
Total shareholders' equity	603,357	566,988
Shareholders' equity and net debt	636,484	648,665
Net debt/shareholders' equity	5.49%	14.41%

4. Business combinations

During 2017 there were no business combinations.

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

5. Property, plant and equipment

The breakdown of Property, plant and equipment as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	18,010	-	18,010	18,010	-	18,010
Buildings	35,634	9,769	25,865	35,026	8,712	26,314
Plant and equipment	28,633	22,336	6,297	26,740	20,187	6,553
Industrial and commercial equipment	22,841	20,003	2,838	22,058	18,424	3,634
Other assets	33,187	27,704	5,483	30,008	25,395	4,613
Leasehold improvements	22,758	18,236	4,522	20,306	16,592	3,714
Fixed assets in progress and payments on account	37,517	-	37,517	9,491	-	9,491
Total	198,580	98,048	100,532	161,639	89,310	72,329

The following table shows the changes in Property, plant and equipment for the year ended 31 December 2017:

(In thousands of Euro)	Value at 01.01.2017	Additions	Disposals	Depreciation	Impairment	Value at 31.12.2017
Land	18,010	-	-	-	-	18,010
Buildings	26,314	609	-	(1,058)	-	25,865
Plant and equipment	6,553	1,900	-	(2,156)	-	6,297
Industrial and commercial equipment	3,634	782	-	(1,572)	(6)	2,838
Other assets	4,613	3,188	-	(2,318)	-	5,483
Leasehold improvements	3,714	2,453	-	(1,639)	(6)	4,522
Fixed assets in progress and payments on account	9,491	28,059	(33)	-	-	37,517
Total	72,329	36,991	(33)	(8,743)	(12)	100,532

The increase:

- in the item "Buildings" mainly refers to the partial completion of renovation of the facility at Osmannoro-Sesto Fiorentino;
- in the item "Plant and equipment" refers mainly to the purchase and installation of new plant at the Osmannoro-Sesto Fiorentino facility;
- in the item "Industrial and commercial equipment" refers to the purchase of new furniture and equipment for the stores, showrooms and offices that were refurbished during the year;
- in the item "Other assets" mainly refers to IT equipment (1,674 thousand Euro) and furniture and furnishings (1,333 thousand Euro);
- in the item "Leasehold improvements" refers mainly to work carried out for the renovation of the stores as well as the construction of the new design and prototyping laboratory for the development of leather goods, located in a leased industrial shed next to the Osmannoro site.

The item "Fixed assets in progress and payments on account" refers largely to expenses incurred and payments on accounts made for the new logistics center in Osmannoro (36,825 thousand Euro).

The decrease in "Fixed assets in progress and payments on account" refers to the completion of construction and renovation work started in the previous year and completed during the year.

As envisaged by the analysis procedure for impairment indicators adopted by the Company, at year-end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the Company operates, while internal sources are corporate strategies which can change the use of assets.

Impairment amounting to 6 thousand Euro in “Industrial and commercial equipment” and “Leasehold improvements” refers to the impairment of tangible assets of a store at the Venice airport in relation to its closure in December 2017.

From the analyses carried out no need emerged to record any further impairment on this item.

6. Intangible assets with a finite useful life

The breakdown of Intangible assets with a finite useful life as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017			31 December 2016		
	Historic Cost	Accumulated amortization	Net value	Historic Cost	Accumulated amortization	Net value
Development costs	44,593	25,849	18,744	37,748	19,895	17,853
Industrial patents and use of intellectual property rights	15,507	12,674	2,833	13,221	11,729	1,492
Concessions, licenses and trademarks	6,731	5,598	1,133	6,418	5,366	1,052
Intangible assets with a finite useful life in progress	11,668	-	11,668	5,221	-	5,221
Total	78,499	44,121	34,378	62,608	36,990	25,618

The following table shows the changes in Intangible assets with a finite useful life for the year ended 31 December 2017:

(In thousands of Euro)	Value at 01.01.2017	Additions	Disposals	Amortization	Impairment	Value at 31.12.2017
Development costs	17,853	7,529		(6,224)	(414)	18,744
Industrial patents and use of intellectual property rights	1,492	2,286		(945)	-	2,833
Concessions, licenses and trademarks	1,052	313		(232)	-	1,133
Intangible assets with a finite useful life in progress	5,221	8,541	(2,094)	-	-	11,668
Total	25,618	18,669	(2,094)	(7,401)	(414)	34,378

The additions relating to the item “Development costs” is mainly related to the capitalization of expenses for the development of business software applications (SAP accounting system, ERP, reporting systems, and the e-commerce platform).

The additions relating to the item “Industrial patents and use of intellectual property rights” (2,286 thousand Euro) refer for 2,142 thousand Euro to the cost for licenses to use software for Company management procedures and for 144 thousand Euro to the cost for the registration of intellectual property rights relating to Ferragamo products.

The additions relating to the item “Concessions, licenses and trademarks” refer to the costs for filing and registering the Salvatore Ferragamo trademark.

The additions relating to the item “Intangible assets with a finite useful life in progress” mainly referred to the so-called “Old Replacement” project (4,792 thousand Euro), whose aim was introducing a new SAP-based distribution system integrated with the logistic shipping and billing system, which became operational in January 2018.

As envisaged by the analysis procedure for impairment indicators adopted by the Company, at year-end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the Company operates, while internal sources are corporate strategies which can change the use of assets.

The 414 thousand Euro decline in “Development costs” reflected the impairment loss recognized on this item, relating to expenses capitalized in prior years and that no longer fit the Company’s strategies.

From the analyses carried out no need emerged to record any impairment on this item.

7. Investments in subsidiaries

The breakdown of Investments in subsidiaries as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)							
Company	% investment	Value at 01.01.17	Additions	Restate-ment	Write-downs	Stock Grant	Value at 31.12.17
Ferragamo Parfums S.p.A.	100	40,801	-	-	-	112	40,913
Ferragamo Mexico S. de R.L. de C.V.	99.73	520	-	-	-	75	595
Ferragamo Austria GmbH	100	4,434	-	-	-	-	4,434
Ferragamo Chile S.A.	99	-	-	-	-	-	-
Ferragamo Deutschland GmbH	100	9,246	-	-	-	-	9,246
Ferragamo Belgique SA	100	1,066	-	-	-	-	1,066
Ferragamo (Suisse) SA	100	890	-	-	-	-	890
Ferragamo U.K. Limited	100	10,477	-	-	-	-	10,477
Ferragamo Australia Pty Ltd.	100	4,132	-	-	-	-	4,132
Ferragamo France S.A.S.	100	9,945	-	-	-	-	9,945
Ferragamo Espana S.L.	100	1,001	-	-	-	-	1,001
Ferragamo Monte-Carlo S.A.M.	100	1,063	-	-	-	-	1,063
Ferragamo Denmark ApS	100	807	1,008	-	-	-	1,815
Ferragamo USA Inc.	100	57,878	-	-	-	(31)	57,847
Ferragamo Japan K.K.	71	8,397	-	-	(4,254)	111	4,254
Ferragamo Hong Kong Ltd.	100	12,706	-	-	-	54	12,760
Ferragamo (Malaysia) Sdn. Bhd.	100	2,837	19	-	-	-	2,856
Ferragamo Korea Ltd.	100	35,274	758	-	-	-	36,032
Ferragamo Retail Macau Limited	75.2	1,241	-	-	-	-	1,241
Ferragamo Retail Nederland B.V.	100	2,291	-	-	-	-	2,291
Ferragamo (Thailand) Limited	100	2,073	35	-	-	-	2,108
Ferragamo Brasil Roupas e Acessorios Ltda.	99	-	-	-	-	-	-
Total		207,079	1,820	-	(4,254)	321	204,966

The rise in the investment in Ferragamo Denmark ApS referred to the share capital increase authorized by the single member Salvatore Ferragamo S.p.A. on 15 May 2017, totaling DKK 7,500,000 (Share Capital and share premium).

The increases in the investments in Ferragamo (Malaysia) Sdn. Bhd, Ferragamo Korea Ltd., and Ferragamo (Thailand) Limited referred to the price adjustment paid under the purchase agreement dated 20 December 2016 for the remaining minority interests (20%), calculated on the basis of the net depreciated asset value as at 31 December 2016.

For details on the item “Stock Grant” reference should be made to note 37.

In accordance with the provisions of IAS 36, the Company undertook an analysis to identify any indicators of impairment and/or permanent losses in value in subsidiaries or whether any grounds for the write-down in the investments applied in previous years no longer exist.

In particular an assessment was made of the recoverability of the residual value of investments in order to ensure that they are not recognized at a value higher than their recoverable amount.

Impairment tests were performed considering the subsidiary being tested as a CGU. The value used to determine the recoverable amount of the CGUs is the value in use. This was calculated based on expected cash flows, which were discounted at an appropriate rate (Discounted cash-flow analysis – DCF). Specifically, value in use was estimated by discounting the operating cash flows of the CGUs at a rate equal to the weighted average cost of capital (WACC).

The residual value was calculated using a normalized cash flow extrapolated from the last forecast year, applying an annual growth rate (“g”).

The discounted cash-flow analysis was performed based on the budget for the year 2018, prepared and approved by the Board of Directors; as for the two following explicit forecast years, the Company used the Business Plan prepared by top management in accordance with the expectations for the markets where the investments are located as well as the strategic guidelines submitted to the Board of Directors.

The main assumptions to determine the recoverable amount are given below:

- *Terminal Value*: determined using the perpetuity model with a long-term growth rate “g” which represents the present value, in the final projected year, of all the expected future cash flows.
- Growth rate “g”: 1% (1% as at 31 December 2016);
- Discount rate (Weighted Average Cost of Capital, WACC): 7.60% (7.80% as at 31 December 2016).

Based on the analyses carried out, the Company recognized a 4,254 thousand Euro impairment loss on the investment in Ferragamo Japan K.K. to reflect the reductions in assets resulting from the losses incurred in the Japanese market, so as to adjust their book value to the corresponding recoverable amount. The sensitivity analysis performed on the investment in Ferragamo Japan K.K. shows that a WACC of 8.14% and a “g” growth rate of 0.3% would reduce the value of the investment to zero. This would happen also in the event the subsidiary fails to achieve the level and composition of revenues implied in the cash flows used. The sensitivity analysis of the above material assumptions used to determine the recoverable amount (+/-0.5% change in the “g” growth rate and +/-0.5% change in the WACC), performed on the other investments for which there is an indication of impairment, did not yield significantly different results in terms of recoverable amount.

The following table shows the change in the provision for excess write-downs of investments and includes the amount considered suitable to cover the remaining losses (applying the due percentage) after the book value of the equity investment is set to zero:

(In thousands of Euro)						
Company	% investment	Value at 01.01.17	Additions	Write-downs	Disposals	Value at 31.12.17
Ferragamo Argentina SA	95	(298)	234	(401)	-	(465)
Ferragamo Retail India Private Limited	51	(3,944)	-	(1,846)	-	(5,790)
Ferragamo (Singapore) Pte. Ltd.	100	-	-	(3,375)	(7)	(3,382)
Ferragamo Moda (Shanghai) Co. Ltd.	75	(5,136)	-	(283)	-	(5,419)
Total		(9,378)	234	(5,905)	(7)	(15,056)

The increase in the interest in Ferragamo Argentina SA referred to the 4,200,000 Peso share capital increase finalized on 15 May 2017, which was subscribed for 95% by Salvatore Ferragamo S.p.A in exchange for outstanding trade receivables, and for the remaining 5% by the Company Ferragamo USA Inc.. As a result, the subsidiary’s share capital now totals 9,169,107 Peso. The decline referred to the price adjustment in favor of the company for the acquisition of the remaining 20% interest in Ferragamo (Singapore) Pte. Ltd. under the purchase agreement dated 20 December 2016.

The following table provides the main figures from the financial statements of the subsidiaries:

(In thousands)							
Company	Location	% investment	Share capital		Total shareholders' equity	Profit/(loss) for the year	Value at 31.12.17
			Currency	Amount	Euro	Euro	Euro
Ferragamo Parfums S.p.A.	Florence	100	Euro	10,000	23,314	3,325	40,913
Ferragamo Austria GmbH	Vienna	100	Euro	1,853	3,735	22	4,434
Ferragamo Deutschland GmbH	Munich	100	Euro	3,300	9,668	(1,596)	9,246
Ferragamo Belgique SA	Brussels	100	Euro	750	1,146	(124)	1,066
Ferragamo France S.A.S.	Paris	100	Euro	4,334	10,004	213	9,945
Ferragamo (Suisse) SA	Mendrisio	100	Chf	1,000	2,486	(1,308)	890
Ferragamo Espana S.L.	Madrid	100	Euro	4,600	3,642	444	1,001
Ferragamo U.K. Limited	London	100	Gbp	7,673	9,925	305	10,477
Ferragamo Retail Nederland B.V.	Amsterdam	100	Euro	500	2,501	(97)	2,291
Ferragamo Denmark ApS	Copenhagen	100	Dkk	550	628	(477)	1,815
Ferragamo Australia Pty Ltd.	Sydney	100	Aud	13,637	13,762	487	4,132
Ferragamo USA Inc.*	New York	100	Usd	74,012	73,031	(5,091)	57,847
Ferragamo Monte-Carlo S.A.M.	Monte Carlo	100	Euro	304	752	(247)	1,063
Ferragamo Mexico S. de R.L. de C.V.	Mexico City	99.73	Peso	4,593	19,495	3,905	595
Ferragamo Japan K.K.	Tokyo	71	Yen	305,700	5,930	(10,972)	4,254
Ferragamo Hong Kong Ltd.	Hong Kong	100	Hkd	10	173,607	15,965	12,760
Ferragamo Chile S.A.	Santiago	99	Peso	1,362,590	25	(123)	-
Ferragamo (Thailand) Limited	Bangkok	100	Thb	100,000	805	(807)	2,108
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur	100	Myr	1,300	4,603	(37)	2,856
Ferragamo (Singapore) Pte. Ltd.	Singapore	100	Sgd	4,600	(3,382)	(5,236)	(3,382)
Ferragamo Argentina S.A.	Buenos Aires	95	Ars	9,169	(488)	(535)	(465)
Ferragamo Retail India Private Limited	New Delhi	51	Inr	150,000	(11,354)	(4,308)	(5,790)
Ferragamo Korea Ltd.	Seoul	100	Kwon	3,291,200	58,659	2,793	36,032
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, PRC	75	Usd	1,400	(7,225)	(821)	(5,419)
Ferragamo Retail Macau Limited	Macau	75.2	Mop	25	8,564	(1,056)	1,241
Ferragamo Brasil Roupas e Acessorios Ltda.	Sao Paulo	99	Brl	55,615	4,879	168	-
Total							189,910

* Data refer to the Ferragamo USA Group.

8. Available-for-sale financial assets

In 2017, the company Polimoda Consulting S.r.l., in which Salvatore Ferragamo S.p.A. held a non-controlling interest (0.82%) included within Available-for-sale financial assets (20 thousand Euro as at 31 December 2016), completed the liquidation process that began in 2013, resulting in a 15 thousand Euro loss.

9. Other non current assets

“Other non-current assets” totaled 380 thousand Euro (542 thousand Euro as at 31 December 2016) and referred entirely to the non-current portion of the tax credit for donations in support of cultural activities as per art. 1 of Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”, made in 2016 and 2017.

10. Other non current financial assets

Other non current financial assets, totaling 331 thousand Euro as at 31 December 2017 (308 thousand Euro as at 31 December 2016), refer to guarantee deposits, mainly for existing rental contracts, and are accounted for at amortized cost.

11. Inventories

The breakdown of the item as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Gross value of raw materials, accessories and consumables	46,446	39,049	7,397
Provision for obsolete inventory	(4,660)	(4,488)	(172)
Raw materials, accessories and consumables	41,786	34,561	7,225
Gross value of finished products and goods for resale	66,547	74,230	(7,683)
Provision for obsolete inventory	(11,305)	(11,271)	(34)
Finished products and goods for resale	55,242	62,959	(7,717)
Total	97,028	97,520	(492)

The change in stocks of raw materials, up by 7,225 thousand Euro compared to 2016, is due to production volumes for the period; the related provision reflects the obsolescence of raw materials (leather and accessories) which are no longer suitable for the Company’s production plans for future collections. Raw materials also include leather and materials sent to third parties for subsequent processing.

Stocks of finished products decreased by 7,717 thousand Euro. The related provision reflects the difference between the purchase or production cost and the estimated realizable value of products belonging to past collections.

For a better understanding of how the above provisions for obsolete inventory were calculated, please see note 2 “Discretionary valuations and significant accounting estimates”.

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

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Raw materials	172	(2,639)	2,811
Finished products	34	674	(640)
Total	206	(1,965)	2,171

12. Trade receivables

The breakdown of the item “Trade receivables” as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Trade receivables from third parties	46,402	54,976	(8,574)
Provision for bad debt – third parties	(4,211)	(4,841)	630
Provision for bad debt – subsidiaries	(5,393)	-	(5,393)
Trade receivables from subsidiaries	119,870	133,206	(13,336)
Total	156,668	183,341	(26,673)

Trade receivables from third parties mainly refer to the credit exposure arising from sales made to the wholesale channel, 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.

For detailed information on trade receivables from subsidiaries reference should be made to the note “Transactions with related parties” below.

The changes in the provision for bad debt during 2017 were as follows:

(In thousands of Euro)	Value at 01.01.2017	Allocations	Uses	Value at 31.12.2017
Provision for bad debt – third parties	4,841	-	(630)	4,211
Provision for bad debt – subsidiaries	-	5,393	-	5,393
Total	4,841	5,393	(630)	9,604

The 5,393 thousand Euro allocation to the provision for bad debt referred to the impairment loss recognized on trade receivables more than one year past due from the subsidiary Ferragamo Retail India Private Limited as part of the process to sell the subsidiary's main assets, transfer Indian retail operations to third parties, and liquidate the Indian subsidiary. For further details reference should be made to the section "Significant events occurred during the year".

For an analysis of past due but not impaired trade receivables reference should be made to the section "Management of financial risks – Credit risk".

13. Tax receivables

The breakdown of the item "Tax receivables" as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Due from tax authorities (valued added tax)	-	2,775	(2,775)
Other tax receivables	11,014	10,250	764
Due from tax authorities (IRAP)	2,527	3,679	(1,152)
Total	13,541	16,704	(3,163)

Tax receivables decreased by 3,163 thousand Euro compared to the previous year.

Other tax receivables mainly included:

- The Research and Development Tax Credit for the year 2017, amounting to 2,700 thousand Euro (art. 3 of Italian Law Decree no. 145 of 23 December 2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014 – 2015 Budget Law);
- the 7,298 thousand Euro income tax receivable due from tax authorities for the year 2015 and claimed as a refund in the tax return for the same period;
- the 396 thousand Euro current portion of the tax credit for donations in support of cultural activities as per art. 1 of Italian Law Decree of 31 May 2014, no. 83 – the so-called "Art Bonus", made in 2015 and 2016; the remaining 380 thousand Euro non-current portion was included within "Other non-current assets". The 358 thousand Euro tax credit for these donations made in 2017 was recognized in the Income Statement under "Other income and revenues".

14. Other current assets

The breakdown of the item "Other current assets" as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Receivables due from credit card management companies	507	372	135
Receivables from staff	-	6	(6)
Other receivables for short-term hedge derivatives	12,844	2,575	10,269
Other receivables	544	2,589	(2,045)
Accrued income	55	5	50
Prepaid expenses	3,025	3,343	(318)
Receivables from the Holding company	21,217	32,348	(11,131)
Receivables from social security institutions	78	27	51
Total	38,270	41,265	(2,995)

Receivables due from the Holding company Ferragamo Finanziaria S.p.A. (21,217 thousand Euro) are broken down as follows:

- 19,255 thousand Euro relating to the domestic fiscal unity for the year 2017 as a result of the decline in direct tax expense charged on Salvatore Ferragamo S.p.A. already registered in 2016 because of the tax benefits associated with the so-called "Patent box";
- 1,962 thousand Euro associated with the income tax (IRES) refund claim regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs for employees or similar staff from 2007 to

2011 (art. 2, paragraph 1-quater, Italian Law Decree no. 201 of 6 December 2011) which were recognized in 2012.

Other receivables for hedge derivatives totaling 12,844 thousand Euro (2,575 thousand Euro as at 31 December 2016) refer to the fair value assessment of outstanding derivative contracts (hedge component) entered into by the Company to manage exchange rate risk on sales in currencies other than the Euro.

Prepaid expenses mainly refer to the fit-out of tailored single brand stores and/or stores-in-stores managed by third parties (TPOS) (1,701 thousand Euro) and rents (481 thousand Euro).

The item mainly includes advances to suppliers of 251 thousand Euro.

15. Other current financial assets

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Financial receivables due from subsidiaries	30,670	36,697	(6,027)
Short-term derivatives	323	228	95
Total	30,993	36,925	(5,932)

Financial receivables due from subsidiaries included the loans granted to the subsidiaries Ferragamo Deutschland GmbH, Ferragamo France S.A.S., Ferragamo (Suisse) S.A., Ferragamo U.K. Limited, Ferragamo Japan K.K., Ferragamo Canada Inc.. For detailed information on financial receivables from subsidiaries reference should be made to the note "Transactions with related parties" below.

The item "Derivatives" totaled 323 thousand Euro and refers to the fair value measurement of derivatives for the non-hedge component (228 thousand Euro as at 31 December 2016). For further details, reference should be made to note 26 below.

16. Cash and cash equivalents

The breakdown of Cash and cash equivalents as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Bank and post office deposits	127,181	59,329	67,852
Cash and values on hand	232	149	83
Total	127,413	59,478	67,935

Bank and post office deposits, which include time deposits expiring in no more than 31 days, refer to temporary cash holdings mainly to meet imminent payments or to make intercompany loans. As at 31 December 2017, the Company reported 445,000 thousand Euro in unused credit lines, considering also that no amounts were drawn down under the committed lines by the other Group companies that can access them; as at 31 December 2016, the unused credit lines totaled 571,821 thousand Euro.

17. Share capital and reserves

The authorized **share capital** of the Company as at 31 December 2017 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.

Share capital contributions of 2,995 thousand Euro were paid in a single amount in 2003 by the Holding company Ferragamo Finanziaria S.p.A. and were reduced in 2007, due to demerger.

The legal reserve of 4,188 thousand Euro was set up in previous years and cannot be distributed.

The extraordinary reserve of 429,505 thousand Euro was set up with retained earnings; the change recorded in the period was due to an increase of 113,423 thousand Euro in profit for the year 2016 net of 77,643 thousand Euro in dividends paid out, which were approved in 2017.

The revaluation reserve consists of:

- Revaluation reserve as per Italian Law 342/00 amounting to 4,593 thousand Euro;
- Revaluation reserve as per Italian Law 350/03 amounting to 7,420 thousand Euro;
- Revaluation reserve as per Italian Law 266/05 amounting to 13,465 thousand Euro;

No deferred taxes have been allocated to the revaluation reserves based on the assumption that full taxation for these reserves will be indefinitely deferred. Indeed, no transactions are likely to be carried out which would cause their distribution.

The cash flow hedge reserve was positive for 7,449 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2017, given the hedges of the Company against exchange rate risk, and is shown net of the tax effect.

The IAS 19 Equity reserve, negative for 1,181 thousand Euro, is the result of the valuation of actuarial gains and losses charged to shareholders' equity, as envisaged by IAS 19, and is shown net of the tax effect. This valuation was made by an independent actuary.

The item "Other reserves" totaled 12,480 thousand Euro and includes the changes arising from the application of IAS/IFRS instead of Italian accounting principles with reference to the Company's opening balance of shareholders' equity as at 1 January 2010 and the closing balance as at 31 December 2010. In addition, the item "Other reserves" includes:

- the specific reserve set up in 2016 to service the future free share capital increase of the Company for a nominal value of 60 thousand Euro (nominal value of 0.10 Euro each) for the 2016-2020 Stock Grant Plan;
- the 2016-2020 Stock Grant Reserve (1,311 thousand Euro) referring to the fair value measurement as at 31 December 2017 of the rights to receive shares in the Parent company: their impact on the period amounted to 870 thousand Euro. For details on the 2016-2020 Stock Grant Plan reference should be made to note 37;
- and the 5,037 thousand Euro Stock Grant reserve from prior years.

Finally, the item "Other reserves" included the 1.4 thousand Euro Provision as per art. 55 of Italian Presidential Decree 597/1973 relating to VAT recovery pursuant to art. 15 of Italian Law 26/04/1983.

The amounts are net of the tax effects where applicable.

The following table shows, for each specific entry in shareholders' equity, information regarding the possibility of its use and distribution, as well as its use over the last three years.

(In thousands of Euro)	Value at 31 December 2017	Possibility of use	Amount available	Summary of uses made in the last three years
Shareholders' equity				
Share capital	16,879			
Share capital reserves				
Revaluation reserve Law 342/00	4,593	A - B	4,593	
Revaluation reserve Law 350/03	7,420	A - B	7,420	
Revaluation reserve Law 266/05	13,465	A - B	13,465	
Share capital contributions	2,995	A - B	2,995	
Provision as per Art. 55	1.4	A - B - C	1.4	
Net profit reserves				
Legal reserve	4,188	B	812	
Extraordinary reserve	429,505	A - B - C	429,505	60
Reserve for adoption of IAS/IFRS	6,427	B*	2,007	
Accumulated gains/losses	(356)	B		
Cash flow hedge reserve	7,449			
IAS 19 reserve	(1,181)			
Specific reserve for share capital increase to serve the Stock Grant Plan	60			
Stock Grant Reserve	6,348			
Net profit/(loss) for the year	113,013			
Total	610,806.4		460,798.4	60

Key

A - for share capital increase

B - to cover losses

C - for distribution to shareholders

* The available part of the reserve can be used only to cover losses and it must be subsequently reintegrated.

18. Provisions for risks and charges

The breakdown of Provisions for risks and charges as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	Value at 01.01.2017	Allocations	Uses	Value at 31.12.2017
Legal disputes	1,360	830	(100)	2,090
Provision for other risks	7,284	-	(636)	6,648
Provision for excess write-downs of investments	9,378	5,905	(227)	15,056
Total	18,022	6,735	(963)	23,794

Legal disputes mainly refer to allocations against likely future liabilities relating to legal proceedings against the Company for contractual and labor disputes. Labor disputes refer both to litigations and to estimates of settlement amounts which the Company 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 year, while allocations to the provision refer to labor, legal and fiscal disputes that have arisen during 2017.

The provision for other risks mainly includes allocations against likely future costs of various kinds. For detailed information and the changes in the Provision for excess write-downs of investments reference should be made to note 7 "Investments in subsidiaries".

19. Employee benefit liabilities

The breakdown of Employee benefit liabilities as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Employee benefit liabilities (severance indemnities)	9,012	9,708	(696)
Advances on employee severance indemnities	(2,392)	(2,574)	182
Total	6,620	7,134	(514)

The following table sets out the changes occurred during the period:

(In thousands of Euro)	31 December 2017	31 December 2016
Present value of the obligation at the beginning of the period	7,134	7,139
Financial charge	81	109
Benefits paid	(425)	(376)
Actuarial loss/(gain) arising from:		
- financial assumptions	(92)	276
- demographic assumptions	(46)	49
- experience-based adjustments	(32)	(63)
Total actuarial loss / (gain)	(170)	262
Present value of the obligation at the end of the period	6,620	7,134

The main assumptions used in determining the present value of employee severance indemnities were as follows:

	2017	2016
Annual discount rate	1.28%	1.13%
Inflation rate	2.00%	2.00%

As regards the demographic assumptions used in determining defined benefit liabilities, the figure used as a benchmark for the mortality rate is that for the Italian population recorded by ISTAT in 2000, less 25%, broken down by age and gender while the staff turnover rate has been estimated at 5.5% per year.

Here below is a quantitative sensitivity analysis for the main assumptions as at 31 December 2017 and 31 December 2016 concerning employee benefit obligations:

(In thousands of Euro)		2017		2016	
	% change	Additions	Disposals	Additions	Disposals
Annual discount rate	+/- 0.5%	(300)	323	(347)	376
Mortality rate	+/- 0.025%	(1)	1	(2)	2
Staff turnover rate	+/- 0.5%	(23)	25	(32)	34

The above sensitivity analyses are based on reasonable changes in the key assumptions at the end of the two reporting periods being compared.

The average number of employees (in terms of full-time equivalents) by category is shown in the following table:

Average staff (Full time equivalent)	2017	2016
Top managers, middle managers and store managers	148.04	143.64
White collars	561.46	532.15
Blue collars	180.70	180.83
Temporary Agency staff	11.02	10.19
Total	901.22	866.81

The rising headcount was largely attributable to the strengthening of the central organization as well as the increase in retail staff at the Italian stores.

20. Other non current liabilities

The breakdown of the item “Other non current liabilities” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Payables for deferred rents	1,025	730	295
Other payables for hedging derivatives	-	4	(4)
Total	1,025	734	291

Payables for deferred rents refer to the straight lining of rents over the contract period for leased property.

21. Trade payables

The breakdown of Trade payables as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Trade payables to third parties	135,758	114,449	21,309
Invoices to be received	9,604	5,438	4,166
Payables to subsidiaries	3,932	7,027	(3,095)
Total	149,294	126,914	22,380

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 Company, and specifically the costs for the purchase of raw materials, parts, and costs relating to manufacturing in outsourcing, as well as payables to be settled at 31 December 2017 related to the construction work on the new logistics hub at Osmannoro (approximately 9.6 million Euro).

For detailed information on trade payables to subsidiaries reference should be made to the note “Transactions with related parties” below.

22. Interest-bearing loans & borrowings

In general, the financial requirements are covered by short-term payables relating to short- and medium/long-term bank credit lines. As at 31 December 2017 and 31 December 2016 the Company had no financial payables to banks. The credit lines used by the Company are arranged at floating rates. The cost of debt is generally benchmarked to the market rate for the period (usually Euribor/Libor or the benchmark of the loan currency on the specific interbank market) increased by a spread which depends on the type of credit line used. In general, uses of the lines range from one day to a maximum of one year. The margins applied are in line with the best market standards.

The financial instruments used are:

- i) uncommitted credit lines made available to the Company in order to meet short-term financial needs linked to the management of working capital;
- ii) committed, revolving short- and medium/long-term credit lines, negotiated on a bilateral basis by the Company; some of these lines can be used by a number of borrowers in their own accounting currency which may be different from the Euro (the so-called multiborrower and/or multicurrency credit lines).

In 2017, the Parent company repaid in advance or did not renew a number of committed credit lines to account for the Group’s significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. As at 31 December 2017 committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of thirty months. The credit lines and the related financial business are spread among leading national and international banks.

As far as financial payables to banks are concerned, the following table provides a breakdown by type of the credit lines granted to the Company and the relevant uses:

(In thousands of Euro)	31 December 2017		31 December 2016	
	Agreed	Used	Agreed	Used
Committed credit lines	160,000	-	280,000	-
Uncommitted credit lines	285,000	-	295,000	-
Total	445,000	-	575,000	-

The following table provides the breakdown and changes in the net financial position as at 31 December 2017 and 31 December 2016, restated in accordance with the model included in CONSOB Communication no. DEM/6064293 of 28 July 2006.

(In thousands of Euro)	31 December	31 December	Change
	2017	2016	2017 vs. 2016
A. Cash	232	149	83
B. Other cash equivalents	127,181	59,329	67,852
C. Cash and cash equivalents (A)+(B)	127,413	59,478	67,935
Derivatives – non-hedging component	323	228	95
Other financial assets *	30,670	36,697	(6,027)
D. Current financial receivables	30,993	36,925	(5,932)
E. Current bank payables	-	-	-
F. Derivatives – non-hedging component	1,359	1,318	41
G. Other current financial payables	-	-	-
H. Current financial debt (E)+(F)+(G)	1,359	1,318	41
I. Current financial debt, net (H)-(C)-(D)	(157,047)	(95,085)	(61,962)
J. Non current bank payables	-	-	-
K. Derivatives – non-hedging component	-	-	-
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	-	-	-
O. Net financial debt (I)+(N)	(157,047)	(95,085)	(61,962)

* The item entirely refers to related parties (short-term loans to Group companies); for further details reference should be made to note 15 and note 39 (intragroup transactions).

Limitations on the use of financial resources

The Company's committed credit lines that are currently outstanding do not require compliance with financial covenants.

23. Tax payables

The breakdown of Tax payables as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	31 December	31 December	Change
	2017	2016	2017 vs. 2016
Tax payables due to foreign tax authorities for VAT	2,247	-	2,247
Tax payables due to foreign tax authorities for VAT (EU)	140	161	(21)
Tax payables for withholdings applied	2,884	2,779	105
Tax payables due to foreign tax authorities	-	1,605	(1,605)
Total	5,271	4,545	726

The decrease in tax payables due to foreign tax authorities refers to the payment of amounts due to Korean tax authorities for the taxes withheld on the amount paid in December 2016 for the Company's acquisition of the remaining minority interests (20%) in the subsidiary Ferragamo Korea Ltd..

24. Other current liabilities

The breakdown of the item “Other current liabilities” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Payables to staff	4,410	7,161	(2,751)
Payables to social security institutions	3,049	3,053	(4)
Other payables to third parties	365	536	(171)
Other payables for hedge derivatives	362	12,766	(12,404)
Accrued expenses	1,581	1,570	11
Deferred income	587	754	(167)
Total	10,354	25,840	(15,486)

Payables to staff mainly include the Company’s payables to employees for amounts accrued but not yet paid at the reporting date.

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.

Other payables to third parties include payables to suppliers and service providers which had not been invoiced at the reporting date.

The item “Other payables for hedge derivatives” shows the fair value valuation at the end of the year of outstanding derivatives (hedge component) entered into by the Company to manage exchange rate risk. For further details, reference should be made to note 26.

The item “Accrued expenses” mainly includes variable fees to the Managing Director and Chairman and the amount accrued as at 31 December 2017 for the 14th month salary for staff members who are employed under the Italian collective labor agreement for the trade industry.

Deferred income mainly includes:

- 97 thousand Euro for the share pertaining to future years of a grant received by the Company for the opening of an outlet store at the Noventa Padovana shopping center;
- 450 thousand Euro for the share pertaining to future years of the key money received from Marchon Europe B.V. (US group Marchon), which licenses the Salvatore Ferragamo brand for eyewear products. This refers to the agreement for the licensing of the Salvatore Ferragamo brand for the manufacturing and worldwide distribution of Ferragamo-branded sunglasses and prescription glasses.

25. Other current financial liabilities

The breakdown of the item “Other current financial liabilities” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	31 December 2017	31 December 2016	Change 2017 vs. 2016
Short-term derivatives	105	151	(46)
Other current financial payables	1,254	1,167	87
Total	1,359	1,318	41

As at 31 December 2017 “Other current financial payables” amounting to 1,254 thousand Euro refer entirely to the put option measured at fair value, which represents liabilities to the minority shareholders of Ferragamo Retail India Private Limited at the reporting date. In compliance with the provisions of IAS 39, on each reporting date any value adjustments to the put option will be charged directly to the income statement under “Financial charges”. As at 31 December 2016, this item amounted to 1,167 thousand Euro.

The item “Short-term derivatives” 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 26 below.

26. Financial instruments and fair value measurement

The classification of financial instruments under IAS 39 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 31 December 2017 and 31 December 2016.

Classification of financial instruments and presentation of their fair value

FINANCIAL ASSETS	31 December 2017			31 December 2016		
	Book value		Fair Value	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	323	-	323	228	-	228
Available-for-sale financial assets	-	-	-	-	20	20
Receivables and loans						
Receivables due from credit cards	507	-	507	372	-	372
Trade receivables	156,668	-	156,668	183,341	-	183,341
Receivables for loans due from subsidiaries	30,670	-	30,670	36,697	-	36,697
Guarantee deposits	-	331	331	-	308	308
Cash and cash equivalents	127,413	-	127,413	59,478	-	59,478
Derivatives – hedging component	12,844	-	12,844	2,575	123	2,698
Total	328,425	331	328,756	282,691	451	283,142
FINANCIAL LIABILITIES	31 December 2017			31 December 2016		
	Book value		Fair Value	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	149,294	-	149,294	126,914	-	126,914
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	1,359	-	1,359	1,318	-	1,318
Derivatives – hedging component	362	-	362	12,766	4	12,770
Total	151,015	-	151,015	140,998	4	141,002

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 the fair value calculation as defined by IFRS 13.

The Company uses internal valuation models, which are generally used in finance, on the basis of prices supplied by market operators 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.

Also for “Guarantee deposits” the book value is a reasonable approximation of the fair value. Available-for-sale financial assets are measured at cost because their fair value cannot be reliably established.

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 Company calculates non-performance risk, i.e. the risk that one of the parties may not fulfill its contractual obligations due to a possible 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 Company’s and counterparties’ ratings, 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 (through netting) all the outstanding financial assets and liabilities arising from these derivatives.

The following table summarizes the effects on the income statement and shareholders' equity in reference to each category of outstanding financial instruments for the Company in the years 2017 and 2016.

(In thousands of Euro)	31 December 2017	31 December 2016
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	6,583	(10,381)
Derivatives – hedging component	(13,508)	81
<i>Net gains/(losses) on financial instruments recognized in shareholders' equity:</i>		
Derivatives – hedging component	14,837	(3,025)
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	449	304
Interest expense	73	106
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>		
	410	540
<i>Interest income accrued on financial instruments written-off</i>		
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	5,393	467

In 2017, the Company set aside 5,393 thousand Euro in provisions for impairment on financial assets (receivables). These entirely referred to the impairment loss recognized on past due trade receivables from the subsidiary Ferragamo Retail India Private Limited as part of the process to sell the subsidiary's main assets, transfer Indian retail operations to third parties, and liquidate the Indian subsidiary. For further details reference should be made to the Directors' report on operations, section "Significant events occurred during the year".

Comments on the main income statement items

For a better understanding of the development in income statement items, reference should also be made to the comments in the Directors' report on operations relating to the comparison between the data for 2017 and 2016.

27. Revenues from sales and services

The breakdown of Revenues from sales and services as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Wholesale revenues	666,141	729,381	(63,240)
Retail and e-commerce revenues	72,522	72,569	(47)
Royalties for concessions of trademarks	8,637	8,539	98
Other services	8,888	6,311	2,577
Other revenues	6,192	6,826	(634)
Total	762,380	823,626	(61,246)

Wholesale revenues refer mainly to sales to Group companies and, to a lesser extent, to sales to retailers.

Retail and e-commerce revenues refer mainly to revenues generated by sales in directly operated stores (DOS) in Italy and, to a lesser extent, to sales generated on the Company's e-commerce platform.

Revenues from royalties arise mainly from the licensing of the Salvatore Ferragamo brand with reference to the **eyewear** product category to the company Marchon Europe B.V.; to the **watches** product category to the company Vertime B.V. belonging to the Timex Group; and to the **fragrances** product category to the Group company Ferragamo Parfums S.p.A..

The item "Other services" mainly includes services provided to subsidiaries.

Other revenues mainly include the recovery of freight and packaging costs.

For detailed information on revenues from subsidiaries reference should be made to the note "Transactions with related parties" below.

28. Costs for raw materials, goods and consumables

The following table provides the breakdown of Costs for raw materials, goods and consumables as at 31 December 2017 and 31 December 2016:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Raw materials	156,718	145,593	11,125
Finished products	55,732	66,403	(10,671)
Packaging	4,007	4,297	(290)
Other purchases of materials	1,037	825	212
Stationery	427	457	(30)
Change in inventories of raw materials, accessories and consumables	(7,225)	4,223	(11,448)
Total	210,696	221,798	(11,102)

29. Costs for services

The breakdown of Costs for services as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Manufacturing in outsourcing	178,947	197,615	(18,668)
Production, general, administrative and sales costs	86,018	88,755	(2,737)
Costs for the use of third-party assets	23,051	20,316	2,735
Total	288,016	306,686	(18,670)

As at 31 December 2017 Production, general, administrative and sales costs mainly include:

- communication costs (press advertising, public relations, store window display expenses, events and other advertising expenses) for a total amount of 27,550 thousand Euro;

- consultancy costs and fees to third parties (legal, administrative, product, manufacturing process, IT and other minor costs) for a total amount of 25,518 thousand Euro;
- freight and logistics costs totaling 9,620 thousand Euro;
- costs for services from subsidiaries totaling 3,990 thousand Euro; for details on these costs reference should be made to the note “Transactions with related parties” below;
- maintenance and utility costs of 5,561 thousand Euro;
- fees paid to Directors, Statutory Auditors and Supervisory Board for a total amount of 3,444 thousand Euro; for detailed information on these fees reference should be made to the note “Fees paid to Directors and Statutory Auditors” below.

Costs for the use of third-party assets mainly refer to rents for premises used as stores and offices (19,229 thousand Euro).

30. Personnel costs

The breakdown of Personnel costs as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Salaries and wages	46,414	46,978	(564)
Stock grant plan costs	693	174	519
Social security and welfare cost	13,406	13,005	401
Allocation of severance indemnities and allocation to complementary pension funds	3,028	3,089	(61)
Total	63,541	63,246	295

31. Amortization, depreciation and write-downs

The breakdown of Amortization, depreciation and write-downs as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Depreciation of tangible assets	8,743	8,974	(231)
Amortization of intangible assets	7,401	6,453	948
Write-downs of tangible assets	426	28	398
Total	16,570	15,455	1,115

32. Other operating costs

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
EBIT Adjustment to subsidiaries	41,801	4,000	37,801
Allocations to the provisions for other operating risks	830	1,457	(627)
Donations	957	982	(25)
Provision for bad debt – third parties	-	467	(467)
Provision for bad debt – subsidiaries	5,393	-	5,393
Taxes and charges	507	538	(31)
Membership fees	399	411	(12)
Other operating costs	404	530	(126)
Windfall losses	37	129	(92)
Total other operating costs	50,328	8,514	41,814

As at 31 December 2017 “Other operating costs” amounted to 50,328 thousand Euro and mainly included:

- 41,801 thousand Euro in costs for EBIT Adjustments to subsidiaries, attributable to the first-year impact of the International standard ruling on transfer pricing signed on 28 July 2017 with the Italian Inland Revenue Office – Central Assessment Department – International Ruling Office. For more details, please refer to “Significant events occurred during the year” as well as the note “Transactions with related parties” below.
- 830 thousand Euro in allocations to the provision for risks and charges;

- 5,393 thousand Euro in allocations to the provision for bad debt relating to receivables more than one year past due from the subsidiary Ferragamo Retail India Private Limited; for more details, please refer to note 12 and the section “Significant events occurred during the year”;
- 957 thousand Euro in donations, including the 500 thousand Euro donation made in 2017 in support of cultural activities as per art. 1 of Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus” – for the restoration of the Fountain of Neptune in Florence’s Piazza della Signoria (the second of three donations totaling 1,500 thousand Euro).

33. Other income and revenues

As at 31 December 2017 “Other income and revenues” amounted to 11,906 thousand Euro and mainly included:

- 2,700 thousand Euro tax credit for Research and Development Expenditure in 2017 (art. 3 of Italian Law Decree no. 145 of 23 December 2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014 – 2015 Budget Law);
- advertising contributions from third parties (2,551 thousand Euro);
- 2,493 thousand Euro in income from EBIT Adjustments from subsidiaries. For more details, please refer to “Significant events occurred during the year” as well as the note “Transactions with related parties” below;
- recovery of expenses from subsidiaries (1,422 thousand Euro);
- use of the provisions for risks and charges (736 thousand Euro);
- tax credit of 358 thousand Euro, accounting for 65% of the donations made in 2017 referred to in art. 1 of the Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”;
- the share pertaining to 2017 (100 thousand Euro) relating to the grant received by the Company for the opening of an outlet store at the Noventa Padovana shopping center;
- the 50 thousand Euro share pertaining to 2017 of the key money (500 thousand Euro) as set out in the agreement with Marchon Europe B.V. (US group Marchon) for the licensing of the Salvatore Ferragamo brand for the manufacturing and worldwide distribution of Ferragamo-branded eyewear for men and women.

Finally, the item included 71 thousand Euro in insurance refunds, 95 thousand Euro in revenues from museum exhibitions, as well as capital gains from disposals of tangible assets, windfall profit, and other income and revenues from third parties. For details on other income and revenues from subsidiaries reference should be made to the note “Transactions with related parties” below.

34. Financial charges

The breakdown of the item “Financial charges” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	Change		
	2017	2016	2017 vs. 2016
Financial charges for fair value adjustment of derivatives	10,676	14,956	(4,280)
Write-down of investments	10,159	7,447	2,712
Losses on exchange rate differences	26,149	9,300	16,849
Other financial charges	681	867	(186)
Losses on disposal of available-for-sale financial assets	15	-	15
Financial charges on employee benefits under IAS 19	81	109	(28)
Interest expense	14	18	(4)
Total	47,775	32,697	15,078

35. Financial income

The breakdown of the item “Financial income” as at 31 December 2017 and 31 December 2016 is set out in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Financial income for fair value adjustment of derivatives	17,259	4,575	12,684
Dividends from investments in subsidiaries	23,143	5,652	17,491
Restatement value of investments	-	10,713	(10,713)
Gains on exchange rate differences	8,502	12,747	(4,245)
Interest income	448	304	145
Other financial income	1	45	(45)
Total	49,353	34,036	15,317

The item dividends from investments in subsidiaries included the dividends paid by the subsidiary Ferragamo Hong Kong Ltd.

36. Income taxes

The breakdown of Income taxes as at 31 December 2017 and 31 December 2016 is shown in the following table:

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Current taxes	(27,071)	(32,720)	5,649
Deferred taxes	1,087	(1,152)	2,239
Total	(25,984)	(33,872)	7,888

Current taxes included the tax benefit for direct taxes (IRES, the Italian corporate income tax, and IRAP, the regional manufacturing tax) related to the so-called “Patent Box”, amounting to 9,828 thousand Euro in 2017 (in 2016, the Company recognized a cumulative 32,040 thousand Euro for the years 2015 and 2016). The decline in current taxes compared to 2016 was partially attributable to the reduction in the tax base and, to a lesser extent, the reduction in the tax rate (from 27.5% in 2016 to 24% in 2017).

(In thousands of Euro)	2017	2016	Change 2017 vs. 2016
Current taxes			
IRES	(22,498)	(27,415)	4,917
IRAP	(4,573)	(5,305)	732
Total	(27,071)	(32,720)	5,649
Deferred taxes			
IRES deferred in current year	1,240	108	1,132
IRAP deferred in current year	33	57	(24)
Use of IRES deferred in previous years	(153)	(1,254)	1,101
Use of IRAP deferred in previous years	(33)	(63)	30
Total	1,087	(1,152)	2,239
Total income taxes	(25,984)	(33,872)	7,888

Deferred tax assets and liabilities

The following table provides a breakdown by nature of the assets and liabilities for deferred taxes as at 31 December 2017 and 31 December 2016:

(In thousands of Euro)	31 December 2017	31 December 2016	31 December 2017	31 December 2016	2017	2016
	Statement of financial position		Shareholders' equity		Income statement	
Deferred tax assets						
- on employee benefits	441	487	373	414	(5)	(5)
- on tangible assets	698	770	-	-	(72)	(10)
- on the cash flow hedge reserve	-	1,210	-	1,208	-	-
- on the valuation of inventories	3,893	3,844	-	-	49	(1,140)
- on receivables	613	632	-	-	(19)	1
- on taxed provisions	2,410	2,384	-	-	26	-
- for other temporary differences	1,217	108	-	-	1,108	(421)
Deferred tax assets	9,272	9,435	373	1,622	1,087	(1,575)
Deferred tax liabilities						
- on the cash flow hedge reserve	(2,351)	-	(2,353)	-	-	-
- for other temporary differences	(2,897)	(2,898)	-	-	-	423
Deferred tax liabilities	(5,248)	(2,898)	(2,353)	-	-	423
Net effect	4,024	6,537	(1,980)	1,622	1,087	(1,152)

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 the effective possibility to be realized.

The reconciliation between the theoretical tax charge and the effective tax charge as at 31 December 2017 and 31 December 2016 is as follows:

(In thousands of Euro)	2017	%	2016	%
IRES				
Profit before taxes	138,997		224,939	
Theoretical taxes	33,359	24%	61,858	27.5%
Actual taxes	21,411	15.40%	28,561	12.70%
Difference due to:	(11,948)	(8.6%)	(33,297)	(14.8%)
i) Effect of taxation for transparency of income of foreign companies resident in countries/territories with a privileged tax regime	-	0.0%	-	0.0%
ii) Effect of withholding taxes on foreign dividends	-	0.0%	517	0.2%
iii) Effect of previous years income taxes	344	0.2%	129	0.1%
iv) Effect of the Patent Box, tax year 2015	-	0.0%	(11,868)	(5.3%)
v) Effect of permanent increases (decreases):				
Increases				
Write-downs of investments	2,442	1.8%	2,048	0.9%
Other permanent differences	1,932	1.4%	1,403	0.6%
Decreases				
Income from subsidiaries (dividends)	(5,554)	(4.0%)	(1,477)	(0.7%)
Restatement value of investments	-	0.0%	(2,958)	(1.3%)
IRAP deduction	(200)	(0.1%)	(344)	(0.2%)
Effect of the Patent Box	(8,454)	(6.1%)	(16,193)	(7.2%)
Research and Development Tax Credit impact	(745)	(0.5%)	(656)	(0.3%)
Other permanent differences	(1,713)	(1.2%)	(3,897)	(1.7%)
Total difference	(11,948)	(8.6%)	(33,297)	(14.8%)

(In thousands of Euro)	2017	%	2016	%
IRAP				
Net value of production	137,419		223,600	
Theoretical taxes	5,359	3.9%	8,720	3.9%
Actual taxes	4,573	3.3%	5,311	2.4%
Difference due to:	(786)	(0.57%)	(3,409)	(1.5%)
i) Effect of increases in regional IRAP rates	62	0.0%	125	0.1%
ii) Effect of the Patent Box, tax year 2015	-	0.0%	(1,683)	(0.8%)
iii) Effect of previous years income taxes	45	0.0%	(64)	(0.0%)
iv) Effect of permanent increases (decreases):				
Increases				
Personnel costs	2,633	1.9%	2,751	1.2%
Other permanent differences	257	0.2%	79	0.0%
Decreases				
Tax wedge	(2,259)	(1.6%)	(2,194)	(1.0%)
Effect of the Patent Box	(1,374)	(1.0%)	(2,296)	(1.0%)
Research and Development Tax Credit impact	(121)	(0.1%)	(93)	(0.0%)
Other permanent differences	(29)	(0.0%)	(34)	0%
Total difference	(786)	(0.57%)	(3,409)	(1.5%)

Other information

37. 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, in 2016 the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below. For more details on the Plan's objectives, scope, and term as well as the method for measuring fair value, please refer to the Annual Report as at 31 December 2016.

Plan Aims

The objectives the Company aims to achieve by implementing the Plan can be identified in providing incentives for the key personnel of the Group, thus encouraging their loyalty to the Group, through the allocation of instruments representing the value of the Company and which can (i) align the remuneration of top managers who are the beneficiaries of the Plan with the interests of shareholders and the provisions of the Corporate Governance Code for listed companies drafted by Borsa Italiana S.p.A., (ii) retain the Group's key personnel, and (iii) help management to take decisions aimed at creating further value for the Group in the medium-long term.

Object of the Plan

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 and approved the performance targets for each Cycle – specifically, on 30 June 2016 for the first Cycle and on 22 June 2017 for the Second Cycle.

The performance period is from 1 January 2016 through 31 December 2018 for the First Cycle, and from 1 January 2017 through 31 December 2019 for the Second Cycle.

Specifically, the Board of Directors set two targets for both Cycles, and each of them accounts for 50% of the total options granted:

- A. Total Shareholder Return (“TSR”) compared to a peer group. The number of shares for the portion related to this measure will be granted based on the Company’s TSR compared to its peers. All or part of the shares will be granted only if the TSR of the Company will be positive and at least equal to the median of the peer group (so-called market condition), as shown in the table below.
- B. Consolidated gross profit (before taxes). This target will be measured using the three-year average of the actual consolidated gross profit (before taxes) compared to the three-year average of consolidated gross profit (before taxes) defined in the annual Budgets. The number of shares granted will be based on the above ratio as shown in the following table (so-called non market condition).

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%

The shares to service the Plan (to be granted by the Board of Directors at the end of each Performance Period for the two Cycles – 2016/2018 and 2017/2019 – contingent on the achievement of the performance targets) arise, in whole or in part, from a specific free Share Capital increase of up to 600,000 ordinary shares amounting to 60,000 Euro, in accordance with article 2349, paragraph 1 of the Italian Civil Code, submitted to the approval of the Extraordinary Shareholders’ Meeting of 21 April 2016 and/or, alternatively, through the grant of any treasury shares held by the Company Salvatore Ferragamo S.p.A. at the date of the grant.

At the meetings held on 30 June 2016, 2 August 2016, and 14 March 2017, as part of the 1st cycle, and on 22 June 2017, as part of the 2nd cycle, the Board of Directors, with the favorable opinion of the Nomination and Remuneration Committee, granted 555,000 rights to receive ordinary shares in Salvatore Ferragamo S.p.A. to managers of both Salvatore Ferragamo S.p.A. (including the Managing Director Eraldo Poletto) and its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., Ferragamo Mexico S. de R.L. de C.V., and Ferragamo Japan K.K.). The Board of Directors may assign further rights to receive shares to the beneficiaries joining the Group during the Plan period.

Expiry of the Plan

The 1st Cycle of the Plan will end on 30 June 2019 or the date of the Grant of the Shares to the Beneficiaries of the 1st Cycle, whichever is earlier. The 2nd Cycle of the Plan will end on 30 June 2020 or the date of the Grant of the Shares to the Beneficiaries of the 2nd Cycle, whichever is earlier.

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

(i) outstanding at the start of the year	215,000
(ii) assigned in the period	325,000
(iii) canceled in the period	270,000
(iv) exercised in the period	-
(v) expired in the period	-
(vi) outstanding at the end of the period	270,000
(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

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

	31 December 2017		31 December 2016	
	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	155,000	318	-	-
- assigned in the year	270,000	1,005	170,000	349
- cancelled in the period	245,000	685	15,000	31
- at the end of the period	180,000	867	155,000	318
<u>Rights to receive shares assigned to the subsidiaries' top managers</u>				
- at the start of the year	60,000	123	-	-
- assigned in the period	55,000	227	60,000	123
- cancelled in the period	25,000	51	-	-
- at the end of the period	90,000	444	60,000	123
<u>Total rights to receive shares assigned to Ferragamo Group's top managers</u>				
- at the start of the year	215,000	441	-	-
- assigned in the period	325,000	1,232	230,000	472
- cancelled in the period	270,000	736	15,000	31
- at the end of the period	270,000	1,311	215,000	441

The rights to receive shares cancelled in the period, corresponding to 270,000 shares, had been granted to employees of both Salvatore Ferragamo S.p.A. and some of the Group's foreign subsidiaries as well as the Managing Director Eraldo Poletto, who, at the date of the approval of the financial statements, were no longer eligible for participating in the plan, under which at the grant date there must be an employment and/or partnership and/or administrative relationship between the beneficiary and the Parent company or one of its subsidiaries.

(c) Fair value measurement

Considering the above 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	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 start date of the **2nd Cycle's** vesting period.

Start date of the vesting period of the Rights of 22 June 2017

	Assessment A (TSR)	Assessment B (CGP before Taxes)
Share price at the vesting period start date (in Euro)	25.46	25.46
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	20% <X<38%	-
- Correlation of the share price between Ferragamo and similar companies	30%	-
- Expected dividends	1.98%	1.98%
- Risk-free interest rate**	(0.56%)	-
Fair Value per share at the vesting period start date (in Euro)	13.8455	24.2311

*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.

38. Segment reporting

Paragraph 4 of IFRS 8 requires that, should both the consolidated and separate financial statements of the Holding company be presented in a single financial report, the segment reporting must be presented only in reference to the consolidated financial statements.

39. Transactions with related parties

The following table shows the transactions with related parties for the years ended 31 December 2017 and 31 December 2016; in particular, the following table shows the overall values of transactions with related parties, excluding transactions with subsidiaries, as detailed below in the following paragraph:

(In thousands of Euro)	2017		31 December 2017			
	Revenues	Total 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.)	-	(37)	-	21,217	(16)	-
Related companies						
Palazzo Feroni Finanziaria S.p.A.	18	(7,266)	8	70	(287)	-
Lungarno Alberghi S.r.l.	22	(1,909)	15	-	(11)	-
Fondazione Ferragamo	2	(199)	-	-	(59)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	24	(29)	13	-	(21)	-
Bacco S.r.l.	-	(3)	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(2)	-	-	(2)	-
Il Borro S.r.l.	1	(1)	-	-	-	-
Marchesi Antinori S.p.A.	12	-	-	-	-	-
The European House Ambrosetti S.p.A.	4	(26)	-	-	-	-
Nautor Holding S.r.l.	1	-	1	-	-	-
Osteria del Borro S.r.l.	-	(2)	-	-	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletto Ferragamo	-	(82)	-	-	-	-
Giacomo Ferragamo	-	(561)	-	-	-	-
Maria Sole Ferragamo	2	-	-	-	-	-
Angelica Visconti	-	(207)	-	-	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(4,967)	-	-	-	(1,527)
Total	86	(15,291)	37	21,287	(396)	(1,527)
Company's total	762,380	(617,244)	156,668	38,601	(149,294)	(10,354)
% ratio	0.01%	2.5%	0.0%	55.1%	0.3%	14.7%

(In thousands of Euro)	2016		31 December 2016			
	Revenues	Total costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	-	(360)	-	32,348	-	-
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	21	(7,399)	5	70	(118)	-
Lungarno Alberghi S.r.l.	14	(709)	3	-	(126)	-
Fondazione Ferragamo	2	(191)	-	-	(62)	-
Companies connected to members of the Board of Directors						
Caretti & Associati S.p.A.	-	(251)	-	-	-	-
Bacco S.r.l.	-	(3)	-	-	-	-
Osteria del Borro S.r.l.	-	(1)	-	-	-	-
Haldis Italia S.r.l.	-	(2)	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(10)	-	-	(8)	-
Nautor Holding S.r.l.	3	-	4	-	-	-
The European House Ambrosetti	7	-	1	-	-	-
Rubino S.r.l.	-	(114)	-	16	-	-
Arpa S.r.l.	37	(26)	14	-	(16)	-
Studio Legale Portale Visconti	-	(240)	-	-	(131)	-
Other related parties connected to members of the Board of Directors						
Wanda Miletti Ferragamo	-	(81)	-	-	-	-
Giacomo Ferragamo	-	(624)	-	-	-	(170)
Angelica Visconti	-	(190)	-	-	-	(54)
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic	-	(8,347)	-	-	-	(2,004)
Total	84	(18,548)	27	32,434	(461)	(2,228)
Company's total	823,626	(600,027)	183,341	41,807	(126,914)	(25,840)
% ratio	0.0%	3.1%	0.0%	77.6%	0.4%	8.6%

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) and in favor of Lungarno Alberghi S.r.l. (488 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 Company did not make any allocations to the provision for bad debt concerning the amounts due from related parties, except for the 5,393 thousand Euro set aside for the receivables more than one year past due from the subsidiary Ferragamo Retail India Private Limited (for more details, please refer to note 12 and the section "Significant events occurred during the year").

Specifically:

Holding company

Ferragamo Finanziaria S.p.A.

Under the domestic fiscal unity in which 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 the Company's 19,255 thousand Euro IRES tax receivables. Specifically, the 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 Company's tax expense starting from the fiscal year 2015. For more details, see the section "Significant events occurred during the year" in the Annual Report as at 31 December 2016. As for the rest of Other assets, these included 1,962 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 Italian Law Decree no. 201 of 6 December 2011, which was recognized in 2012.

The costs and the relevant payables mainly referred to the lease of an industrial shed adjacent to the Osmannoro facility, which the Company converted into a design and prototyping laboratory for the development of leather goods, as well as a parking area next to the Osmannoro facility.

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 of Salvatore Ferragamo S.p.A. in Florence and for some stores of the Italian chain. Other assets refer to guarantee deposits.

Lungarno Alberghi S.r.l.

Revenues (and the related accounts receivable balances) refer to product sales; the costs (and the related accounts payable balances) refer largely to rents for the premises used as stores in the Italian chain.

Fondazione Ferragamo

The costs (and the related accounts payable balances) incurred refer for 109 thousand Euro to the services provided for the management of the Salvatore Ferragamo historical archive (101 thousand Euro in 2016) and for 90 thousand Euro to donations to support the institutional activities of the Foundation (90 thousand Euro in 2016). Payables refer to the balance due for services concerning the management of the historical archive.

Companies connected to members of the Board of Directors

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.

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.

Giacomo Ferragamo

Costs refer to the cost incurred by the Company in relation to the employment relationship between Giacomo Ferragamo and the Company and to the Stock Grant Plan cost.

Angelica Visconti

Costs refer to the cost incurred by the Company in relation to the employment relationship between Angelica Visconti and the Company and to the Stock Grant Plan cost.

Maria Sole Ferragamo

Revenues refer to occasional product sales.

Directors, Statutory Auditors and Managers with strategic responsibilities

For information on Directors and Statutory Auditors reference should be made to note 40 below, while information on Managers with strategic responsibilities is provided in the table below:

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

Full name	Role
Eraldo Poletto*	Managing Director
Ugo Giorcelli**	Manager of Administration, Finance and Control
Ernesto Greco***	General Manager of Administration, Finance, Control and Information Systems
Massimo Barzaghi****	Deputy General Manager of Market Coordination and Supply Chain Manager

* Eraldo Poletto in office until 8 March 2018;

** Ugo Giorcelli in office as from 15 March 2017;

*** Ernesto Greco was in office until 14 March 2017. He terminated the employment relationship on 30 April 2017;

**** Massimo Barzaghi was in office until 15 June 2017. He terminated the employment relationship on 31 July 2017.

The costs associated with the managers with strategic responsibilities (excluding the fees and payables related to the Managing Director, reported in the section Directors) referred to the cost incurred by the Company as part of the employment relationship and included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles. In 2017, these totaled 1,486 thousand Euro, of which 166 thousand Euro related to the 2016-2020 Stock Grant Plan, and included also the costs incurred for managers with strategic responsibilities that were no longer with the Company as at 31 December 2017 (1,718 thousand Euro in 2016). The managers

with strategic responsibilities receive non-monetary benefits such as cars, mobile phones, insurance policies, and accommodation.

Intragroup transactions

The following tables show the overall values of transactions with subsidiaries:

(In thousands of Euro)						
Company	Trade receivables		Other current financial assets		Total	Total
	2017	2016	2017	2016	2017	2016
Ferragamo Deutschland GmbH	1,608	1,808	3,300	2,805	4,908	4,613
Ferragamo France S.A.S.	2,859	3,452	2,017	7,317	4,876	10,769
Ferragamo (Suisse) SA	701	578	3,333	-	4,034	578
Ferragamo Monte-Carlo S.A.M.	158	175	-	-	158	175
Ferragamo Belgique SA	209	271	-	-	209	271
Ferragamo Espana S.L.	1,423	1,396	-	3	1,423	1,399
Ferragamo U.K. Limited	1,708	2,193	2,930	-	4,638	2,193
Ferragamo Austria GmbH	470	531	-	-	470	531
Ferragamo Denmark Aps	158	127	-	-	158	127
Ferragamo Parfums S.p.A.	2,009	1,992	-	1,852	2,009	3,844
Ferragamo Retail Nederland B.V.	868	722	-	-	868	722
Total Europe	12,171	13,245	11,580	11,977	23,751	25,222
Ferragamo Hong Kong Ltd.	26,766	33,140	-	-	26,766	33,140
Ferragamo Retail HK Limited	21	33	-	-	21	33
Ferragamo Australia Pty Ltd.	1,981	1,748	-	1	1,981	1,749
Ferragamo Japan K.K.	1,871	1,684	11,111	8,104	12,982	9,788
Ferragamo Moda (Shanghai) Co. Ltd.	31	155	-	-	31	155
Ferragamo Retail India Private Limited	609	6,613	-	-	609	6,613
Ferragamo Retail Taiwan Limited	20	35	-	-	20	35
Ferragamo Retail Macau Limited	7	5	-	-	7	5
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	69	436	-	-	69	436
Ferragamo Korea Ltd.	9,987	4,713	-	-	9,987	4,713
Ferragamo (Singapore) Pte. Ltd.	25	10	-	-	25	10
Ferragamo Thailand Limited	6	2	-	-	6	2
Ferragamo (Malaysia) Sdn. Bhd.	16	5	-	-	16	5
Total Asia Pacific	41,409	48,579	11,111	8,105	52,520	56,684
Ferragamo Usa Inc.	38,061	48,047	-	8,541	38,061	56,588
Ferragamo Canada Inc.	2,563	2,177	7,979	8,074	10,542	10,251
Total North America	40,624	50,224	7,979	16,615	48,603	66,839
Ferragamo Mexico S. de R.L. de C.V.	16,091	16,867	-	-	16,091	16,867
Ferragamo Chile S.A.	1,278	1,265	-	-	1,278	1,265
Ferragamo Argentina S.A.	1,697	1,329	-	-	1,697	1,329
Ferragamo Brasil Roupas & Acessorios Ltda.	1,207	1,697	-	-	1,207	1,697
Total Central and South America	20,273	21,158	-	-	20,273	21,158
Total	114,477	133,206	30,670	36,697	145,147	169,903

(In thousands of Euro)				
Company	Trade payables		Total	Total
	2017	2016	2017	2016
Ferragamo France S.A.S.	216	4,108	216	4,108
Ferragamo (Suisse) SA	21	335	21	335
Ferragamo Espana S.L.	340	-	340	-
Ferragamo U.K. Limited	261	120	261	120
Ferragamo Parfums S.p.A.	319	220	319	220
Ferragamo Retail Nederland B.V.	60	-	60	-
Ferragamo Austria GmbH	125	-	125	-
Ferragamo Deutschland GmbH	2	-	2	-
Total Europe	1,344	4,783	1,344	4,783
Ferragamo Usa Inc.	982	1,480	982	1,480
Ferragamo Canada Inc.	682	-	682	-
Total North America	1,664	1,480	1,664	1,480
Ferragamo Hong Kong Ltd.	332	301	332	301
Ferragamo Retail Hong Kong Ltd.	31	-	31	-
Ferragamo Australia Pty Ltd.	128	114	128	114
Ferragamo Japan K.K.	198	297	198	297
Ferragamo Retail India Private Limited	-	42	-	42
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	27	-	27	-
Ferragamo Korea Ltd.	8	10	8	10
Total Asia Pacific	724	764	724	764
Ferragamo Mexico S. de R.L. de C.V.	-	-	-	-
Ferragamo Brasil Roupas & Acessorios Ltda.	200	-	200	-
Total Central and South America	200	-	200	-
Total	3,932	7,027	3,932	7,027

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(In thousands of Euro)										
SUBSIDIARIES	Revenues from sales and services									
	Revenues from sales		Revenues from services (including royalties)		Other income and revenues		Financial income		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Ferragamo Deutschland GmbH	3,775	5,070	166	64	6	35	14	8	3,961	5,177
Ferragamo France S.A.S.	8,818	9,742	273	105	14	62	33	20	9,138	9,929
Ferragamo (Suisse) SA	5,663	5,686	87	44	2	31	-	553	5,752	6,314
Ferragamo Monte-Carlo S.A.M.	265	326	27	15	-	2	-	-	292	343
Ferragamo Belgique SA	448	798	29	16	-	4	-	-	477	818
Ferragamo Espana S.L.	3,925	4,001	154	58	6	34	-	1	4,085	4,094
Ferragamo U.K. Limited	13,625	10,294	209	93	25	27	2	-	13,861	10,414
Ferragamo Austria GmbH	1,299	1,489	44	16	-	6	-	-	1,343	1,511
Ferragamo Denmark Aps	201	231	27	15	-	3	-	-	228	249
Ferragamo Parfums S.p.A.	84	58	3,471	3,397	286	260	1	3	3,842	3,718
Ferragamo Retail Nederland B.V.	3,138	3,084	88	26	1	23	-	-	3,227	3,133
Total Europe	41,241	40,779	4,575	3,849	340	487	50	585	46,206	45,700
Ferragamo Hong Kong Ltd.	178,126	202,005	741	896	376	343	23,143	-	202,386	203,244
Ferragamo Retail HK Limited	-	-	119	135	9	7	-	-	128	142
Ferragamo Australia Pty Ltd.	10,778	11,486	193	106	36	43	-	-	11,007	11,635
Ferragamo Japan K.K.	40,281	50,582	291	275	120	50	49	-	40,741	50,907
Ferragamo Korea Ltd.	36,717	28,517	497	613	105	93	-	5,099	37,319	34,322
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	-	-	338	380	41	32	-	-	379	412
Ferragamo Moda (Shanghai) Co. Ltd.	-	-	118	141	20	15	-	-	138	156
Ferragamo Retail India Private Limited	971	2,101	-	-	-	-	-	-	971	2,101
Ferragamo (Malaysia) Sdn. Bhd.	-	-	101	80	11	11	-	-	112	91
Ferragamo (Singapore) Pte. Ltd.	-	-	131	131	18	17	-	-	149	148
Ferragamo Retail Taiwan Limited	-	-	87	119	10	11	-	-	97	130
Ferragamo Retail Macau Limited	-	-	51	25	3	2	-	-	54	27
Ferragamo (Thailand) Limited	-	-	22	71	9	9	-	-	31	80
Total Asia Pacific	266,873	294,691	2,689	2,972	758	633	23,192	5,099	293,512	303,395
Ferragamo USA Inc.	139,710	171,200	2,686	903	243	161	91	5	142,730	172,269
Sator Realty Inc.	-	-	-	-	31	30	-	-	31	30
Ferragamo Canada Inc.	11,721	12,958	323	39	-	7	165	147	12,209	13,151
Total North America	151,431	184,158	3,009	942	274	198	256	152	154,970	185,450
Ferragamo Mexico S. de R.L. de C.V.	30,967	28,125	-	-	2,541	23	-	-	33,508	28,148
Ferragamo Chile S.A.	568	612	-	-	1	1	-	-	569	613
Ferragamo Argentina S.A.	967	124	-	-	-	-	-	-	967	124
Ferragamo Brasil Roupas e Acessorios Ltda.	2,604	2,093	-	-	1	1	-	-	2,605	2,094
Total Central and South America	35,106	30,954	-	-	2,543	25	-	-	37,649	30,979
Total	494,651	550,582	10,273	7,763	3,915	1,343	23,498	5,836	532,337	565,524

(In thousands of Euro)								
SUBSIDIARIES	Purchase of finished products, raw materials, accessories and consumables		Costs for services		Other operating costs		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Ferragamo France S.A.S.	57	8	96	109	7,312	4,000	7,465	4,117
Ferragamo Espana S.L.	55	38	-	3	1,181	-	1,236	41
Ferragamo (Suisse) SA	21	1,972	-	-	-	-	21	1,972
Ferragamo U.K. Limited	40	9	118	121	2,128	-	2,286	130
Ferragamo Retail Nederland B.V.	4	1	60	-	-	-	64	1
Ferragamo Deutschland GmbH	60	7	-	-	-	-	60	7
Ferragamo Austria GmbH	25	1	-	-	125	-	150	1
Ferragamo Denmark ApS	22	2	-	-	-	-	22	2
Ferragamo Parfums S.p.A.	433	358	186	180	-	-	619	538
Ferragamo Monte-Carlo S.A.M.	5	-	-	-	-	-	5	-
Ferragamo Belgique SA	4	-	-	-	-	-	4	-
Total Europe	726	2,396	460	413	10,746	4,000	11,932	6,809
Ferragamo Hong Kong Ltd.	-	-	375	415	-	-	375	415
Ferragamo Retail HK Limited	31	-	6	-	-	-	37	-
Ferragamo Retail India Private Limited	-	-	29	42	5,393	-	5,422	42
Ferragamo Japan K.K.	29	259	576	757	-	-	605	1,016
Ferragamo Korea Ltd.	-	-	253	64	1,630	-	1,883	64
Ferragamo Australia Pty Ltd.	-	-	215	212	1,627	-	1,842	212
Total Asia Pacific	60	259	1,454	1,490	8,650	-	10,164	1,749
Ferragamo USA Inc.	-	-	2,074	2,633	24,390	-	26,464	2,633
Ferragamo Canada Inc.	-	-	-	-	224	-	224	-
Total North America	-	-	2,074	2,633	24,614	-	26,688	2,633
Ferragamo Mexico S.de R.L. de C.V.	-	-	2	23	-	-	2	23
Ferragamo Brasil Roupas e Acessorios Ltda.	-	-	-	-	3,184	-	3,184	-
Total Central and South America	-	-	2	23	3,184	-	3,186	23
Total	786	2,655	3,990	4,559	47,194	4,000	51,970	11,214

40. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)				2017					Total
Full name	Position held	Term of office	End of term of office	Fees for the position held	as committee members	Non-monetary benefits	Other fees	Stock Grant	
Ferruccio Ferragamo	Chairman	1.01-31.12	a)	700	-	b) c) d)	-	-	700
Eraldo Poletto	Managing Director	1.01-31.12	f)	800	-	b) c) d) e)	455	-	1,255
Giovanna Ferragamo	Deputy Chairman	1.01-31.12	a)	200	-		-	-	200
Fulvia Ferragamo	Director	1.01-31.12	a)	185	15		-	-	200
Leonardo Ferragamo	Director	1.01-31.12	a)	35	15		-	-	50
Francesco Caretti	Director	1.01-31.12	a)	285	-		-	-	285
Diego Paternò Castello di San Giuliano	Director	1.01-31.12	a)	285	-		-	-	285
Peter Woo Kwong Ching	Director	1.01-31.12	a)	-	-		-	-	-
Piero Antinori	Director	1.01-31.12	a)	35	-		-	-	35
Umberto Tombari	Director	1.01-31.12	a)	35	35		-	-	70
Marzio Saà	Director	1.01-31.12	a)	35	35		-	-	70
Chiara Ambrosetti	Director	1.01-31.12	a)	35	15		-	-	50
Lidia Fiori	Director	1.01-31.12	a)	35	15		-	-	50
Total				2,665	130		455	-	3,250

a) upon approval of the 2017 financial statements

b) car

c) mobile phone

d) insurance policies

e) accommodation

f) until the Board of Directors' Meeting approving the 2017 draft financial statements (8 March 2018)

Statutory Auditors

(In thousands of Euro)				2017				Grand total
Full name	Position held	Term of office	End of term of office	Fees for the position held	Other fees*	Other fees received from subsidiaries		
Andrea Balelli	Chairman	27.04 -31.12	a)	43	9	-		52
Fulvio Favini	Acting Statutory Auditor	1.01-31.12	a) b)	53	11	-		64
Alessandra Daccò	Acting Statutory Auditor	1.01-10.10		38	8	-		46
Paola Caramella	Acting Statutory Auditor	11.10 - 31.12	c)	11	2	-		13
Gerolamo Gavazzi	Acting Statutory Auditor	1.01-27.04		16	3	-		19
Total				161	33	-		194

a) upon approval of the 2019 financial statements

b) Chairman as from 01.01.2017 until 27.04.2017

c) Acting Statutory Auditor as from 11.10.2017 until approval of 2017 financial statements

(*) Other fees refer to amounts due for the position as Chairman or member of the Supervisory Board pursuant to Italian Leg. Decree 231/2001

It should be noted that for Directors and Statutory Auditors no severance indemnities are envisaged.

41. Dividends

In order to implement the resolution of the Shareholders' Meeting of 27 April 2017, Salvatore Ferragamo S.p.A. paid shareholders a single dividend of 0.46 Euro per share, relating to the profit for 2016, for a total amount of 77,643,400 Euro, with coupon detachment on 22 May 2017 and payment of the dividend as from 24 May 2017.

42. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2017	31 December 2016
Sureties provided by third parties to third parties in the interests of the Company	4,920	5,271
Sureties provided by third parties to third parties in the interests of Group companies	2,386	2,687
Guarantees provided by the Company to third parties in the interests of Group companies	49,619	56,803
Total	56,925	64,761

The sureties provided by third parties in the interests of the Company consist of bank guarantees on lease contracts.

The sureties provided by third parties in the interests of Group companies mainly consist of: sureties issued by banks in favor of VAT authorities for reimbursements requested by Italian Group companies, sureties issued in favor of third parties on lease contracts entered into by Group companies.

Guarantees provided by the Company to third parties in the interests of Group companies are mainly in favor of banks to guarantee credit lines which may be used locally and the remainder consists of bank guarantees on lease contracts, including a guarantee for 6 million US dollars (equal to 5,003 thousand Euro) relating to a lease contract of the Ferragamo USA Group.

The following table shows the minimum future payments due at 31 December 2017 and 31 December 2016 relating to operating leases, broken down by expiry date:

(In thousands of Euro)	31 December 2017	31 December 2016
Within 1 year	17,653	16,957
1 to 5 years	42,530	49,835
Over 5 years	15,296	22,222
Total	75,479	89,014

The Company's operating leases largely refer to the lease of premises used as commercial and, to a lesser extent, office space. The costs incurred by the Company and recognized through profit or loss in 2017 totaled 19,229 thousand Euro (16,821 thousand Euro in 2016).

43. Significant non-recurring events and transactions

During 2017, the Company did not carry out significant non-recurring transactions and no significant non-recurring events occurred.

44. Transactions arising from atypical and/or unusual transactions

The Company 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 correctness/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.

45. Information on the direct and indirect subsidiaries of Salvatore Ferragamo S.p.A.

Direct and indirect subsidiaries of Salvatore Ferragamo S.p.A. are detailed below:

				31 December 2017		
Company name	Location	Currency	Share capital	Controlling interest (%)		Notes
				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%		
	London, United Kingdom					
Ferragamo U.K. Limited	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%		
	Copenhagen, Denmark					
Ferragamo Denmark ApS	Denmark	Danish Krone	550,000	100%		
	New York, United States					
Ferragamo USA Inc.	States	US Dollar	74,011,969	100%		
Ferragamo Canada Inc.	Vancouver, Canada	Canadian Dollar	4,441,461		100%	(1)
	New York, United States					
S-Fer International Inc.	States	US Dollar	4,600,000		100%	(1)
	New York, United States					
Sator Realty Inc.	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)
	Buenos Aires, Argentina					
Ferragamo Argentina S.A.	Argentina	Argentine Peso	9,169,107	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%		
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)
		New Taiwanese				
Ferragamo Retail Taiwan Limited	Taipei, Taiwan	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%		
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%		
	Kuala Lumpur, Malaysia					
Ferragamo (Malaysia) Sdn. Bhd.	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 Limited;

46. Significant events occurred after 31 December 2017

On 27 February 2018, Salvatore Ferragamo S.p.A. announced that, as mutually agreed by the parties, Mr. Eraldo Poletto will finish his term as Director and Managing Director of the Company at the Board of Directors meeting on 8 March 2018 for the approval of the 2017 draft separate financial statements.

47. Proposal for the allocation of the profit

The Board of Directors of Salvatore Ferragamo S.p.A. proposes to allocate the profit for the year 2017, totaling 113,012,652 Euro, as follows:

- a) to Shareholders a gross dividend of 0.38 Euro for each of the 168,790,000 ordinary shares for a total of 64,140,200 Euro;
- b) the remainder amount, equal to 48,872,452 Euro, to the Extraordinary Reserve.

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(In thousands of Euro) Type of services	Subject which supplied the service	Recipient	Notes	Total fees for 2017
Audit	Independent Auditors of the Parent company	Parent company		191
Other services	i) Independent Auditors of the Parent company	Parent company		1
	ii) Independent Auditors' network of the Parent company	Parent company	1	116
Total				308

1) The item refers mainly to IT support services

Florence, 8 March 2018

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Statement pursuant to paragraph 154 bis of Italian Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)

1. The undersigned Eraldo Poletto in his capacity as “Managing Director” 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 separate financial statements for the 1 January – 31 December 2017 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2017 separate financial statements 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 separate financial statements for the year ended 31 December 2017:

- 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 subsequent integrations;
- b. correspond with accounting books and records;
- c. are suitable to provide a true and fair representation of the financial conditions, results of operations and cash flows of the Company.

3.2 The Directors’ report on operations includes a reliable analysis of operating performance and results, as well as of the situation of the Company, as well as a description of the main risks and uncertainties to which it is exposed.

Florence, 8 March 2018

Managing Director
Eraldo Poletto

Manager charged with preparing Company’s Financial Reports
Ugo Giorcelli

Report of the Board of Statutory Auditors to the Shareholders' Meeting

(pursuant to art. 153 of Italian Leg. Decree 58/1998 and art. 2429, paragraph 2 of the Italian Civil Code)

Dear Shareholders,

The Board of Statutory Auditors of Salvatore Ferragamo S.p.A. (hereinafter also referred to as “Ferragamo” or “Company”), pursuant to art. 153 of Italian Leg. Decree 58/1998 (hereinafter also referred to as “TUF”, which stands for *Testo Unico della Finanza* – Consolidated Law on Finance in Italian) and art. 2429, paragraph 2 of the Italian Civil Code, shall report to the Shareholders' Meeting convened for the approval of the financial statements on the supervisory activities carried out during the year as well as any potentially material omissions or reprehensible events. In addition, the Board of Statutory Auditors shall also make proposals regarding the financial statements and their approval as well as the matters within its area of responsibility.

This report concerns the work performed by the Board of Statutory Auditors of Salvatore Ferragamo S.p.A. during the year ended 31 December 2017.

Background

In the year ended 31 December 2017, the Board of Statutory Auditors performed the supervisory activities required by law in accordance with the standards of conduct recommended by the Italian National Board of Accountants and Auditors (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili*), Consob's regulations on corporate controls, and the Corporate Governance Code.

The activities described below were formally recorded in the minutes of the 15 meetings the Board of Statutory Auditors held during 2017.

The Board of Statutory Auditors has always attended the meetings of the Board of Directors, the Control and Risk Committee – which acts also as the Committee responsible for transactions with related parties – and the Nomination and Remuneration Committee.

Appointment of the Board of Statutory Auditors

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 27 April 2017, which named Andrea Balelli (Chairman), Alessandra Daccò (acting member) and Fulvio Favini (acting member) as Acting Statutory Auditors, and Paola Caramella and Roberto Coccia as Substitute Statutory Auditors.

On 10 October 2017, the Acting Statutory Auditor Alessandra Daccò resigned effective as from 11 October 2017. Pursuant to article 2401 of the Italian Civil Code and article 30 of the Company's Bylaws, the Substitute Statutory Auditor Paola Caramella took over as Acting Statutory Auditor effective as from 11 October 2017 and until the next Shareholders' Meeting. She was selected from the same majority list submitted by the shareholder Ferragamo Finanziaria S.p.A. in which Alessandra Daccò had been included as a candidate at the Shareholders' Meeting of 27 April 2017. As at the reporting date, the Board of Statutory Auditors therefore consisted of Andrea Balelli (Chairman), Paola Caramella (Acting Statutory Auditor), and Fulvio Favini (Acting Statutory Auditor). Roberto Coccia is a Substitute Statutory Auditor, and the Company will appoint an Acting Statutory Auditor as well as a Substitute Statutory Auditor at the Shareholders' Meeting scheduled for 20 April 2018.

Supervisory activities pursuant to art. 2403 of the Italian Civil Code and art. 149 of the TUF

Pursuant to art. 2403 of the Italian Civil Code and art. 149 of the TUF, the Board of Statutory Auditors supervises:

- compliance with the law and the bylaws;
- adherence to the principles of sound management;
- the adequacy of the Company's organizational structure as far as matters within its area of responsibility are concerned, the internal control system, and the administrative-accounting system – as well as the latter's reliability in presenting fairly the Company's operations;
- the implementation of the corporate governance rules set out in the codes of conduct issued by regulated market operators or trade associations that the Company has formally adopted through public disclosures;
- the adequacy of the instructions the Company gives to subsidiaries pursuant to art. 114, paragraph 2 of the TUF.

Supervision of compliance with the law and the bylaws

The Board of Statutory Auditors has obtained the information necessary to perform its supervisory duties by participating in the meetings of the Board of Directors and the Board Committees as well as through hearings of the Company's and Group's Management, meetings with the audit firm, analyses of the information flows received from the relevant control bodies of the Group's companies as well as from the competent business structures, and additional monitoring activities.

Specifically, the Board of Statutory Auditors:

- obtained information on the operations carried out and the transactions that materially impacted the Company's financial performance, financial position, and cash flows, as well as the Group's strategic guidelines, from the Directors at least on a quarterly basis. The Board of Statutory Auditors can provide reasonable assurance that the transactions authorized and conducted by the Company comply with the law and the bylaws and are not manifestly imprudent, risky, in conflict of interest, contrary to the decisions of the Shareholders' Meeting, or such as to compromise the integrity of corporate assets. In addition, there were no atypical or unusual transactions;
- reports that the following significant transactions and events occurred in 2017:
 - on 31 January 2017, the Board of Directors approved the 2017 Audit Plan;
 - on 14 March 2017, the Board of Directors: (i) approved the update to the Organization, Management and Control Model pursuant to Italian Leg. Decree 231/2001 (hereinafter also referred to as "Model"), (ii) proposed a 0.46 Euro dividend per share, and (iii) appointed Ugo Giorcelli as the Manager charged with preparing Company's Financial Reports (art. 154-bis, paragraph 1 of the TUF);
 - on 14 March 2017, the Group's 2016 Sustainability Report, audited by the audit firm Deloitte & Touche S.p.A., was submitted to the Board of Directors;
 - on 27 April 2017, the Shareholders' Meeting approved the appointment of Eraldo Poletto as Director of the Company's Board of Directors, which on the same date elected him as Managing Director;
 - on 27 April 2017, the Company's Board of Directors, pursuant to art. 14, paragraph 12 of Italian Law no. 183/2011 and consistently with the decision made by the previous Board, named the Board of Statutory Auditors as the Supervisory Body as per Italian Leg. Decree 231/2001 for the same term as that of the Board of Statutory Auditors as set in the resolution of the Shareholders' Meeting that appointed it;
 - on 14 December 2017, the Board of Directors approved (i) the Group's 2018 Budget, and (ii) the 2018 Audit Plan;
- reports that the following significant transactions and events occurred in 2018 up to the reporting date:
 - on 31 January 2018, the Board of Directors approved the update to the Company's Procedures concerning Internal Dealing as well as the Handling and Disclosure of Confidential as well as Actual or Potential Inside Information in order to comply with the changes introduced by Regulation (EU) no. 596/2014 on market abuse ("MAR");
 - on 8 March 2018, Eraldo Poletto finished his term as Director and Managing Director of the Company at the Board of Directors' meeting convened to approve the separate financial statements as at 31 December 2017. The Board of Directors named the Board's Chairman Ferruccio Ferragamo as Interim Managing Director.
- pursuant to art. 151, paragraphs 1 and 2 of Italian Leg. Decree no. 58/1998, exchanged information with the Board of Statutory Auditors of the subsidiary Ferragamo Parfums S.p.A. on the work carried out in 2017;
- in its capacity as Supervisory Body pursuant to Italian Leg. Decree 231/2001, examined the matters addressed by said decree and found no significant reprehensible issues or events;
- held regular meetings with representatives of the audit firm to mutually exchange data and information material to the discharge of its duties in accordance with art. 150, paragraph 3 of the TUF. In this regard, there was no material data or information to be disclosed in this report;
- during the year, the Company received two communications from the shareholder Tommaso Marino on 26 April 2017 and 5 June 2017, respectively. On 26 April 2017, Mr. Marino submitted a communication concerning "questions ahead of the 2017 Shareholders' Meeting", including for the purposes of exercising the right to speak and vote at the Meeting, in accordance with art. 127-ter of the TUF. The communication included 84 questions. The Company replied in writing and provided a copy of the answers to the attendees at the beginning of the Annual Shareholders' Meeting. On 5 June 2017, Mr. Marino submitted a request for verification to the Company and the Board of Statutory Auditors pursuant to art. 2408 of the Italian Civil Code, claiming that, with reference to the Shareholders' Meeting held on 27 April 2017, the answers to some questions submitted ahead of the meeting had been omitted. The Board of Statutory Auditors discussed and examined the complaint and conducted all the necessary investigations, also by involving the Company's competent structures. Based on the findings of its investigations, the Board of Statutory Auditors states that there were no irregularities or events from which the Board of Statutory Auditors, using the instruments at its disposal, could infer failures to comply with the principles of sound management or

additional circumstances such as to make it believe that the Company violated applicable laws and bylaws. The Board of Statutory Auditors is not aware of events or complaints to be reported to the Shareholders' Meeting other than the above;

- issued opinions on the remuneration of directors holding specific positions in accordance with art. 2389, paragraph 3 of the Italian Civil Code;
- issued a favorable opinion on the appointment of the Manager charged with preparing Company's Financial Reports;
- issued a favorable opinion on the share repurchase proposal to be submitted to the Shareholders' Meeting scheduled for 20 April 2018;
- issued opinions on the so-called "non-audit fees" for services other than auditing, in accordance with the Company's internal procedure adopted in May 2017.

In addition, concerning the Company's bodies and functions, the Board of Statutory Auditors reports that:

- the Board of Directors held 9 meetings in 2017;
- the Control and Risk Committee held 10 meetings in 2017;
- the Nomination and Remuneration Committee held 4 meetings in 2017;
- the Supervisory Body as per Italian Leg. Decree 231/2001 held 4 meetings in 2017.

Supervision of adherence to the principles of sound management and the adequacy of the organizational structure

The Board of Statutory Auditors:

- obtained information on and supervised, within the scope of its responsibilities, the adequacy of the Company's organizational structure and adherence to the principles of sound management through direct observation as well as by gathering information from the heads of corporate departments and meeting with the audit firm to mutually exchange material data and information. The Board of Statutory Auditors has nothing to report in this regard and considers the Company's organizational structure to be essentially suitable for its needs as well as for ensuring adherence to the principles of sound management;
- assessed and supervised the adequacy of the administrative-accounting system, as well its reliability in presenting fairly the Company's operations, by obtaining information from the heads of the relevant departments, examining business documents, and analyzing the work of the audit firm. The Board of Statutory Auditors has nothing to report in this regard.

The Board of Statutory Auditors has ascertained that directors and statutory auditors receive adequate supporting documents about the items on the agenda of Board of Directors' meetings with reasonable advance notice.

Based on the acquired information, the Board of Statutory Auditors acknowledges that management makes decisions in an informed and reasonable manner and directors are aware of the risks and impacts of the transactions carried out.

The Board of Statutory Auditors did not find any significant atypical and/or unusual transactions, including intragroup transactions as well as intragroup and non-intragroup related party transactions.

In addition, the Board of Statutory Auditors also assessed the adequacy of the information disclosed in the Directors' report on operations on the lack of significant atypical and/or unusual transactions.

Supervision of the actual implementation of corporate governance rules

Pursuant to art. 149, paragraph 1, lett. c-bis of the TUF concerning the supervision by the Board of Statutory Auditors of *"the actual implementation of the corporate governance rules set out in the codes of conduct issued by regulated market operators or trade associations that the company has formally adopted through public disclosures"*, the Board of Statutory Auditors supervised:

- the actual implementation of the corporate governance rules set out in codes of conduct that the Company has formally adopted through public disclosures. In accordance with art. 123-bis of the TUF, the Company prepared the annual Report on Corporate Governance and Ownership Structure for 2017, approved on 8 March 2018, which includes information about (i) the Company's actual corporate governance practices; (ii) the key characteristics of the existing risk management and internal control systems, including as far as the separate and consolidated financial reporting process is concerned; (iii) the functioning of the Shareholders' Meeting, its main powers, the rights of Shareholders, and how they can exercise them; and (iv) the composition and functioning of the administration and control bodies and the relevant committees, as well as the other disclosures required by art. 123-bis of the TUF;
- the adoption of the Remuneration Policy for Directors and Managers with strategic responsibilities, in accordance with the Corporate Governance Code for listed companies issued by Borsa Italiana S.p.A. as well as the Remuneration Report pursuant to art. 123-ter of the TUF;
- the implementation of the procedure for the commissioning of services to the audit firm within the Ferragamo Group during the year.

In addition, the Board of Statutory Auditors acknowledges that: (i) in accordance with the recommendations in the Corporate Governance Code of Borsa Italiana S.p.A., it verified whether its members met the independence requirements for directors set out in said Code; (ii) it found that the criteria and procedures adopted by the Board of Directors for the annual assessment of the independence of its independent directors were properly implemented, and that the Board of Directors conducted an analysis based on substantiated evidence and consistent with the decisions concerning the identification of Ferragamo's related parties. The Board of Statutory Auditors has nothing to report in this regard.

Supervision of the adequacy of the instructions the company gives to subsidiaries

Pursuant to art. 114, paragraph 2 of the TUF: (i) listed issuers give the instructions necessary for the subsidiaries to disclose all information required to meet disclosure requirements in accordance with the law; (ii) the subsidiaries provide the requested disclosures in a timely manner.

The Board of Statutory Auditors supervised the adequacy of the instructions given to subsidiaries, and found that the Company is able to promptly and regularly meet disclosure requirements in accordance with the law – including by gathering information from the heads of organizational functions and regularly meeting with the audit firm to mutually exchange material data and information. The Board of Statutory Auditors has nothing to report in this regard.

In addition, the Boards of Directors of the subsidiaries include among their members Directors and/or Managers of the Parent company vested with executive powers, thus ensuring a coordinated management and an adequate flow of information supported by appropriate accounting records.

Intragroup or related-party transactions

In accordance with art. 2391-*bis* of the Italian Civil Code as well as Consob resolution no. 17221 of 12 March 2010 containing “Regulations on related-party transactions”, as amended by Consob resolution no. 17389 of 23 June 2010, on 30 March 2011 Ferragamo's Board of Directors, with the favorable opinion of the Committee responsible for transactions with related parties – which consists only of independent directors (and is appointed for this purpose with a specific resolution of the Board of Directors in accordance with art. 4, paragraph 3 of said Regulations), adopted the “Procedure governing transactions with related parties”.

Subsequently, on 13 November 2014 Ferragamo's Board of Directors unanimously approved the new “Procedure governing transactions with related parties”.

Pursuant to art. 4 of said Regulations, we certify that the Procedure adopted by the Company (i) is consistent with the principles set out in the Regulations, and (ii) is published on the Company's website (www.ferragamo.com).

Based on the acquired information, in 2017 several transactions with related parties were carried out both within the Group and with third parties. As far as we know, based also on our supervisory work, transactions with related parties were carried out essentially in accordance with said procedure and the Regulations adopted by Ferragamo. The intragroup transactions we examined appear to be part of the ordinary course of business, as they concern commercial services as well as the exchange of administrative, financial and organizational services. These transactions were carried out under usual terms and conditions determined in accordance with standard parameters reflecting the actual use of the services concerned, and were in the interest of the Company. The transactions with non-intragroup related parties we examined also appear to be part of the ordinary course of business (as they fall within day-to-day operating activities or the relevant financing activities) and were concluded on arm's length or standard terms. The transactions with related parties are disclosed in the Explanatory notes to the separate and consolidated financial statements along with the relevant economic impact. In our opinion, all said transactions were carried out in the interest of the Company.

Supervisory Activities in accordance with the Consolidated Law on Statutory Audit

Pursuant to the Consolidated Law on Statutory Audit (art. 19 of Italian Leg. Decree no. 39/2010 as amended by Italian Leg. Decree 135/2016), the Board of Statutory Auditors (referred to as the “Audit Committee” in the Consolidated Law) shall:

- (i) notify the audited entity's administrative body of the audit findings, as well as submit the additional report as per art. 11 of Regulation (EU) no. 537/2014 to said body along with any observations;
- (ii) monitor the financial reporting process;
- (iii) monitor the effectiveness of the internal control, internal audit and risk management systems;
- (iv) monitor the statutory audit of the annual and consolidated financial statements;
- (v) verify and monitor the independence of statutory auditors or audit firms pursuant to arts. 10, 10-bis, 10-ter, 10-quater, and 17 of said decree as well as art. 6 of the EU Regulation, concerning especially the adequacy of non-audit services provided to the audited entity, in accordance with art. 5 of said Regulation;
- (vi) oversee the procedure for the selection of statutory auditors or audit firms and recommend the statutory auditors or audit firms to be appointed pursuant to art. 16 of the EU Regulation.

The Board of Statutory Auditors has worked with the Control and Risk Committee of the Board of Directors to

coordinate their respective duties and avoid potential overlaps.

In this regard, Ferragamo invites all the members of the Board of Statutory Auditors to participate in the activities of the Control and Risk Committee concerning the topics specifically set out in Italian Leg. Decree no. 39/2010 as well as the above matters to be supervised, allowing for a seamless relationship and facilitating the coordination and exchange of information between the two bodies.

Concerning specifically the activities set out in the Consolidated Law on Statutory Audit, we report the following.

Disclosure of the audit findings and the Additional Report as per art. 11 of the EU Regulation to the Administrative Body

Pursuant to art. 19 of Italian Leg. Decree 39/2010, the Board of Statutory Auditors notified the administrative body of the audit findings as well as submitted the additional report as per art. 11 of the EU Regulation no. 537/2014, issued by the audit firm on 23 March 2018.

Supervision of the financial reporting process

The Board of Statutory Auditors has ascertained the existence of rules and procedures concerning the preparation and disclosure of financial information. In this regard, the Report on Corporate Governance and Ownership Structure defines the guidelines for establishing and managing the system of administrative and accounting procedures for Ferragamo and the consolidated entities, governing the relevant stages and responsibilities.

The Board of Statutory Auditors, with the help of the Manager charged with preparing Company's Financial Reports, examined the procedures concerning the preparation of the Company's financial statements and the consolidated financial statements as well as the other interim financial reports. In addition, the Board of Statutory Auditors obtained evidence of the process allowing the Manager charged with preparing Company's Financial Reports as well as the competent Director to issue the certifications required by art. 154-bis of the TUF.

The Board of Statutory Auditors learned that the administrative/accounting procedures for the preparation of the financial statements and any other financial disclosures are overseen by the Manager charged with preparing Company's Financial Reports, who, together with the Managing Director, certifies their adequacy and actual implementation for the purposes of preparing the separate and consolidated financial statements as well as the half-year report.

The Internal Audit Department verifies the adequacy of the design and operation of the controls on entities and processes based on a plan approved by the Board of Directors.

Therefore, the Board of Statutory Auditors considers the financial reporting process to be adequate and has nothing to report to the Shareholders' Meeting.

Supervision of the effectiveness of the internal control, internal audit and risk management systems

The Board of Statutory Auditors, including together with the Control and Risk Committee, regularly met with the Internal Audit Manager and was informed about both the findings of the audits aimed at verifying the adequacy and operation of the internal control system – in accordance with the law as well as corporate procedures and processes – and the implementation of the relevant plans for improvement. In addition, the Board of Statutory Auditors received the 2017 Audit Plan approved by the Board of Directors on 31 January 2017 (on which the Control and Risk Committee and the Board of Statutory Auditors in office at the time issued a favorable opinion at the meeting held on 24 January 2017) as well as regular updates on the progress on the Plan and any potential corrective actions. In addition, it received the Report of the Internal Audit Manager for the year 2017 as well as the Control and Risk Committee's six-monthly report.

Concerning the update to the Organization, Management and Control Model, the Board of Statutory Auditors, as the Supervisory Body pursuant to Italian Leg. Decree 231/2001, steered and monitored the design of said update, which was approved by the Company's Board of Directors on 14 March 2017. The Supervisory Body is monitoring additional updates to the Model in light of regulatory changes.

Therefore, the Board of Statutory Auditors considers the overall internal control system to be essentially adequate and has nothing to report to the Shareholders' Meeting.

Supervision of the statutory audit of the annual and consolidated financial statements

- Accounting procedures have been audited in accordance with the law by the audit firm EY S.p.A. ("EY"), which the Shareholders' Meeting of 30 March 2011 appointed as independent auditors for the years 2011-2019;
- The Board of Statutory Auditors held regular meetings with the audit firm EY and did not find material issues to report concerning auditing activities or significant deficiencies in the integrity of the internal control system as far as specifically the financial reporting process is concerned;

- Today, EY issued its report on the separate financial statements (hereinafter also referred to as “Financial Statements”) and the consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union and the legislation enacting art. 9 of Italian Leg. Decree no. 38/05, as well as its opinion on the consistency of the Directors’ report on operations and the Report on Corporate Governance and Ownership Structure with the financial statements. This report did not include objections or requests for additional disclosures. In addition, in said report EY states it ensured the Directors approved the non-financial statement.

Independence of the audit firm, specifically concerning the provision of non-audit services

Concerning the annual review of independence requirements in accordance with art. 17, paragraph 9, lett. a) of Italian Leg. Decree 39/2010, the Board of Statutory Auditors states it received a written confirmation from the audit firm with the submission of the Additional Report issued today in accordance with art. 11 of the EU Regulation.

The Board of Statutory Auditors supervised the independence of the audit firm and received evidence on a regular basis of the non-audit services to be assigned (or assigned pursuant to specific regulatory provisions) to the independent auditors.

As the Ferragamo Group’s consolidated financial statements show, in 2017 EY rendered the following services to the Group, including through its network:

Entity and reference period <i>Amounts in thousands of Euro</i>	Audit services	Non-audit services	Total
Salvatore Ferragamo S.p.A. 2017	191	117	308
Ferragamo Group 2017	906	121	1,027
Total	1,097	238	1,335

The Board of Statutory Auditors believes the above fees are proportionate to the extent, complexity, and characteristics of the work carried out, and that the non-audit services (and the relevant fees) are not such to compromise the independence of the audit firm. The Board of Statutory Auditors also ensured that the duties assigned to the audit firm are not among those that cannot be assigned to it pursuant to the mentioned EU Regulation.

Concerning the audit firm, the Board of Statutory Auditors notes that today EY issued the Additional Report pursuant to art. 11 of the EU Regulation, which did not reveal significant deficiencies in the internal financial control system and/or in the accounting system.

Consolidated Non-Financial Statement (NFS)

As a public-interest entity (PIE) and large Group, starting from the year 2017 Ferragamo must provide the non-financial disclosures required by Italian Leg. Decree 254/2016 transposing Directive 2014/95/EU into Italian Law, which became effective on 25 January 2017.

In accordance with said regulations, the Ferragamo Group prepared its NFS in order to ensure an understanding of its operations, performance, results, and impact, addressing the topics considered material and set out in art. 3 of Italian Leg. Decree 254/2016 in accordance with the G4 Sustainability Reporting Guidelines issued in 2013 by the GRI – Global Reporting.

In this sense, the NFS includes a description of topics concerning: corporate governance, company policies, the management and organizational business model, and the results achieved by the company relating to environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters.

Concerning specifically the examination of the consolidated non-financial statement, the Board of Statutory Auditors supervised compliance with the provisions in Italian Leg. Decree 254/2016 within the responsibilities assigned to it by law. In this regard, the Board of Statutory Auditors states that:

- pursuant to art. 3, paragraph 10 of Italian Leg. Decree 254/2016 and art. 5 of Consob Regulation no. 20267, the Company appointed Deloitte & Touche S.p.A. to perform a limited audit of the Ferragamo Group’s consolidated non-financial statement;
- the Board of Statutory Auditors received regular updates on the groundwork for the preparation of the NFS;
- today, Deloitte & Touche S.p.A. issued its report on the consolidated non-financial statement, certifying the compliance of the information disclosed in the NFS with the relevant laws and the reporting standards used;
- today, EY issued its report on the conformity of the separate and consolidated financial statements, stating it ensured that the non-financial statement has been prepared.

Therefore, the Board of Statutory Auditors considers the non-financial reporting process to be adequate and has nothing to report to the Shareholders' Meeting.

Separate financial statements, consolidated financial statements, and Directors' report on operations

Ferragamo's draft financial statements, approved by resolution of the Company's Board of Directors on 8 March 2018, were prepared in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the legislation enacting art. 9 of Italian Leg. Decree no. 38/2005.

Among others, the following documents, previously issued by the IASB and endorsed by the European Union, became effective as from 1 January 2017, amending the international accounting standards: IAS 7 (Statement of Cash Flows) and IAS 12 (Income Taxes).

Concerning specifically the separate financial statements for the year ended 31 December 2017, the consolidated financial statements, and the Directors' report on operations, the Board of Statutory Auditors reports that:

- the Company's financial statements and the consolidated financial statements were prepared in accordance with the structure and reporting formats required by applicable laws;
- the financial statements are accompanied by the Directors' report on operations, which summarizes the main risks and uncertainties as well as describes the Company's outlook. This report complies with applicable laws and is consistent with the resolutions of the administrative body as well as the information in the financial statements. In addition, it includes adequate disclosures of the operations carried out during the year as well as intragroup transactions. In accordance with IFRS, the section containing related-party transaction disclosures was included in the Explanatory notes to the financial statements;
- the Company prepared also the Report on Corporate Governance and Ownership Structure, pursuant to art. 123-bis of the TUF, and the Remuneration Report pursuant to art. 123-ter of the TUF;
- the Board of Directors received the financial statements in time for filing them at the Company's registered office along with this report;
- it verified the rationality of the assessments made and their consistency with international accounting standards;
- it verified the consistency of the financial statements with the events and information it is aware of as a result of the work carried out; therefore, it has nothing to report in this regard;
- as far as the Board of Statutory Auditors knows, the Directors did not depart from the provisions as per art. 2423 of the Italian Civil Code in preparing the financial statements;
- Ferragamo's Board of Directors, in accordance with the joint document issued by the Bank of Italy/Consob/ISVAP on 3 March 2010, independently approved the procedure and results of the impairment test ahead of the approval of the draft financial statements, ensuring their compliance with IAS 36. The information and findings of the assessments carried out are reported in the Explanatory notes to the financial statements.

Adjustment of the Audit Firm's fees

Considering the agreement currently in force, in a letter dated 12 January 2018 the audit firm EY asked the Company to adjust the fees based on (i) the changes made to the Reform of statutory audit, transposed into Italian law with Leg. Decree. 135/2016 amending Leg. Decree no. 39/2010, (ii) the adoption of the new auditing standards as per document no. 129507 of 15 June 2017 and no. 157387 of 31 July 2017 issued by Italy's State General Accounting Department, concerning new disclosure requirements for management and governance bodies, a new format of the audit report, and new responsibilities of the statutory auditor concerning the Directors' report on operations as well as specific information included in the Report on Corporate Governance and Ownership Structure.

The Board of Statutory Auditors held meetings with both the audit firm, to obtain more details on the work to be performed and the reasons underlying the audit process, and the relevant corporate structures, which expressed their opinions on the adjustment request and the reasonableness of its content, and unanimously resolved to propose adjusting the audit firm's fees to the Shareholders' Meeting by issuing a reasoned opinion, to which reference should be made.

Proposal to the Shareholders' Meeting

1. Financial Statement as at 31 December 2017

The Board of Statutory Auditors, considering also the findings of the audits performed by the audit firm, is in favor of the approval of the Financial Statements as at 31 December 2017 and raises no objection to the resolution proposed by the Board of Directors on the allocation of the profit for the year and the distribution of dividends.

2. Group Remuneration Policy

The Board of Statutory Auditors raises no objection to the Remuneration Policy submitted to the Shareholders' Meeting.

Final Remarks

The Board of Statutory Auditors has no issues to report concerning the information obtained and the supervisory activities performed; the Board of Statutory Auditors did not find any omissions, reprehensible events, irregularities or circumstances to be reported in this document or to the Supervisory Authority.

Florence, 23 March 2018

THE BOARD OF STATUTORY AUDITORS

Andrea Balelli (Chairman)

Paola Caramella (Acting Statutory Auditor)

Fulvio Favini (Acting Statutory Auditor)



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**Independent auditor's report in accordance with article 14 of
Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU
Regulation n. 537/2014
(Translation from the original Italian text)**

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Salvatore Ferragamo S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the statement of income, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

EY S.p.A.
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We identified the following key audit matters:

Key Audit Matter	Audit Response
Accounting for exchange rate risk hedging instruments and related disclosures	
<p>In order to mitigate its exposure to exchange rate risk, the Company enters into a significant number of derivative financial instruments (forward currency) in connection to transactions with foreign countries carried out in the ordinary course of business.</p> <p>These financial instruments are recorded at fair value within current assets for 12.8 million of euro and within current liabilities for 0.4 million of euro at December 31, 2017, and accounted for as hedging instruments (hedge accounting). The application of the hedge accounting, including the valuation of hedging instruments, was considered a key audit matter due to the fact that (i) the Company holds a significant amount of financial instruments, in terms of population and dollar value, managed through a specific module of the company's Enterprise Resource Planning (ERP) system to record each contract and calculate its valuation at the balance sheet date, (ii) the assessment of the effectiveness of the hedging policy affects the accounting of such instruments and (iii) the performance of the variables underlying these contracts is influenced by the market conditions that are not controlled by the management.</p> <p>The disclosure relating to the exchange risk management is included in Note 3 "Management of financial risks (IFRS 7)", and the disclosure relating the assumptions underlying the calculation of the fair value is included in Note 26 "Financial Instruments and fair value measurement".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) assessment of the processes and key controls implemented by the Company to determine the effectiveness of the hedging policy, necessary for the application of hedge accounting techniques, and to determine the fair value of derivatives, with the assistance of our experts in valuation of financial instruments; ii) testing key controls in place at the company, including application controls within the company's ERP system, also with the assistance of our IT specialists; iii) testing of the validity of the input data in the valuation models on transactions and contracts completed during the year, on a sample basis; iv) testing of the effectiveness of the hedging policy in order to verify the accounting treatment, on a sample basis; v) obtaining written confirmation from contractual counterparties for derivative financial instruments. <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements.</p>



Key Audit Matter	Audit Response
Risk of inventory obsolescence	
<p>The Company is subject to the risk that the unsold products at the end of the season quickly become obsolete and that, therefore, the inventories of these products are subject to impairment; to account for such risk, the financial statements include an obsolescence reserve of 11,3 million of euro recorded as a reduction in inventories of finished products and goods, and include an obsolescence reserve of 4,7 million of euro recorded as a reduction in inventories of raw materials.</p> <p>The estimate of the inventories' recoverable amount for the risk of obsolescence was considered a key audit matter as it requires the application of judgment by the management, particularly in defining the key assumptions on which the assessment is based, either endogenous (disposal or disposal policies on secondary sales channels / markets) and exogenous (market demand and expected sales forecasts in the future).</p> <p>The disclosure relating to the estimation of the inventories' obsolescence reserve is included in Note 2 in the paragraph "Discretionary valuations, and significant accounting estimates".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) assessment of the processes and key controls implemented by the Company surrounding the estimate of the inventories' obsolescence reserve; ii) the assessment of the key assumptions used by the management to calculate the estimated recoverable amount of slow moving, excess or obsolete items, such as the ageing of items and sales forecasts; iii) the assessment of the consistency of the assumptions used by management in the actual estimate with respect to the final figures and the corresponding assumptions of the previous year and, where discrepancies are noted, the assessment of the appropriateness of the estimate change; iv) testing of the data used by the Management to estimate the inventories obsolescence reserve, on a sample basis; and v) verification of the mathematical accuracy of the calculations performed by management. <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements</p>

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the Financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005 and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to



cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

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

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



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

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of Salvatore Ferragamo S.p.A., in the general meeting held on 30 March 2011, engaged us to perform the audits of the financial statements of each years ending 31 December 2011 to 31 December 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of Salvatore Ferragamo S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Salvatore Ferragamo S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Salvatore Ferragamo S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.



Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Florence, 23 March 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.