

Salvatore Ferragamo

Salvatore Ferragamo Group
Annual Report as at 31 December 2016

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 2016

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Corporate boards

Board of Directors (1)	Ferruccio Ferragamo (4) Eraldo Poletto (4)(8) Giovanna Ferragamo (5) 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)	Chairman Managing Director Deputy Chairman
Control and Risk Committee	Marzio Saà Umberto Tombari Chiara Ambrosetti	Chairman
Nomination and Remuneration Committee	Umberto Tombari Marzio Saà Lidia Fiori	Chairman
Product and Brand Strategy Committee	Ferruccio Ferragamo Eraldo Poletto Fulvia Ferragamo Leonardo Ferragamo	Chairman
Board of Statutory Auditors (2)	Fulvio Favini Gerolamo Gavazzi Alessandra Daccò Lorenzo Galeotti Flori Deborah Sassorossi	Chairman Acting Statutory Auditor Acting Statutory Auditor Substitute Statutory Auditor Substitute Statutory Auditor
Independent Auditors (3)	EY S.p.A.	
Manager charged with preparing Company's Financial Reports (7)	Marco Fortini	

(1) Appointed by the Shareholders' Meeting on 24 April 2015 and serving for the 2015-2017 period

(2) Appointed by the Shareholders' Meeting on 29 April 2014 and serving for the 2014-2016 period

(3) Appointed for the 2011-2019 period (formerly Reconta Ernst & Young S.p.A., referred to as EY S.p.A. as from 30 June 2016)

(4) Executive director

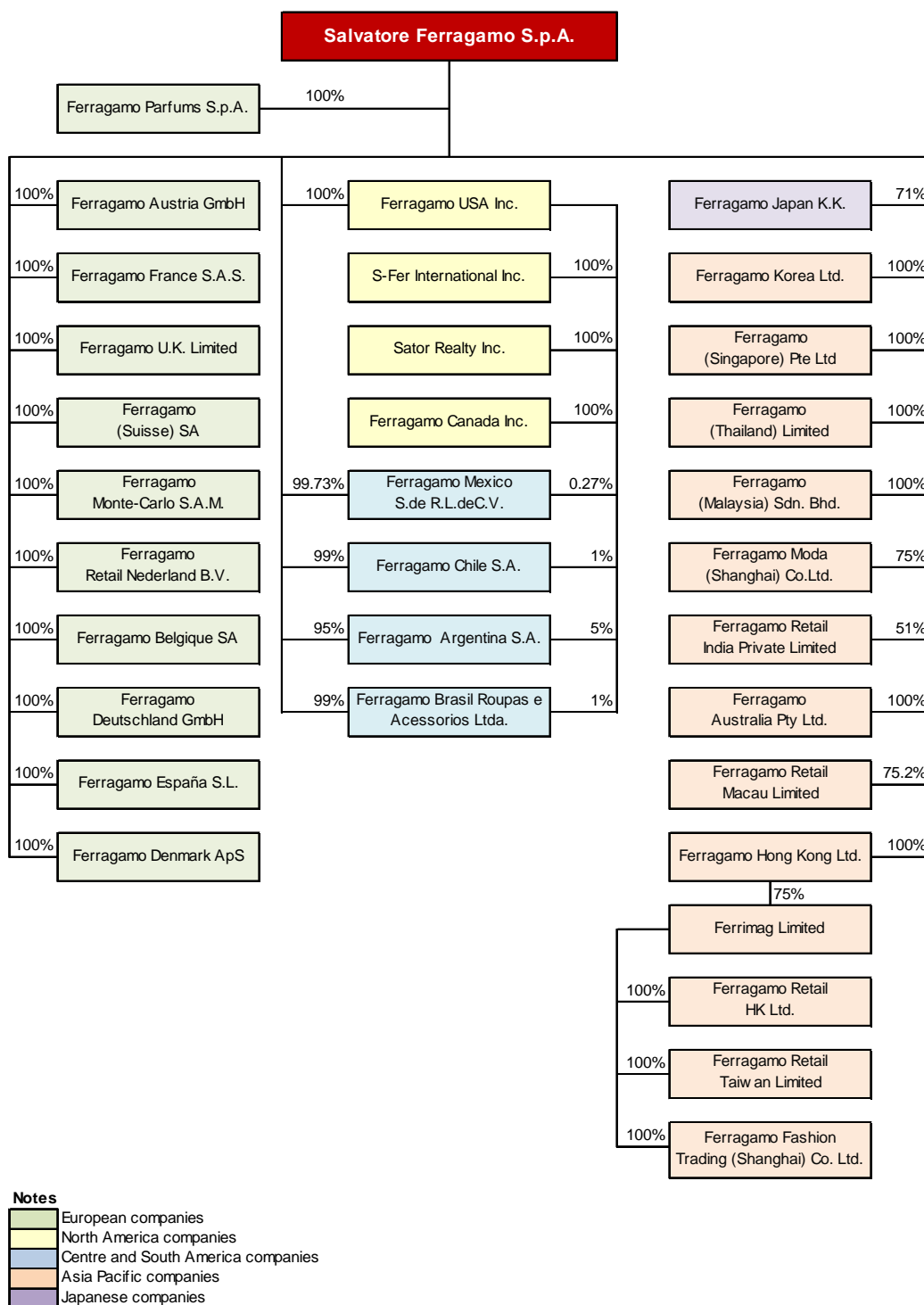
(5) Non-executive director

(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 16 December 2015

(8) Appointed by the Board of Directors on 2 August 2016 by means of co-optation and in office from 3 August 2016 until the next Shareholders' Meeting.

Group structure



Group description

As at 31 December 2016, the Salvatore Ferragamo Group consists of Salvatore Ferragamo S.p.A. (Parent company) and the following consolidated subsidiaries 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 and Indonesia

Ferragamo (Thailand) Limited

It manages directly operated stores (DOS) in Thailand

Ferragamo (Malaysia) Sdn. Bhd.

It manages directly operated stores (DOS) in Malaysia

Japan

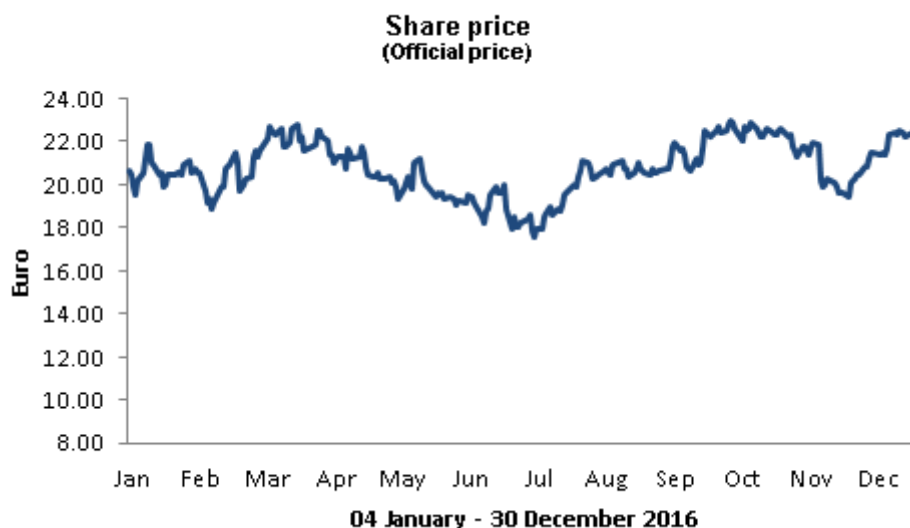
Ferragamo Japan K.K.

It manages directly operated stores (DOS) in Japan

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

Official price as at 30 December 2016 in Euro	22.59371
Minimum price as at 27 June 2016 in Euro (1)	17.26
Maximum price as at 5 October 2016 in Euro (1)	23.17
Stock Market capitalization as at 31 December 2016 in Euro	3,813,592,311
Number of shares making up the share capital as at 31 December 2016	168,790,000
Number of outstanding shares (free float)	43,221,440

Here below is the trend in Salvatore Ferragamo's share price during 2016.



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*.

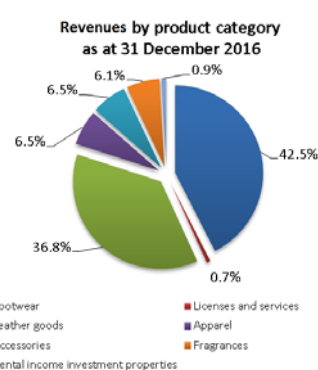
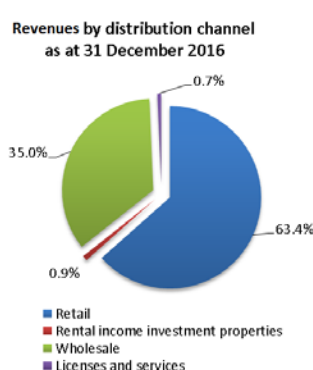
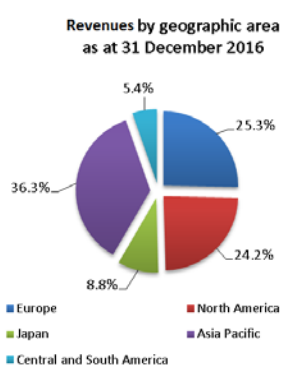
Net invested capital: it is the total amount of *Non current assets and Current assets*, excluding financial assets (*Other current financial assets and Cash and cash equivalents*) net of *Non current liabilities and Current liabilities*, excluding financial liabilities (*Current and non current interest-bearing 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 2016

(In millions of Euro)	2016	2015	2014	% change 2016 vs 2015	% change 2015 vs 2014
Revenues	1,437.9	1,430.0	1,331.8	0.6%	7.4%
Gross profit	965.1	948.1	848.4	1.8%	11.7%
Gross profit %	67.1%	66.3%	63.7%		
EBITDA	323.8	324.3	292.9	(0.2%)	10.7%
EBITDA %	22.5%	22.7%	22.0%		
Operating profit	260.7	264.6	245.4	(1.5%)	7.8%
Operating profit %	18.1%	18.5%	18.4%		
Net profit/(loss) for the period	198.4	174.5	163.5	13.7%	6.7%
Net profit/(loss) – Group	202.0	172.7	156.6	16.9%	10.3%
Net profit/(loss) – minority interests	(3.6)	1.7	6.9	(311.2%)	(75.3%)

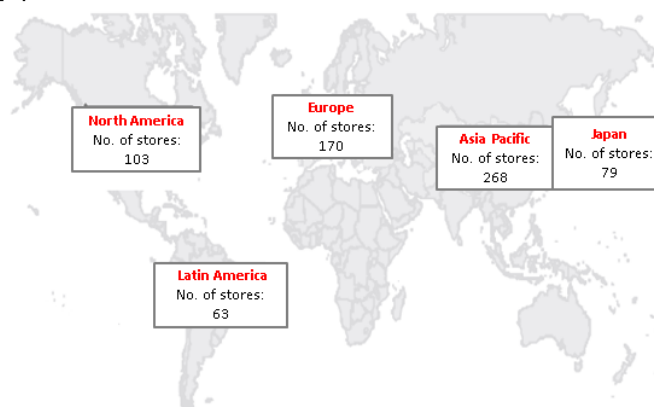


(In millions of Euro)	31 December 2016	31 December 2015	31 December 2014
Investments in tangible/intangible assets	74.4	80.0	82.9
Net working capital	374.1	316.9	301.9
Shareholders' equity	722.6	608.7	508.2
Net financial debt	8.0	9.8	49.4
Cash flow generated from operating activities*	161.0	197.5	142.0

*For a better explanation, as from 2015 the changes in guarantee deposits (formerly shown in the cash flow from investing activities) have been included in the cash flow generated from operating activities, adjusting comparative data relating to 2014 accordingly.

	31 December 2016	31 December 2015	31 December 2014
Staff as at the reporting date	4,104	4,033	3,900
Number of DOS	402	391	373
Number of TPOS	281	271	270

Geographical distribution of monobrand stores (31 December 2016)



683 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 2016" 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 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 and the People’s Republic of China;
- 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.

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 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 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 2016 numbered 402 (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 2016 numbered 281, 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 2016 was 683.

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 2016 the composition of the Salvatore Ferragamo Group saw the following changes:

- the liquidation of Ferragamo Latin America Inc. (100%-owned by Salvatore Ferragamo S.p.A.) and its subsidiary Ferragamo St. Thomas Inc. was completed in April 2016;
- the merger of the wholly-owned single-member subsidiary Ma.Ga. Immobiliare S.r.l. into Salvatore Ferragamo S.p.A. was finalized on 22 November 2016 (when the deed of merger dated 15 November 2016 was filed with the Florence Company Register). The merger has been effective for accounting and tax purposes retroactively as from 1 January 2016;
- on 20 December 2016, Salvatore Ferragamo S.p.A. acquired the remaining shares in the companies Ferragamo Korea Ltd., Ferragamo (Singapore) Pte Ltd, Ferragamo (Thailand) Limited, and Ferragamo (Malaysia) Sdn. Bhd., raising its interest in them from 80% to 100%.

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

In addition, on 19 December 2016 the 49% minority interest in the Indian subsidiary Ferragamo Retail India Private Limited was transferred between third parties resident in India. The Group terminated the agreements concerning minority interests with the previous shareholder and entered into new agreements with the new investor in the Indian company, establishing terms similar to the previous ones and economic conditions in line with the current market scenario. For more details, reference should be made to the Put and Call Agreements on Minority Interests in the Consolidated Financial Statements.

Effect of exchange rate changes on operations

During the year, currency markets were dominated by political events and the measures adopted by central banks. In late 2015, the concerns about China's economic slowdown and the expectations for the start of monetary policy normalization in the United States had already caused turmoil in international financial markets. Then, in chronological order: the European Central Bank announced its Quantitative Easing; the United Kingdom voted in a referendum to leave the European Union; the Bank of Japan changed course and introduced negative interest rates; and Donald Trump was elected President of the United States. The significant uncertainty and the weak global political and economic scenario have overshadowed the specific performance of individual economies: currencies served as the main outlet for market tensions. Across the world, the focus shifted to low growth and inflation; everywhere, the reaction has been to postpone monetary policy normalization and inject massive doses of liquidity into financial markets.

Month after month, investors saw their expectations for four interest rate rises in the United States frustrated, and this curbed the appreciation in the US dollar. In the first half of the year, the EUR/USD exchange rate fluctuated between 1.08 and 1.15; in June, the outcome of the British referendum sent the US dollar sharply up – from over 1.14 to 1.09 against the Euro in a single day. This movement was then gradually reversed over the following months. After Donald Trump won the US presidency, the EUR/USD exchange rate hit an annual high at around 1.05. Of the four expected rate hikes, only one came through in late 2016: this pushed the exchange rate further down to 1.03 – a level last seen in 2003. The expectations are for three rate rises in 2017, anticipating a particularly expansionary fiscal policy that will boost economic growth. The exchange rate will move according to the FED's measures, which could potentially hamper the Euro in the short-term, as well as both political and economic developments in the Euro Area – and therefore, in the second half of the year, the more or less accommodating stance of the ECB.

The Japanese Yen appreciated steadily during the year: it rose +22% against the US dollar, as USD/JPY declined from 120 to below 100, and +20% against the Euro, with EUR/JPY falling from slightly above 130 to just below 110. Quarter after quarter, the expectations for a weaker Yen were confounded. The Central Bank first dithered on whether to deliver new monetary stimulus, and when it eventually did so by introducing negative interest rates, the markets were not impressed. The correction at the end of the year seems to signal that the trend is reversing: the Yen will likely continue to depreciate throughout 2017, largely because the spread between US and Japanese bond yields is set to widen.

The British Sterling collapsed in the aftermath of the referendum, dropping by nearly 20% against both the US dollar (GBP/USD from a high of 1.50 to a low of 1.18, a level last seen in 1985) and the Euro (EUR/GBP from a high of 0.73 to a low of 0.94, a level last seen in 2009) because of the fears about severe negative consequences

for the economy. How the currency will fare will largely depend on the negotiations over Britain's exit from the EU.

The Chinese Renminbi declined against the US dollar: in mid-December, USD/CNY was down to 6.95. China's central bank injected liquidity into the markets and will probably continue acting to prevent the exchange rate from falling too fast – including by introducing capital controls. Relative to the Euro, after starting 2016 at around 7.02, at the end of the year the EUR/CNY exchange rate was around 7.30 – partly following the suit of the EUR/USD exchange rate. The CNY will certainly be affected by the economic policy of the new US Administration should this actually take protectionist measures or openly accuse China of manipulating its currency.

In general, emerging market currencies held up in the face of the various global events, also because expectations for monetary tightening in the US were already priced in at the beginning of the year. Capital flows returned to these countries especially after the rebound in the prices of raw materials, chief among them oil. The Brazilian Real and the Russian Ruble have a limited exposure to trade with the United States, therefore they are less exposed to potential protectionist measures than other currencies. In addition, they benefit from the recovery in crude oil prices. The South-Korean Won and the Singaporean Dollar are more sensitive to the depreciation in the Chinese Renminbi. Meanwhile in India, structural reforms and the improved trade balance continue supporting the Rupee. The Mexican Peso is suffering from the intransigence of the new US Administration, which has announced border walls and import tariffs. Mexico's Central Bank has been trying to prop up the currency by adjusting interest rates and intervening directly in the foreign exchange market, but with limited success.

4. The Group's operating performance

In 2016, both sales (+0.6%) and operating profit were essentially in line with the previous year. The macroeconomic scenario and socio-political turmoil certainly weighed on the results, and these factors were only partially offset by favorable currency movements (chief among them the depreciation in the Euro/USD exchange rate towards the end of the year).

Net profit was up 13.7% from the prior year (23.9 million Euro), also because the direct tax expense (which includes IRES, the Italian corporate income tax, and IRAP, the regional manufacturing tax) of the Parent company Salvatore Ferragamo S.p.A. declined as a result of tax benefits (see "Significant events occurred during the year").

In 2016, the Group bolstered its financial position and slightly reduced its net financial debt from 9.8 million Euro in 2015 to 8.0 million Euro in 2016, after paying out 78.9 million Euro in dividends and acquiring an additional 20% stake in the companies located in South-East Asia and South Korea for 15.5 million Euro (reference should be made to the section "Significant events occurred during the year").

Consolidated net revenues amounted to 1,438 million Euro, up by 0.6% year-on-year. EBITDA totaled 323.8 million Euro, in line with the previous year (-0.2%), and amounted to 22.5% as a proportion of revenues, compared to 22.7% in 2015. Operating profit fell by 1.5% to 260.7 million Euro, and accounted for 18.1% of revenues compared to 18.5% in the prior year. Net profit for the period totaled 198.4 million Euro – 13.8% as a proportion of revenues – up 23.9 million Euro year-over-year. A positive contribution came from the reduced tax expense thanks to the benefit known as "Patent box" claimed by the Parent company (reference should be made to the section "Significant events occurred during the year" and the paragraph on income taxes). Group net profit amounted to 202.0 million Euro, up by 16.9% compared to 172.7 million Euro in 2015.

The following table shows the main income statement data.

(In thousands of Euro)	2016	% of revenues	2015	% of revenues	% change
Revenues	1,437,923	100.0%	1,430,039	100.0%	0.6%
Gross profit	965,115	67.1%	948,078	66.3%	1.8%
Style, product development and logistics costs	(44,167)	(3.1%)	(43,839)	(3.1%)	0.7%
Sales & distribution costs	(469,191)	(32.6%)	(455,452)	(31.8%)	3.0%
Marketing & communication costs	(71,217)	(5.0%)	(72,471)	(5.1%)	(1.7%)
General and administrative costs	(113,663)	(7.9%)	(109,159)	(7.6%)	4.1%
Other operating costs	(20,098)	(1.4%)	(17,501)	(1.2%)	14.8%
Other income and revenues	13,949	1.0%	14,944	1.0%	(6.7%)
Total operating costs (net of other income)	(704,387)	(49.0%)	(683,478)	(47.8%)	3.1%
Operating profit	260,728	18.1%	264,600	18.5%	(1.5%)
Net financial income and charges	(15,055)	(1.0%)	(13,217)	(0.9%)	13.9%
Profit before taxes	245,673	17.1%	251,383	17.6%	(2.3%)
Income taxes	(47,315)	(3.3%)	(76,933)	(5.4%)	(38.5%)
Net profit/(loss) for the period	198,358	13.8%	174,450	12.2%	13.7%
Net profit/(loss) – Group	201,984	14.0%	172,733	12.1%	16.9%
Net profit/(loss) – minority interests	(3,626)	(0.3%)	1,717	0.1%	(311.2%)
Amortization, depreciation and write-downs of tangible/intangible assets	63,101	4.4%	59,740	4.2%	5.6%
EBITDA	323,829	22.5%	324,340	22.7%	(0.2%)

In 2016 **revenues** reached 1,437,923 thousand Euro compared to 1,430,039 thousand Euro in 2015, up by 0.6%. 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 2016 compared to the previous year: the US dollar was largely stable ⁽²⁾, the Chinese Renminbi depreciated by 5.4% ⁽³⁾ and the Japanese Yen appreciated by 10.5% ⁽⁴⁾ against the Euro, the currency in which the figures in the consolidated financial statements are expressed. Revenues recorded a decrease of 2.5% at constant exchange rates (applying to revenues for 2015 – net of the hedging impact – the average exchange rate of 2016). With reference to the fourth quarter of 2016 only, revenues amounted to 424,053 thousand Euro, up by 3.7% compared to the prior year

² With reference to the average Euro/US\$ exchange rate in 2016: 1.107; 2015: 1.110

³ With reference to the average Euro/Cny exchange rate in 2016: 7.352; 2015: 6.973

⁴ With reference to the average Euro/Yen exchange rate in 2016: 120.20; 2015: 134.31

quarter (+1.5% at constant exchange rates). Currency hedges resulted in a negative 234 thousand Euro adjustment to revenues in 2016, compared to a negative 50,920 thousand Euro adjustment in 2015.

In 2016 **gross profit** was 965,115 thousand Euro compared to 948,078 thousand Euro in the prior year, up by 1.8%. Gross profit as a percentage of sales stood at 67.1% compared to 66.3% in 2015. In the fourth quarter of 2016, gross profit was 285,639 thousand Euro, up by 3.5% compared to the prior-year period, with the ratio to revenues remaining unchanged (67.4% in the fourth quarter of 2016 compared to 67.5% in the fourth quarter of 2015).

In 2016 total **operating costs** (net of other income) amounted to 704,387 thousand Euro, up by 3.1% compared to 2015 and their ratio to revenues increased from 47.8% in 2015 to 49.0%; they also include costs relating to management turnover (appointment of the new Managing Director) and the relevant organizational changes which occurred in the second half of the year. In the fourth quarter of 2016, total net operating costs rose from 184,990 thousand Euro to 194,923 thousand Euro, up by 5.4% compared to the fourth quarter of 2015, and their ratio to revenues increased from 45.2% to 46.0%.

EBITDA decreased from 324,340 thousand Euro in 2015 to 323,829 thousand Euro (-0.2%), with a ratio to revenues of 22.5% compared to 22.7% in 2015. In the fourth quarter of 2016, EBITDA totaled 107,761 thousand Euro, mostly unchanged (+1.0%) compared to the fourth quarter of 2015 (106,727 thousand Euro), accounting for 25.4% of revenues compared to 26.1% the same period last year.

In 2016 **operating profit** totaled 260,728 thousand Euro compared to 264,600 thousand Euro in 2015, down by 1.5%. The ratio to revenues decreased from 18.5% in 2015 to 18.1% in 2016, mainly due to the increase in operating costs in 2016 compared to the previous year. In the fourth quarter of 2016, operating profit totaled 90,716 thousand Euro compared to 90,990 thousand Euro in the fourth quarter of 2015 (-0.3%, mostly unchanged compared to the same period last year), accounting for 21.4% of revenues compared to 22.2% the same period last year.

Net financial income and charges totaled 15,055 thousand Euro in charges compared to charges of 13,217 thousand Euro in 2015, mainly due to the combined effect of lower amounts for net gains on exchange rate differences and lower amounts for net financial charges for fair value adjustment of derivatives. In the fourth quarter of 2016, net financial income and charges totaled 2,923 thousand Euro in charges in 2016 compared to charges of 3,973 thousand Euro in the fourth quarter of 2015.

The **income tax** rate for 2016 was 19.3%, compared to 30.6% in the prior year, as the direct tax expense (IRES and IRAP) of the Parent company Salvatore Ferragamo S.p.A. declined thanks to the benefit known as "Patent box". The cumulative impact for the years 2015 and 2016 was a 32.0 million Euro reduction in the direct tax expense for 2016. The relevant ruling, required by law to qualify for this tax benefit, was entered into with the Italian Revenue Agency on 29 December 2016 and will remain in effect until 2019.

In 2016, the Group posted 198,358 thousand Euro in consolidated **net profit**, compared to 174,450 thousand Euro in 2015, up by 13.7%. The Group share of consolidated net profit amounted to 201,984 thousand Euro compared to 172,733 thousand Euro in the prior-year period, up by 16.9%. In the fourth quarter of 2016, net profit totaled 88,274 thousand Euro compared to 61,011 thousand Euro in the fourth quarter of 2015; Group net profit amounted to 89,527 thousand Euro compared to 60,468 thousand Euro in the fourth quarter of 2015.

2016 ended with **net financial debt** of 7,998 thousand Euro (1.1% of consolidated shareholders' equity), improving compared with 31 December 2015, when it totaled 9,760 thousand Euro (1.6% of consolidated shareholders' equity), with cash flows from operating activities amounting to 161.0 million Euro. In the fourth quarter of 2016 net financial debt fell from 18,195 thousand Euro as at 30 September 2016 to 7,998 thousand Euro as at 31 December 2016, down by 10,197 thousand Euro thanks to cash flows from operating activities amounting to 42.6 million Euro net of 22.3 million Euro investments in the fourth quarter.

Revenues

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

	2016	% of Revenues	2015	% of Revenues	% change	at constant exchange rates % change
Europe	364,292	25.3%	380,625	26.6%	(4.3%)	(4.0%)
North America	348,347	24.2%	333,770	23.3%	4.4%	(2.2%)
Japan	126,689	8.8%	127,281	8.9%	(0.5%)	(8.2%)
Asia Pacific	521,743	36.3%	515,950	36.1%	1.1%	(2.3%)
Central and South America	76,852	5.4%	72,413	5.1%	6.1%	15.9%
Total	1,437,923	100.0%	1,430,039	100.0%	0.6%	(2.5%)

In Europe, which is severely affected by persistently weak economic growth as well as geopolitical events, revenues fell by 4.3% at current exchange rates and by 4.0% at constant exchange rates, with the ratio to total revenues decreasing from 26.6% in 2015 to 25.3% in 2016. The impact of the United Kingdom's exit from the European Union (Brexit impact) on the Group should be immaterial, since the UK accounts for just 1.4% of total revenues.

The North American market saw an increase in revenues of 4.4% at current exchange rates (-2.2% at constant exchange rates), which was positively impacted by the growth in the retail channel (+10.9% at current exchange rates, +3.3% at constant exchange rates), bringing the ratio to total revenues from 23.3% to 24.2%.

Japan, where the strong Yen reduced the flow of Chinese tourists, was down 0.5% at current exchange rates (-8.2% at constant exchange rates), and was virtually flat as a proportion of total revenues (from 8.9% to 8.8%).

Asia Pacific saw an increase in revenues of 1.1% (-2.3% at constant exchange rates) thanks to the good trend in sales from the retail channel in the fourth quarter (+5.1% at current exchange rates, +3.6% at constant exchange rates); although it has been negatively affected by the slowdown on the Hong Kong market, it contributed once again the most to Group revenues with 36.3%.

In 2016 the Central and South American market saw a sharp increase in revenues (6.1% at current exchange rates and 15.9% at constant exchange rates), mainly thanks to the good performance of the Mexican market, and accounted for 5.4% of total revenues, recording a further increase compared to the previous year.

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

	2016	% of revenues	2015	% of revenues	% change	at constant exchange rates % change
Retail	912,361	63.4%	892,041	62.4%	2.3%	(0.8%)
Wholesale	502,648	35.0%	513,582	35.9%	(2.1%)	(5.1%)
Licenses and services	9,960	0.7%	11,540	0.8%	(13.7%)	(13.7%)
Rental income investment properties	12,954	0.9%	12,876	0.9%	0.6%	0.4%
Total	1,437,923	100.0%	1,430,039	100.0%	0.6%	(2.5%)

In 2016 retail sales grew by 2.3% at current exchange rates (-0.8% at constant exchange rates), thanks to the good performance in North America (+10.9% at current exchange rates and +3.3% at constant exchange rates), Asia Pacific (+3.0% at current exchange rates and +0.2% at constant exchange rates), and in Central and South America (+5.0% at current exchange rates and +18.5% at constant exchange rates). The ratio to total revenues increased from 62.4% in 2015 to 63.4% in 2016.

Compared to the situation as at 31 December 2015 the number of directly operated stores (DOS) increased by 11 units.

In 2016 wholesale sales decreased by 2.1% at current exchange rates and 5.1% at constant exchange rates and they were negatively affected by the decrease in Europe (-1.2% at current exchange rates, -0.8% at constant exchange rates), in North America (-5.0% at current exchange rates, -10.7% at constant exchange rates) and in Asia Pacific (-3.6% at current exchange rates, -8.3% at constant exchange rates). This trend was offset only in part by the good performance in Central and South America (+10.7% at current exchange rates, +12.4% at constant exchange rates).

Revenues from licenses and services in 2016 decreased by 13.7% compared to 2015; this item mainly consists of royalties for the licensing of the Salvatore Ferragamo brand in the eyewear and watch sectors. In 2016 revenues from royalties amounted to 5,792 thousand Euro compared to 6,597 thousand Euro in the previous year, down by 12.2%.

Revenues from rental income investment properties refer solely to property located in the United States and leased/sub-leased to third parties; the item increased by 0.6% at current exchange rates (+0.4% at constant exchange rates).

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

(In thousands of Euro)	2016	% of Revenues	2015	% of Revenues	% change	at constant exchange rates % change
Footwear	611,151	42.5%	600,812	42.0%	1.7%	(1.5%)
Leather goods	528,952	36.8%	528,800	37.0%	0.0%	(3.3%)
Apparel	93,550	6.5%	92,955	6.5%	0.6%	(3.0%)
Accessories	93,259	6.5%	95,393	6.7%	(2.2%)	(5.3%)
Fragrances	88,097	6.1%	87,663	6.1%	0.5%	0.3%
Licenses and services	9,960	0.7%	11,540	0.8%	(13.7%)	(13.7%)
Rental income investment properties	12,954	0.9%	12,876	0.9%	0.6%	0.4%
Total	1,437,923	100.0%	1,430,039	100.0%	0.6%	(2.5%)

Footwear rose +1.7% at current exchange rates and was once again the largest product category as a proportion of revenues, accounting for 42.5% of the total. Apparel, fragrances and leather goods essentially held steady.

Cost of goods sold and gross profit

(In thousands of Euro)	2016	% of Revenues	2015	% of Revenues	% change
Consumables	(247,530)	(17.2%)	(254,034)	(17.8%)	(2.6%)
Services	(216,831)	(15.1%)	(219,578)	(15.4%)	(1.3%)
Personnel	(7,680)	(0.5%)	(7,692)	(0.5%)	(0.2%)
Amortization and depreciation	(767)	(0.1%)	(657)	(0.0%)	16.7%
Cost of goods sold	(472,808)	(32.9%)	(481,961)	(33.7%)	(1.9%)
Gross profit	965,115	67.1%	948,078	66.3%	1.8%

In 2016 the **cost of goods sold** amounted to 472,808 thousand Euro, down by 1.9% compared to 2015. **Gross profit** as a percentage of sales stood at 67.1% compared to 66.3% in 2015.

Style, product development and logistics costs

(In thousands of Euro)	2016	% of Revenues	2015	% of Revenues	% change
Purchases	(4,299)	(0.3%)	(4,656)	(0.3%)	(7.7%)
Services	(19,115)	(1.3%)	(18,842)	(1.3%)	1.4%
Personnel	(20,187)	(1.4%)	(19,792)	(1.4%)	2.0%
Amortization and depreciation	(566)	(0.0%)	(549)	(0.0%)	3.1%
Total	(44,167)	(3.1%)	(43,839)	(3.1%)	0.7%

These costs, which include the expenses of the creative departments and for the freight to deliver the products to their sales markets, were broadly unchanged compared to 2015 (+0.7%).

Sales & distribution costs

(In thousands of Euro)	2016	% of Revenues	2015	% of Revenues	% change
Retail	(411,718)	(28.6%)	(395,171)	(27.6%)	4.2%
Wholesale	(47,498)	(3.3%)	(50,675)	(3.5%)	(6.3%)
Distribution logistics	(9,975)	(0.7%)	(9,606)	(0.7%)	3.8%
Total	(469,191)	(32.6%)	(455,452)	(31.8%)	3.0%

The costs relating to the network of directly operated stores (DOS) increased from 395,171 thousand Euro to 411,718 thousand Euro, up by 4.2%. The impact of these costs on total sales & distribution costs increased from 86.8% to 87.8% in 2016. Meanwhile, wholesale distribution costs declined 6.3% compared to 2015, essentially in line with the reduction in the sales of this channel.

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

(In thousands of Euro)	2016	% of Revenues	2015	% of revenues	% change
Purchases	(6,031)	(0.4%)	(6,274)	(0.4%)	(3.9%)
Services	(278,303)	(19.4%)	(273,713)	(19.1%)	1.7%
Personnel	(139,628)	(9.7%)	(132,902)	(9.3%)	5.1%
Amortization and depreciation	(44,532)	(3.1%)	(42,453)	(3.0%)	4.9%
Write-downs of tangible/intangible assets	(697)	(0.0%)	(110)	(0.0%)	n.a.
Total	(469,191)	(32.6%)	(455,452)	(31.8%)	3.0%

Marketing & communication costs

(In thousands of Euro)	2016	% of Revenues	2015	% of Revenues	% change
Purchases	(2,801)	(0.2%)	(3,301)	(0.2%)	(15.1%)
Services	(57,629)	(4.0%)	(58,869)	(4.1%)	(2.1%)
Personnel	(10,613)	(0.7%)	(10,183)	(0.7%)	4.2%
Amortization and depreciation	(174)	(0.0%)	(118)	(0.0%)	47.5%
Total	(71,217)	(5.0%)	(72,471)	(5.1%)	(1.7%)

Total marketing & communication costs were down 1.7% year-on-year, from 72,471 thousand Euro to 71,217 thousand Euro, and were virtually unchanged as a proportion of revenues (5.0%). The marketing and communication highlights for 2016 include the event held in Tokyo in November to celebrate the reopening of the flagship store in the Ginza district following its overhaul.

General and administrative costs

(In thousands of Euro)	2016	% of Revenues	2015	% of revenues	% change
Purchases	(2,218)	(0.2%)	(2,634)	(0.2%)	(15.8%)
Services	(58,276)	(4.1%)	(52,310)	(3.7%)	11.4%
Personnel	(36,804)	(2.6%)	(38,362)	(2.7%)	(4.1%)
Amortization and depreciation	(16,365)	(1.1%)	(15,853)	(1.1%)	3.2%
Total	(113,663)	(7.9%)	(109,159)	(7.6%)	4.1%

General and administrative costs rose by 4.1% and their ratio to revenues slightly increased from 7.6% in 2015 to 7.9% in 2016. In absolute terms, the largest increase was in costs for services, which include the fees paid to the Board of Directors as well as other amounts accrued by the Managing Director and Chairman. In 2016, this line item also included the costs associated with the change of the Managing Director and other organizational changes.

Other operating costs

(In thousands of Euro)	2016	% of Revenues	2015	% of revenues	% change
Losses on disposal of tangible and intangible assets	(664)	(0.0%)	(1,221)	(0.1%)	(45.6%)
Windfall losses	(234)	(0.0%)	(775)	(0.1%)	(69.8%)
Provisions for risks and charges	(1,380)	(0.1%)	(568)	(0.0%)	143.0%
Write-down of current assets	(2,494)	(0.2%)	(325)	(0.0%)	667.4%
Other operating costs	(15,326)	(1.1%)	(14,612)	(1.0%)	4.9%
Total	(20,098)	(1.4%)	(17,501)	(1.2%)	14.8%

Other operating costs increased by 14.8% (2,597 thousand Euro), with the ratio to revenues amounting to 1.4%, slightly up compared to the previous year. 2016 saw an increase in write-downs of current assets. They amounted to 2,169 thousand Euro and referred to the recognition of losses on receivables due from wholesale customers as well as the provision for losses on trade receivables as at 31 December 2016, which was up from the previous year. Provisions for risks and charges rose by 812 thousand Euro year-on-year, mainly because of labor disputes referring to both 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)	2016	% of revenues	2015	% of revenues	% change
Other income and revenues	12,394	0.9%	13,418	0.9%	(7.6%)
Gains on disposal of tangible/intangible assets	45	0.0%	21	0.0%	114.3%
Windfall profit	1,510	0.1%	1,505	0.1%	0.3%
Total	13,949	1.0%	14,944	1.0%	(6.7%)

Other income and revenues fell by 6.7% or 995 thousand Euro compared to 2015 with the ratio to total revenues unchanged at 1.0%. The change registered in 2016 was largely the result of two factors: the decline in insurance refunds recognized under “Other income and revenues” (in 2015, the Group had been reimbursed for the damage caused by the fire at the Leonardo da Vinci international airport in Rome-Fiumicino, where two stores of the Italian retail chain were located); and the inclusion in this line item of a 2,387 thousand Euro 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 for the years 2015 and 2016 (787 thousand Euro for 2015 and 1,600 thousand Euro for 2016).

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)	2016	2015	% change
Net interest	(4,273)	(5,014)	(14.8%)
Other net income/(charges)	(2,273)	(2,189)	3.8%
Net gains/(losses) on exchange rate differences	88	6,230	(98.6%)
Net financial income/(charges) for fair value adjustment of derivatives	(8,597)	(12,245)	(29.8%)
Gains/(losses) on disposal of investments	-	1	n.a.
Total	(15,055)	(13,217)	13.9%

Total net financial income and charges were negative to the tune of 15,055 thousand Euro, up 1,838 thousand Euro from 2015, largely because of the lower positive contribution from net gains/(losses) on exchange rate differences and the net impact of net financial income/(charges) for fair value adjustment of derivatives.

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)	2016	2015	% change
Profit before taxes	245,673	251,383	(2.3%)
Income taxes	(47,315)	(76,933)	(38.5%)
Tax rate	19.3%	30.6%	

The tax rate for 2016 was 19.3% compared to 30.6% in the prior period. The decline was attributable to the reduced tax rate of the Parent company Salvatore Ferragamo S.p.A. as a result of the tax benefit concerning the so-called “Patent box”. This is intended to encourage the direct and indirect use of intellectual property, patents, brands, model designs and other intangible assets (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). The cumulative impact for the years 2015 and 2016 was recognized in 2016 and amounted to 32,040 thousand Euro (deducting 13,551 thousand Euro for 2015 and 18,489 thousand Euro for 2016). The relevant ruling is effective for annual periods

between 2015 and 2019 and was entered into with the Italian Revenue Agency on 29 December 2016. Excluding this benefit, the Group's tax rate would have been 32.3%.

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)	2016	% of revenues	2015	% of revenues	% change
Net profit/(loss) for the period	198,358	13.8%	174,450	12.2%	13.7%
Net profit/(loss) – Group	201,984	14.0%	172,733	12.1%	16.9%
Net profit/(loss) – minority interests	(3,626)	(0.3%)	1,717	0.1%	(311.2%)

Net profit for the period was up 13.7%, i.e. 23,908 thousand Euro, and the Group reported 201,948 thousand Euro in profit – a 16.9% increase.

Statement of financial position and Investments

Here below is the statement of financial position as at 31 December 2016 reclassified by sources and uses, compared to the position as at 31 December 2015:

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Property, plant and equipment, investment property, intangible assets with a finite useful life	288,618	277,518	4.0%
Net working capital	374,132	316,896	18.1%
Other non current assets/(liabilities), net	41,042	52,885	(22.4%)
Other current assets/(liabilities), net	26,820	(28,798)	(193.1%)
Net invested capital	730,612	618,501	18.1%
Group shareholders' equity	693,138	563,926	22.9%
Minority interests	29,476	44,815	(34.2%)
Shareholders' equity (A)	722,614	608,741	18.7%
Net financial debt (B)	7,998	9,760	(18.1%)
Total sources of financing (A+B)	730,612	618,501	18.1%
Net financial debt/shareholders' equity	1.1%	1.6%	

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

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Property, plant and equipment	243,692	236,452	3.1%
Investment property	7,350	7,470	(1.6%)
Intangible assets with a finite useful life	37,576	33,596	11.8%
Total	288,618	277,518	4.0%

The item "Property, plant and equipment" as at 31 December 2016 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 66,501 thousand Euro;
- furnishings and renovation work for the chain of directly operated stores as well as the moulds for the fragrances product category, for 143,233 thousand Euro;
- other assets, mainly for IT equipment, plant and equipment and tangible assets in progress for 33,958 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 value of 6,486 thousand Euro as at 31 December 2016). The remainder refers to registration expenses for trademarks and industrial

patents and intellectual property rights (software licenses) and intangible assets with a finite useful life in progress.

Investments in fixed assets

During 2016, the Group made investments in tangible and intangible assets for a total amount of 74,357 thousand Euro, of which 60,936 thousand Euro in tangible assets and 13,421 thousand Euro in intangible assets, compared to a total of 79,955 thousand Euro in the previous year.

The most significant investments in tangible assets made during the year included 42.2 million Euro for the opening and renovation of stores (accounting for 69% of total investments in tangible assets), of which 5.8 million Euro referred to the costs for the restoration of premises leased to third parties (0.7 million Euro in 2015). These were recognized as an increase in tangible assets in accordance with the contractual obligations in the lease agreements. Investments also included the construction work in progress on the new logistics center as part of the project to expand and renovate the whole industrial complex in 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 and developing the e-commerce platform (for a total amount of 9.6 million Euro).

During 2016, the Group did not make any investments in financial assets.

Amortization and depreciation amounted to 62,404 thousand Euro as at 31 December 2016 compared to 59,630 thousand Euro as at 31 December 2015, up by 4.7% thanks to the significant investments made in recent years.

Investments in tangible assets under construction 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 9.3 million Euro as at 31 December 2016), and, to a minor extent, the refurbishment and opening of new stores which were not yet operational as at the reporting date. The Group's largest investment in intangible assets under construction was represented by the "Old Replacement" project of the Parent company Salvatore Ferragamo S.p.A.: the aim is introducing a new SAP-based distribution system integrated with the logistic shipping and billing system.

Net working capital

Here below is the breakdown and change in net working capital as at 31 December 2016 compared with the figure as at 31 December 2015.

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Inventories	374,710	351,132	6.7%
Trade receivables	179,678	167,912	7.0%
Trade payables	(180,256)	(202,148)	(10.8%)
Total	374,132	316,896	18.1%

The increase in net working capital (+18.1%) is mainly due to the increase of 6.7% in inventories (finished products +9.5%, raw materials -9.9%) and to the increase in trade receivables (+7.0%), which largely refer to wholesale sales.

"Trade payables" mainly refer to purchases of production materials (raw materials and accessories), finished products and costs relating to manufacturing in outsourcing.

Other non current assets/(liabilities), net

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Available-for-sale financial assets	20	20	-
Other non current assets	7,395	7,453	(0.8%)
Other non current financial assets	17,278	16,874	2.4%
Deferred tax assets	110,277	107,538	2.5%
Total other non current assets	134,970	131,885	2.3%
Provisions for risks and charges	(14,328)	(8,025)	78.5%
Employee benefit liabilities	(12,283)	(11,664)	5.3%
Other non current liabilities	(60,756)	(55,387)	9.7%
Deferred tax liabilities	(6,561)	(3,924)	67.2%
Total other non current liabilities	(93,928)	(79,000)	18.9%
Other non current assets/(liabilities), net	41,042	52,885	(22.4%)

"Other non current assets" mainly consist of:

- the straight lining of rental income from the American real estate business for 4,636 thousand Euro (5,755 thousand Euro in 2015);
- the portion of receivables due after more than 12 months relating to the advance on fees for Ungaro fragrances amounting to 2,198 thousand Euro paid at the time of the sale of the Ungaro brand and the renewal of the license contract in 2014.

“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 profit unrealized in inventories and those on temporary differences between the profit/(loss) pertaining to the period and the taxable income of the Group companies.

“Other non current liabilities” mainly refer to the straight lining of rental expense amounting to 60,499 thousand Euro (55,091 thousand Euro in 2015).

Other current assets/(liabilities), net

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Tax receivables	31,854	19,123	66.6%
Other current assets	67,898	33,839	100.7%
Total other current assets	99,752	52,962	88.3%
Tax payables	(21,615)	(22,648)	(4.6%)
Other current liabilities	(51,317)	(59,112)	(13.2%)
Total other current liabilities	(72,932)	(81,760)	(10.8%)
Other current assets/(liabilities), net	26,820	(28,798)	(193.1%)

“Other current assets” mainly consist of:

- receivables due from credit card management companies for retail sales (12,214 thousand Euro), accrued income and prepaid expenses (15,184 thousand Euro) and advances to suppliers (1,809 thousand Euro).
- receivables due from the Holding company Ferragamo Finanziaria S.p.A. (32,410 thousand Euro) of which:
 - (i) 30,385 thousand Euro due to Salvatore Ferragamo S.p.A. resulting from the domestic fiscal unity for the current period. This amount referred to excess payments on account made during the year for the liability accrued in the period and the settlement of the 2015 corporate income tax liability as a result of the tax benefits of the Parent company (so-called “Patent box”);
 - (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 (Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A.) 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 2,575 thousand Euro (3,418 thousand Euro in 2015) 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 12,766 thousand Euro (7,613 thousand Euro in 2015) 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;
- payables due from Ferragamo Parfums S.p.A. to the Holding company Ferragamo Finanziaria S.p.A. amounting to 1,490 thousand Euro as at 31 December 2016 (16,772 thousand Euro in 2015) as part of the domestic fiscal unity relating to the current period. The change from the previous year was largely associated with the decline in the tax payables of Salvatore Ferragamo S.p.A., which in 2016 qualified for a tax credit recognized under “Other current assets” (reference should be made to the relevant comment).

Shareholders' equity

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Group shareholders' equity	693,138	563,926	22.9%
Minority interests	29,476	44,815	(34.2%)
Total	722,614	608,741	18.7%

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

- the increase of 201,984 thousand Euro in the profit for the period;
- the increase of 10,063 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 decrease of 374 thousand Euro arising from changes in the fair value of the put options assigned to pre-existing minority shareholders;
- the decrease of 2,725 thousand Euro resulting from the acquisition of the minority interests in the companies located in South-East Asia and South Korea;
- the decrease of 2,398 thousand Euro resulting from the valuation of hedging derivatives net of the relevant tax effect;
- the increase in the Stock Grant Reserve for 441 thousand Euro;
- in addition to minor negative effects for 136 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 2016 and 31 December 2015 was as follows:

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Cash and cash equivalents (A)	117,249	142,121	(17.5%)
Other current financial assets (B)	264	291	(9.3%)
Interest-bearing loans and borrowings (C)	121,251	146,953	(17.5%)
Other financial liabilities (D)	4,260	5,219	(18.4%)
Net financial debt (C + D – A – B)	7,998	9,760	(18.1%)

Net financial debt for 2016 amounted to 7,998 thousand Euro (1.1% of consolidated shareholders' equity), down by 1,762 thousand Euro compared to the previous year, mainly due to cash flows from operating activities (160,970 thousand Euro) net of total dividends paid in 2016 (78,889 thousand Euro), investments made in tangible/intangible assets in 2016 (68,539 thousand Euro) and the amount of 15,537 thousand Euro paid for the purchase of the remaining minority interests (20%) in companies based in South-East Asia and South Korea (Ferragamo Korea Ltd., Ferragamo (Singapore) Pte Ltd, Ferragamo (Thailand) Limited and Ferragamo (Malaysia) Sdn. Bhd.).

Income and financial indicators

The tables below set out the trend in the main income and financial indicators for the years ended 31 December 2016 and 2015.

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	2016	2015
ROE	32.1%	33.5%
(Group net profit for the period / average Group shareholders' equity)		
ROI	38.7%	45.0%
(Operating profit / Net average invested capital)		
ROS	18.1%	18.5%
(Operating profit / revenues)		
Financial ratios	2016	2015
Coverage of shareholders' equity ratio	170.6%	148.7%
(Shareholders' equity / non current assets)		
Liquidity ratio	104.9%	88.0%
(Current assets excluding inventories / current liabilities)		

Turnover ratios expressed in days	2016	2015
Turnover of trade receivables (Average value of Trade receivables in the period / Revenues x days)	44	41
Turnover of Trade payables (Average value of Trade payables in the period / Purchases of goods and services x days)	78	80
Inventory turnover (Average value of Inventories in the period / Cost of goods sold x days)	280	261
Turnover of Average invested capital (Average value of Net invested capital / Revenues x days)	171	150

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 2016 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)	2016	% of revenues	2015	% of revenues	% change
Revenues from sales (wholesale, retail, e-commerce)	801,950	97.4%	801,726	97.2%	0.0%
Revenues from royalties	8,539	1.0%	8,969	1.1%	(4.8%)
Other income and services	13,137	1.6%	14,101	1.7%	(6.8%)
Revenues from sales and services	823,626	100.0%	824,796	100.0%	(0.1%)
Change in inventories of finished products	6,339	0.8%	(2,839)	(0.3%)	(323.3%)
Costs for raw materials, goods and consumables	(221,798)	(26.9%)	(229,492)	(27.8%)	(3.4%)
Costs for services	(306,686)	(37.2%)	(303,275)	(36.8%)	1.1%
Personnel costs	(63,246)	(7.7%)	(62,258)	(7.5%)	1.6%
Amortization, depreciation and write-downs	(15,455)	(1.9%)	(15,140)	(1.8%)	2.1%
Other operating costs	(8,514)	(1.0%)	(3,538)	(0.4%)	140.6%
Other income and revenues	9,333	1.1%	9,214	1.1%	1.3%
Total costs (net of other income)	(600,027)	(72.9%)	(607,328)	(73.6%)	(1.2%)
Operating profit	223,599	27.1%	217,468	26.4%	2.8%
Financial income (charges)	1,339	0.2%	50,333	6.1%	(97.3%)
Profit before taxes	224,938	27.3%	267,801	32.5%	(16.0%)
Income taxes	(33,872)	(4.1%)	(65,692)	(8.0%)	(48.4%)
<i>Tax rate</i>	15.1%		24.5%		
Net profit/(loss) for the period	191,066	23.2%	202,109	24.5%	(5.5%)
EBITDA	239,054	29.0%	232,608	28.2%	2.8%

In 2016, **Revenues from sales and services** (823,626 thousand Euro) were essentially in line with the previous year in spite of the macroeconomic context and socio-political turmoil, which were only partially offset by favorable currency movements (chief among them the depreciation in the Euro/USD towards the end of the year).

Operating profit increased from 217,468 thousand Euro to 223,599 thousand Euro (+2.8%), thanks to the increase in the contribution margin and the decrease (-1.2%) in total costs (net of other income), with the ratio to revenues decreasing from 73.6% to 72.9%. Operating profit rose also because in 2016 "Other income and revenues" included a 2,387 thousand Euro Research and Development Tax Credit for the years 2015 and 2016 (787 thousand Euro for 2015 and 1,600 thousand Euro for 2016).

EBITDA as a percentage of revenues rose from 28.2% in 2015 to 29.0% in 2016 (+2.8%). These results are even more outstanding if we recall that in 2015 they were already strongly up on the previous year (net revenues +9.2%, operating profit +40.0% and EBITDA +38.1%).

Total net **Financial income (charges)** declined from 50,333 thousand Euro to 1,339 thousand Euro, largely because of the significant reduction in dividends from investments: these were down from 59,099 thousand Euro in 2015 to 5,652 thousand Euro in 2016.

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)	2016	2015	% change
Dividends from investments	5,652	59,099	(90.4%)
Net financial income/(charges) for fair value adjustment of derivatives	(10,381)	(11,345)	(8.5%)
Restatement value/(write-downs) of investments	3,266	(4,380)	(174.6%)
Net gains/(losses) on exchange rate differences	3,447	7,864	(56.2%)
Other net income/(charges)	(931)	(1,019)	(8.6%)
Net interest	286	114	150.9%
Total	1,339	50,333	(97.3%)

Net profit for the period totaled 191,066 thousand Euro compared to 202,109 thousand Euro in 2015 and was affected by two main factors:

- it was positively affected by the significant reduction in direct tax expense (IRES and IRAP) due to the tax benefit associated with the so-called "Patent Box". The cumulative impact for the years 2015 and 2016 was recognized in 2016 and amounted to a 32,040 thousand Euro reduction in direct tax expense (deducting 13,551 thousand Euro for 2015 and 18,489 thousand Euro for 2016);
- it was negatively affected by the significant decrease in dividends from investments, down from 59,099 thousand Euro in 2015 to 5,652 thousand Euro in 2016.

The tax rate for 2016 was 15.1% compared to 24.5% in the prior period. The steady decline in the tax rate was largely the result of the benefit associated with the "Patent Box". The relevant ruling was entered into on 29 December 2016 and remains in effect until 2019. For details reference should be made to the information provided in the Directors' report on operations in 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)	2016	% of Revenues	2015	% of Revenues	% change
Wholesale	729,381	88.6%	723,530	87.7%	0.8%
Retail+E-commerce	72,569	8.8%	78,196	9.5%	(7.2%)
Revenues from sales	801,950	97.4%	801,726	97.2%	0.0%
Revenues from royalties	8,539	1.0%	8,969	1.1%	(4.8%)
Other income and services	13,137	1.6%	14,101	1.7%	(6.8%)
Revenues from sales and services	823,626	100.0%	824,796	100.0%	(0.1%)

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)	2016	% of revenues from sales	2015	% of revenues from sales	% change
Italy	146,947	18.3%	151,891	18.9%	(3.3%)
Europe (excluding Italy)	128,592	16.0%	136,909	17.1%	(6.1%)
North America	184,599	23.0%	172,554	21.5%	7.0%
Asia Pacific	242,289	30.2%	245,534	30.6%	(1.3%)
Japan	56,241	7.0%	56,807	7.1%	(1.0%)
Central and South America	43,282	5.4%	38,031	4.7%	13.8%
Revenues from sales	801,950	100.0%	801,726	100.0%	0.0%

In the European and Italian markets, which are severely affected by persistently weak economic growth as well as geopolitical events, revenues fell by 3.3% and 6.1% respectively, with the ratio to total revenues decreasing from 36.0% in 2015 to 34.3% in 2016.

The North American market saw an increase in revenues of 7.0% after the significant improvement recorded in 2015 (+4.9% compared to 2014), bringing the ratio to total revenues from 21.5% to 23.0%.

Asia Pacific saw a slight decrease in revenues of 1.3%; although it has been negatively affected by the persistent slowdown on the Hong Kong market, it contributed once again the most to the Company's revenues with 30.2%.

Japan saw a slight decrease in revenues of 1.0%, bringing the ratio to total revenues from 7.1% to 7.0%, i.e. it remained broadly unchanged.

In 2016 the Central and South American market saw a sharp increase in revenues (+13.8%), mainly thanks to the good performance of the Mexican market.

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

(In thousands of Euro)	2016	% of revenues from sales	2015	% of revenues from sales	% change
Footwear	359,945	44.9%	354,095	44.2%	1.7%
Leather goods	328,525	41.0%	327,475	40.8%	0.3%
Apparel	61,714	7.7%	65,592	8.2%	(5.9%)
Accessories and other products	51,766	6.5%	54,564	6.8%	(5.1%)
Revenues from sales	801,950	100.0%	801,726	100.0%	0.0%

Footwear rose +1.7% and was once again the largest product category as a proportion of revenues, accounting for 44.9% of the total. Leather goods were essentially stable, and apparel was down 5.9%.

Statement of financial position and Investments

Here below is the statement of financial position as at 31 December 2016 reclassified by sources and uses, compared to the position as at 31 December 2015.

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Property, plant and equipment and intangible assets with a finite useful life	97,947	85,851	14.1%
Net working capital	153,947	142,460	8.1%
Other non current assets/(liabilities), net	188,597	169,240	11.4%
Other current assets/(liabilities), net	27,586	(18,843)	(246.4%)
Net invested capital	468,077	378,708	23.6%
Shareholders' equity (A)	563,162	451,866	24.6%
Net financial debt (B)	(95,085)	(73,158)	30.0%
Total sources of financing (A+B)	468,077	378,708	23.6%

Investments in fixed assets

During 2016, the Company made investments in tangible and intangible assets for a total amount of 25,498 thousand Euro, of which 13,384 thousand Euro in tangible assets and 12,114 thousand Euro in intangible assets, compared to a total of 25,161 thousand Euro in the previous year.

The most substantial investments in tangible assets refer to construction work in progress on the new logistics center (9,327 thousand Euro) which is part of the broader project to expand and renovate the whole industrial complex in 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 and to the so-called "Old Replacement" project aimed at introducing a new SAP-based distribution system integrated with the logistic shipping and billing system.

Amortization and depreciation totaled 15,427 thousand Euro at 31 December 2016 and 15,140 thousand Euro at 31 December 2015.

During 2016, 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 2016 compared with the figure as at 31 December 2015.

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Inventories	97,520	95,404	2.2%
Trade receivables	183,341	178,603	2.7%
Trade payables	(126,914)	(131,547)	(3.5%)
Total	153,947	142,460	8.1%

The increase in net working capital was 8.1%. Inventories increased overall by 2,116 thousand Euro (2.2%) and concerned the stocks of raw materials used for production which decreased by 4,223 thousand Euro and the stocks of finished products which rose by 6,339 thousand Euro.

In 2016 trade receivables totaled 183,341 thousand Euro (up by 2.7%) and concerned receivables from subsidiaries (133,206 thousand Euro, +3.3% compared to 2015) and receivables from third parties (50,135 thousand Euro, +0.9% compared to 2015).

Trade payables mainly refer to the purchase of production materials, to manufacturing in outsourcing and to the purchase of finished goods.

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 2016 and 31 December 2015 was as follows:

(In thousands of Euro)	31 December 2016	31 December 2015	% change
Cash and cash equivalents (A)	59,478	61,532	(3.3%)
Other current financial assets (B)	36,925	12,678	191.3%
Other current financial liabilities (C)	1,318	1,052	25.3%
Net financial debt (C – A – B)	(95,085)	(73,158)	30.0%

2016 ended with a net financial position of 95,085 thousand Euro, improving compared to 31 December 2015 (73,158 thousand Euro), with cash flows from operating activities amounting to 144,479 thousand Euro. The significant improvement of 21,927 thousand Euro was achieved despite:

- the distribution of dividends of 77,643 thousand Euro;
- the increase in net working capital of 11,487 thousand Euro;
- investments made in tangible/intangible assets in 2016 totaling 25,498 thousand Euro;
- investments in subsidiaries of 19,126 thousand Euro.

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 2016 and 2015.

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	2016	2015
ROE (Net profit for the period / Average shareholders' equity)	37.6%	53.0%
ROI (Operating profit / Net average invested capital)	52.8%	61.1%
ROS (Operating profit / Revenues from sales and services)	27.1%	26.4%
Financial ratios	2016	2015
Coverage of shareholders' equity ratio (Shareholders' equity / non current assets)	178.6%	160.9%
Liquidity ratio (Current assets excluding inventories / current liabilities)	212.9%	158.3%
Turnover ratios expressed in days	2016	2015
Turnover of trade receivables (Average value of Trade receivables in the period / Revenues from sales and services x days)	80	74
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)	89	88
Inventory turnover (Average value of Inventories in the period / cost of goods sold x days)	85	81
Turnover of Average invested capital (Average value of Net invested capital / Revenues from sales and services x days)	188	157

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 2016	
	Shareholders' equity	Net profit/(loss) for the period
Salvatore Ferragamo S.p.A. data	563,162	191,066
Elimination of consolidated investments	321,806	8,057
Dividends distributed among Group companies		(5,652)
Elimination of write-downs / (restatement value) on consolidated investments		(3,310)
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(172,236)	3,729
Effect of IAS 39 – cash flow hedge reserve, net of the deferred tax effect	-	29
Other consolidation adjustments	9,882	4,439
Total shareholders' equity and net profit/(loss)	722,614	198,358
Minority interests – shareholders' equity and net profit/(loss)	29,476	(3,626)
Group – shareholders' equity and net profit/(loss)	693,138	201,984

7. Results of Group companies

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

Company	Currency	2016			2015		
		Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	38,276	3,609	20,401	33,674	3,995	16,792
Ferragamo Japan K.K.	JPY	13,543,572	(963,771)	2,166,427	14,889,316	325,821	3,132,082
Ferragamo Korea Ltd.	KRW	150,001,423	5,087,733	71,494,503	145,088,627	5,522,273	74,406,770
Ferragamo Espana S.L.	EURO	10,419	(80)	3,199	11,531	505	3,279
Ferragamo Latin America Inc.*	USD	-	(6)	-	-	(30)	56
Ferragamo St. Thomas Inc.*	USD	-	-	-	-	-	-
Ferrimag Limited	HKD	-	(1,299)	122,543	-	(86)	123,842
Ferragamo Retail HK Limited	HKD	489,275	(41,944)	235,199	598,155	17,397	277,143
Ferragamo Retail Taiwan Limited	TWD	805,948	(4,105)	316,705	813,178	4,533	322,691
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,043,591	93,260	376,301	823,642	57,689	282,523
Ferragamo Retail Nederland B.V.	EURO	5,650	270	2,598	6,298	626	2,328
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	972,176	16,786	374,910	966,839	29,037	358,124
Ferragamo (Singapore) Pte. Ltd.	SGD	41,707	(4,905)	2,742	45,830	(2,632)	7,648
Ferragamo (Thailand) Limited	THB	215,207	(18,783)	62,169	189,545	(15,670)	80,930
Ferragamo (Malaysia) Sdn Bhd	MYR	46,291	(1,666)	22,518	42,573	754	24,184
Ferragamo Hong Kong Ltd.	USD	272,329	27,413	217,521	312,930	32,546	190,063
Ferragamo USA Group	USD	370,989	(8,173)	93,273	372,789	9,826	101,654
Ferragamo Deutschland GmbH	EURO	12,431	(692)	11,263	13,360	988	11,955
Ferragamo Belgique SA	EURO	1,845	(54)	1,270	2,315	133	1,323
Ferragamo Monte-Carlo S.A.M.	EURO	1,096	(116)	998	1,103	(80)	1,114
Ferragamo (Suisse) SA	CHF	8,975	(103)	4,363	10,353	739	5,066
Ferragamo U.K. Limited	GBP	17,146	(1)	8,538	14,936	(304)	7,040
Ferragamo France S.A.S.	EURO	23,369	(542)	9,773	28,934	(308)	10,335
Ferragamo Parfums S.p.A.	EURO	86,061	3,304	19,831	85,931	2,136	16,587
Ferragamo Chile S.A.	CLP	902,809	17,792	108,412	1,100,266	(109,015)	90,620
Ferragamo Austria GmbH	EURO	4,075	113	3,713	4,382	404	3,600
Ferragamo Retail India Private Limited	INR	437,330	(130,974)	(553,725)	443,016	(89,479)	(422,400)
Ferragamo Retail Macau Limited	MOP	150,126	(502)	91,961	147,587	20,127	92,463
Ferragamo Moda (Shanghai) Co. Ltd	CNY	252,775	(16,773)	(50,129)	241,666	(44,978)	(33,355)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	19,395	(8,990)	18,776	19,097	(9,489)	20,766
Ferragamo Argentina S.A.	ARS	23,782	(2,065)	(5,222)	14,527	(4,815)	(5,157)
Ferragamo Denmark ApS	DKK	5,382	(3,297)	719	4,766	(1,985)	4,015
Ma.Ga. Immobiliare S.r.l. (single-member company)**	EURO	-	-	-	-	(12)	766

*Company liquidated and dissolved in 2016

** Company merged into Salvatore Ferragamo S.p.A. during 2016

8. Significant events occurred during the year

Investments

The liquidation of the companies Ferragamo Latin America Inc. (100%-owned by Salvatore Ferragamo S.p.A.) and its subsidiary Ferragamo St Thomas Inc. was completed in April 2016: as a result, they have been excluded from the consolidation area.

On 20 December 2016, Salvatore Ferragamo S.p.A. finalized the acquisition of the remaining minority interests (20%) in the companies located in South East Asia and South Korea, Ferragamo Korea Ltd., Ferragamo (Singapore) Pte Ltd, Ferragamo (Thailand) Limited, and Ferragamo (Malaysia) Sdn. Bhd., for 16.1 million dollars (corresponding to 15,537 thousand Euro) based on the estimated "net depreciated asset value" of the companies as defined in the purchase agreement. As a result, Salvatore Ferragamo S.p.A. raised its interest in these companies from 80% to 100%. The total amount paid will be adjusted in accordance with the actual "net depreciated asset value", to be calculated based on the local statutory financial statements at 31 December 2016 of the individual companies.

In addition, on 19 December 2016 the 49% minority interest in the Indian subsidiary Ferragamo Retail India Private Limited was transferred between third parties resident in India. The Group terminated the agreements concerning minority interests with the previous shareholder and entered into new agreements with the new investor in the Indian company, establishing terms similar to the previous ones and economic conditions in line with the current market scenario.

Shareholders' Meeting

- Approval of the 2015 Separate Financial Statements

On 21 April 2016, the Shareholders' Meeting of the Parent company Salvatore Ferragamo S.p.A. approved the financial statements for the year ended 31 December 2015 and the distribution of a dividend of 0.46 Euro per share, as detailed in the specific section "Dividends" in the Explanatory notes.

- Approval of the 2016-2020 Stock Grant Plan and Authorization to purchase and dispose of Treasury Shares

On 21 April 2016, in order to adopt a medium- and long-term incentive scheme for the Ferragamo Group's top management, the Shareholders' Meeting approved the 2016-2020 Stock Grant Plan, consisting in two three-year cycles – 1st Cycle: performance period 2016/2018; 2nd Cycle: performance period 2017/2019 – and concerning the granting of options to subscribe for up to 600,000 ordinary shares contingent upon meeting specific performance goals for each cycle, vesting the Board of Directors with all the powers required to implement the Plan. For more details, please refer to the Explanatory Notes to the Consolidated Financial Statements (note 36) and the Separate Financial Statements (note 39).

The shares for servicing the Plan may consist of shares issued as part of a free share capital increase pursuant to article 2349, paragraph 1 of the Italian Civil Code, and/or the assignment of any treasury shares held by the Company.

In addition, for the purposes of implementing said Plan, the Shareholders' Meeting resolved to:

- create a specific 60,000 Euro reserve to service the free share capital increase;
- authorize the Board of Directors to purchase, including in multiple rounds, ordinary shares in Salvatore Ferragamo S.p.A. with a par value of 0.10 Euro each, up to 1% of the Parent Company's Share Capital (i.e. 1,687,900 ordinary shares), considering also the treasury shares held from time to time by the Parent Company and its subsidiaries. Furthermore, the Meeting authorized the Board of Directors to dispose of treasury shares.

The Extraordinary Shareholders' Meeting approved the free share capital increase pursuant to article 2349 of the Italian Civil Code up to a nominal amount of 60,000 Euro, corresponding to 600,000 ordinary shares in the Company, to service the 2016-2020 Stock Grant Plan, amending the Company's Bylaws accordingly.

For further details on the resolutions approved by the Shareholders' Meeting of 21 April 2016, reference should be made to the documents published on the Company's website www.ferragamo.com under Investor Relations, Governance, Shareholders' Meeting.

Salvatore Ferragamo S.p.A. Leadership Succession Plan

Following Mr. Michele Norsa's resignation as Director and Managing Director of Salvatore Ferragamo S.p.A., and in accordance with the leadership succession plan approved by the Board of Directors on 12 May 2016, during the Board meeting of 2 August 2016, Mr. Michele Norsa formally tendered his resignation and Mr. Eraldo Poletto was co-opted as Managing Director of Salvatore Ferragamo S.p.A.. At the meeting of 2 August 2016, without prejudice to the compensation already approved pro rata temporis, and with the favorable opinion of the Nomination and Remuneration Committee, the Board of Directors awarded Mr. Michele Norsa 1,815

thousand Euro, including his variable pay – the amount was paid in August 2016 – and confirmed his non-monetary benefits until 31 December 2016.

Board of Directors

- Treasury share repurchase

At the meeting held on 12 May 2016, the Board of Directors approved the launch of an ordinary treasury share repurchase program as authorized by the Shareholders' Meeting of 21 April 2016, in accordance with and pursuant to articles 2357 ff. of the Italian Civil Code as well as article 132 of Legislative Decree no. 58 of 24 February 1998 (TUF) and article 144-bis of the Consob Regulation adopted with resolution no. 11971/1999 as amended (the Issuers' Regulation). The Company shall repurchase treasury shares by 21 October 2017.

- 2016-2020 Stock Grant Plan

At the meetings of 30 June 2016 and 2 August 2016, the Board of Directors, as part of the 1st cycle of the 2016-2020 Stock Grant Plan approved by the Shareholders' Meeting of 21 April 2016, approved the granting of no. 230,000 options to subscribe for shares in Salvatore Ferragamo S.p.A., identifying 18 beneficiaries of Salvatore Ferragamo S.p.A. – including the Managing Director Eraldo Poletto – and some of its subsidiaries. The Plan is detailed in the Explanatory Notes to the Consolidated Financial Statements (note 36) and the Separate Financial Statements (note 39).

- Merger of Ma.Ga. Immobiliare S.r.l. (single-member company)

On 22 November 2016, the merger of the single-member company Ma.Ga. Immobiliare S.r.l. into Salvatore Ferragamo S.p.A. was finalized by filing with the Florence Company Register the deed of merger of 15 November 2016 drawn up by Notary F. Steidl. The merger had begun with the approval of its draft terms at the meeting of Salvatore Ferragamo S.p.A.'s Board of Directors on 30 June 2016, and continued with the approval of the merger by Salvatore Ferragamo S.p.A.'s Board of Directors at the extraordinary meeting of 2 August 2016 and the Shareholders' Meeting of the single-member company Ma.Ga. Immobiliare S.r.l. on 2 August 2016. The single-member company Ma.Ga. Immobiliare S.r.l. owned land located in an area where Salvatore Ferragamo S.p.A. launched a project to expand the site in Osmannoro by building a new logistics center, as previously indicated in the 2015 Annual Report. The merger is based on economic and strategic considerations, and specifically addresses the need to integrate the companies for the purposes of the construction work on the project. The merging company did not carry out any rights issue as part of the transaction. The only ownership interest in the single-member company Ma.Ga. Immobiliare S.r.l. was canceled without assigning or swapping shares. In addition, no changes were made to Salvatore Ferragamo S.p.A.'s Bylaws. For the purposes of the merger, the financial position of the two entities as at 31 December 2015 was considered. The merger has been effective for accounting and tax purposes retroactively as from 1 January 2016.

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. The Company filed a request for assessment with acceptance on 19 January 2016. In the proceedings, the Company reaffirmed its position also in relation to manifest and valid reasons to exclude altogether the application of sanctions. The Company has not reached a settlement with Italian tax authorities, which did not receive any indication from the Central Assessment Department of the Italian Inland Revenue Office, even though it was consulted on the matter. Therefore, on 2 May 2016, the Company appealed against the assessment notice within the time allowed by law. The first hearing was held on 12 January 2017. The parties agreed to ask for the meeting to be adjourned with the express intention of continuing the ongoing constructive talks. The new hearing is scheduled for 15 June 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 685 thousand Euro in interest and sanctions). These companies filed requests for assessment with acceptance on 8 February 2017 to continue the discussion with Italian Tax Authorities over this matter that originally started for the year 2010.

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 and 2015 Consolidated Annual Report, it is recalled that the audit ended with the notification of an initial adjustment proposal. This does not include challenges to accounting procedures and ordinary taxation, but it challenges the transfer price policy adopted between the Parent company Salvatore Ferragamo S.p.A. and Ferragamo France S.A.S.. This resulted in the beginning of complex proceedings between the tax authorities and the taxpayer. The first challenge was confirmed by a second adjustment proposal which was notified on 17 September 2012, which, however, was more favorable to the taxpayer. On 11 April 2014 the Board of Directors of Ferragamo France S.A.S. resolved to reach a settlement with French tax authorities, but on 12 December 2014 the French authorities informed Ferragamo France S.A.S. that they did not intend to revise their position and so issued to Ferragamo France S.A.S. two assessment notices to end the administrative proceedings, the first on 25 February 2015 and the second on 3 March 2015, confirming their claims as redetermined during the procedure. 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. Ferragamo France S.A.S. opposed the notice through an administrative appeal which was submitted on 11 March 2015 and it obtained suspension concerning the payment of disputed amounts following the submission of an appropriate guarantee. Having received a further rejection, Ferragamo France S.A.S. appealed to the administrative tax court, filing in October 2015 a "Requête Sommaire", i.e. a preliminary deed for the judicial appeal which was filed by the fixed deadline. Nonetheless, the company firmly believes it is in the right and it still has the possibility of trying to reach a settlement with the French tax authorities at any stage of the proceedings. Therefore, it is not possible to make estimates regarding any tax liabilities arising from the procedure. 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. Once again, French tax authorities did not challenge the accounting procedures and ordinary taxation, nor the transfer pricing policy between the Parent company Salvatore Ferragamo S.p.A. and Ferragamo France S.A.S. The examiners 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. As a matter of fact, the outcome depends entirely on the outcome of the ongoing dispute concerning the 2008-2010 period. However, it should be noted that the position of Ferragamo France S.A.S. has been strengthened by this latest audit, in which the French tax authorities have in no way challenged the transfer pricing policy, which has remained unchanged over the years.

There were no significant developments in the dispute during 2016.

Patent Box and Tax Credit for Research and Development Expenditure

Concerning the electronic form Salvatore Ferragamo S.p.A. submitted in December 2015 for the optional preferential tax regime for income sourced from intangible assets (so-called Patent Box), previously described in the 2015 Annual Report, on 29 December 2016, the Company entered into an advance pricing agreement with the Italian Revenue Agency's 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. The agreement allows 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.

As from the fiscal year 2015, Salvatore Ferragamo S.p.A. benefits from the Research and Development Tax Credit, introduced by Art. 3, Italian Law Decree no. 145/2013, as superseded by art. 1, paragraph 35, Italian Law no. 190/2014 – 2015 Budget Law, for the fiscal years from 2015 to 2019. The tax benefit concerns the research and development expenditure incurred for the development of new products and IT systems.

The two tax benefits (Patent Box and R&D Tax Credit) are compatible and can be combined, as clarified in the Italian Revenue Agency'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 setting of transfer prices for the products sold by Salvatore Ferragamo S.p.A. to its foreign subsidiaries. The goal is reaching an agreement that would last five years between tax authorities and the taxpayer on how to set prices for such transactions. On 5 September 2014, the International Ruling Office accepted the request, formally

starting the international standard ruling procedure, which is currently underway and usually lasts around two years. Between April and June 2016, the Office held multiple meetings with the Company's management (as per the Office's standard practice), including as part of a two-day visit to the Company's place of business. The visit and the subsequent submission of the documents requested, as well as the technical meetings held from September 2016 until February 2017, should mark the end of the preliminary phase of the audit. The next step consists of negotiations towards a settlement. The Company looks forward to finalizing the advance pricing agreement by the first half of 2017.

Other significant events

On 22 March 2016, the Parent Company Salvatore Ferragamo S.p.A. entered into the new agreement for the exercise of the option for the Italian fiscal unity (as provided for by articles 117 ff. of the TUIR-Presidential Decree no. 917 of 22 December 1986) with the Holding company Ferragamo Finanziaria S.p.A. (the consolidating company) and Ferragamo Parfums S.p.A. for the 2016-2018 period, following the expiry of the option exercised for the 2013-2015 period.

9. Information on corporate governance and ownership structure

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

On 14 March 2017 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, who was co-opted to the Company's Board of Directors on 2 August 2016 pursuant to art. 2386 of the Italian Civil Code and will remain in office until the next Shareholders' Meeting. 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.

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 2 August 2016, besides co-opting the Director Eraldo Poletto, the Board of Directors also appointed him as the Company's Managing Director.

It should be noted that at its first meeting, 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.

The Board also adjusted 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.

Lastly, it is noted that on 13 May 2015, the Board of Directors appointed Veronica Tonini as Risk Manager.

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.

In this light, a Code of Ethics has also been adopted (its update has been approved by the Board of Directors on 15 December 2016), including the principles and general rules that characterize the organization and its business and to which the whole Group must conform.

In 2016, the Company also activated a whistleblowing program to enhance the internal control system. This program offers a way to report any misconduct or breaches of the law or procedures by the Group's employees. To monitor and manage the reports, the Company set up an Ethics Committee consisting of the heads of Internal Audit, Human Resources and Legal Affairs.

The following must be considered as specific elements and integral parts of the overall internal control system:

- 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.

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 Legislative Decree 231/01.*

It is responsible for checking the effectiveness, adequacy and compliance of the Organization, Management and Control Model pursuant to Leg. Decree 231/01 and ensuring it is constantly updated. On 17 March 2016, the Board of Directors, deeming it appropriate to streamline the internal control system appointed the Board of Statutory Auditors as Supervisory Body pursuant to Leg. Decree 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 2016 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 2016, 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 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 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 21 April 2016, the Shareholders' Meeting of Salvatore Ferragamo S.p.A. authorized the Board of Directors, 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.

It should be noted that as at 31 December 2016, the Group does not hold directly or indirectly treasury shares or shares in parent companies, and that 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.

11. Human resources management and development

The Salvatore Ferragamo Group places great importance on its human capital as represented by its employees, and thus promotes a workplace enabling people to develop their potential and talent while ensuring equal opportunities and merit. To this end, during 2016 the Parent company Salvatore Ferragamo S.p.A. introduced a new competency and performance assessment system, launching also a talent assessment process to foster professional growth.

Concerning employee training, the Parent company confirmed the induction program for new hires to provide them with adequate information about Ferragamo, introduced free foreign language courses, and expanded the number as well as the topics of training courses. Particular attention continues to be paid to young people and in-house growth because the Salvatore Ferragamo Group believes that it is the best way to share those Ferragamo values which for over eighty years of business have been at the core of its business practices; in particular, honesty, transparency, integrity and respect have always been core values, and have also been included in the Code of Ethics, whose revision and update has been approved in December 2016 by the Board of Directors of the Parent company Salvatore Ferragamo S.p.A.. With a view to planning specific initiatives to improve employees' well-being and their working environment, the Parent company Salvatore Ferragamo S.p.A. continued to adopt various corporate welfare initiatives, such as agreements with local operators (banks, insurance companies and others) and confirmed the flexible benefit plan aimed at blue- and white-collar staff.

Corporate Social Responsibility initiatives share the same objectives, with the direct involvement of employees in charity initiatives which represent the values of solidarity in which the Salvatore Ferragamo Group strongly believes. In 2016 some volunteering days were undertaken organized by Salvatore Ferragamo S.p.A. with the involvement of employees who voluntarily joined this initiative.

Safety at the workplace is considered of utmost importance and the Group has therefore taken all the necessary measures to ensure it. The number of initiatives has been increased to inform and train employees, involving both technical and operational staff and the relevant managers, and particular attention has been paid also to the problems connected with contractors, both in terms of safety in contracted works and interference in operations as works progress. Assessments have been made of all the risks, including work-related stress and specific task-related risks.

Staff

Here below is the Group's staff divided by category as at 31 December 2016 and 31 December 2015.

Staff	31 December 2016	31 December 2015
Top managers, middle managers and store managers	761	719
White collars	3,072	3,052
Blue collars	271	262
Total	4,104	4,033

The Parent company's staff as at 31 December 2016 totaled 908 staff members, up by 12 compared to 31 December 2015.

12. Environmental protection

The Group's business gives rise to limited environmental issues, 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 and campaigns. Over the years the Parent company Salvatore Ferragamo S.p.A. has installed at its Osmannoro-Sesto Fiorentino plant 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 order to protect the environment, the Group has implemented an Environmental Management System, integrated with the Health and Safety Management System, 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.). Reference should be made to the 2016 sustainability report 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 2016 these costs totaled 25,945 thousand Euro (of which 25,518 thousand Euro incurred by the Parent company) compared to 25,146 thousand Euro in 2015 (of which 24,498 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 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 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 2016

No significant events occurred after 31 December 2016.

17. Macroeconomic situation and outlook

2016 will be remembered for, among other things, the outcome the referendum in the UK, the election of Donald Trump as President of the United States, and the vote against the constitutional reform in Italy. In 2017, a series of elections in several European countries and the beginning of the negotiations over Britain's exit from the European Union will weigh on the macroeconomic scenario, which already appears uncertain because of political instability. In addition, there are geopolitical tensions – especially in the Middle East – and the threat posed by terrorism.

The world economy showed signs of recovery in the last quarter of the year, as the data turned generally positive in October and appeared surprisingly strong in November. GDP gradually rose from the lows registered at the

beginning of the year. The current expansion is still characterized by modest growth rates, low inflation in developed countries, slower international trade, and limited propensity to invest. GDP growth is picking up in the United States and remains weak in Europe and Japan. Meanwhile, China's economy, having averted a hard landing, continues to slow down. Growth expectations for emerging countries, although they vary across the different areas, have benefited from the increase in commodity prices.

The central banks in developed countries will maintain extremely accommodating monetary conditions in place for a long time. However, the persistence of uneven cyclical conditions results in a growing misalignment of monetary policies, more expansionary in the Eurozone and in Japan, while in the United States a gradual normalization process is currently underway. In the US, the Federal Reserve raised interest rates in December, and at least two more hikes are expected for this year. Having extended its asset purchase program to the end of 2017, the ECB is probably done with monetary easing, but it maintains a strongly accommodating stance: yields remain negative across all maturities.

The US is expected to continue growing at about 2.5% thanks to the positive contribution from services and construction, rather than manufacturing; the continued decline in unemployment and increasing wages are propping up consumer spending; and investment is rising once again. In the Eurozone, GDP growth is moderate but stable at 1.5% across nearly all Member States. This is supported by favorable financial conditions: the weakness of the single currency boosts exports to the United States and emerging countries. In Italy, GDP should continue growing at approximately 1.0%, with the slowdown in domestic demand offset by foreign demand and private-sector investment. Japan's economy is expected to expand by 1.2% in 2017, driven by additional fiscal stimulus measures. The recent decline in the Yen will boost foreign demand. In China, the economy will likely continue growing at an approximately 6.5% rate, buoyed by real estate and infrastructure spending. The priority for regulators is controlling credit and capital outflows. The Central Bank remains opposed to a steady depreciation in the exchange rate: for now, the trade war with the United States is of words, rather than actions. The largest oil producers appear to be in a better position now that prices have settled at around 50 dollars per barrel. In India, production is in a controlled slowdown. Brazil remains in recession – also because of the political turmoil – and so does Russia, even though there are signs of improvement after a severe crisis. Mexico is watching closely the moves of the FED, tightening monetary policy in an attempt to support its currency and curb inflation. Obviously, the economic policy decisions of the new Trump Administration, which are currently hard to predict, could significantly affect the outlook.

To conclude, the macroeconomic and socio-political scenario remains uncertain and it is difficult to forecast the outlook. The trend in the market for luxury goods, which is also reflected in the performance of the Ferragamo Group, shows that in recent quarters there has been an improvement. Overall, the comments from market participants cautiously point to further gradual progress in 2017.

Concerning specifically the Ferragamo Group, as previously mentioned, this year the new management will focus on developing products and streamlining retail operations. This process was launched in late 2016 and should increasingly strengthen over time, making the product range even more competitive and stores more efficient, thus allowing the Group to achieve positive results in terms of sales and earnings.

***18. Separate Financial Statements as at 31 December 2016 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 2016, we:

- 1) submit the 2016 Separate Financial Statements to your approval;
- 2) propose to allocate the profit for 2016 of 191,066,413 Euro as follows:
 - a) to Shareholders a gross dividend of 0.46 Euro for each of the 168,790,000 ordinary shares for a total of 77,643,400 Euro;
 - b) the remainder amount, equal to 113,423,013 Euro, to the Extraordinary Reserve.

Florence, 14 March 2017

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Salvatore Ferragamo Group

Consolidated Financial Statements as at 31 December 2016

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Financial statements

Consolidated statement of financial position – assets

(In thousands of Euro)	Notes	31 December 2016	<i>of which with related parties</i>	31 December 2015	<i>of which with related parties</i>
NON CURRENT ASSETS					
Property, plant and equipment	5	243,692		236,452	
Investment property	6	7,350		7,470	
Intangible assets with a finite useful life	7	37,576		33,596	
Available-for-sale financial assets	8	20		20	
Other non current assets	9	7,395		7,453	
Other non current financial assets	10	17,278	1,552	16,874	1,600
Deferred tax assets	33	110,277		107,538	
TOTAL NON CURRENT ASSETS		423,588	1,552	409,403	1,600
CURRENT ASSETS					
Inventories	11	374,710		351,132	
Trade receivables	12	179,678	69	167,912	79
Tax receivables	13	31,854		19,123	
Other current assets	14	67,898	32,410	33,839	2,420
Other current financial assets	15	264		291	
Cash and cash equivalents	16	117,249		142,121	
TOTAL CURRENT ASSETS		771,653	32,479	714,418	2,499
TOTAL ASSETS		1,195,241	34,031	1,123,821	4,099

Consolidated statement of financial position – liabilities and shareholders' equity

(In thousands of Euro)	Notes	31 December 2016	<i>of which with related parties</i>	31 December 2015	<i>of which with related parties</i>
SHAREHOLDERS' EQUITY					
GROUP SHAREHOLDERS' EQUITY					
Share capital	17	16,879		16,879	
Reserves	17	474,275		374,314	
Net profit/(loss) – Group		201,984		172,733	
TOTAL GROUP SHAREHOLDERS' EQUITY		693,138		563,926	
MINORITY INTERESTS					
Share capital and reserves – minority interests		33,102		43,098	
Net profit/(loss) – minority interests		(3,626)		1,717	
TOTAL MINORITY INTERESTS		29,476		44,815	
TOTAL SHAREHOLDERS' EQUITY		722,614		608,741	
NON CURRENT LIABILITIES					
Non current interest-bearing loans & borrowings	23	-		23,312	
Provisions for risks and charges	18	14,328		8,025	
Employee benefit liabilities	19	12,283		11,664	
Other non current liabilities	20	60,756		55,387	
Non current financial liabilities	21	355		-	
Deferred tax liabilities	33	6,561		3,924	
TOTAL NON CURRENT LIABILITIES		94,283	-	102,312	-
CURRENT LIABILITIES					
Trade payables	22	180,256	513	202,148	344
Interest-bearing loans & borrowings	23	121,251		123,641	
Tax payables	24	21,615		22,648	
Other current liabilities	25	51,317	3,760	59,112	18,461
Other current financial liabilities	26	3,905		5,219	
TOTAL CURRENT LIABILITIES		378,344	4,273	412,768	18,805
TOTAL LIABILITIES		472,627	4,273	515,080	18,805
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,195,241	4,273	1,123,821	18,805

Consolidated income statement

(In thousands of Euro)	Notes	2016	<i>of which with related parties</i>	2015	<i>of which with related parties</i>
Revenues from sales and services		1,424,969	233	1,417,163	256
Rental income investment properties		12,954		12,876	
Revenues	28	1,437,923		1,430,039	
Cost of goods sold	29-30	(472,808)		(481,961)	
Gross profit		965,115		948,078	
Style, product development and logistics costs	29-30	(44,167)	(1,655)	(43,839)	(708)
Sales & distribution costs	29-30	(469,191)	(22,641)	(455,452)	(23,632)
Marketing & communication costs	29-30	(71,217)	(54)	(72,471)	(74)
General and administrative costs	29-30	(113,663)	(12,224)	(109,159)	(9,889)
Other operating costs	29-30	(20,098)	(140)	(17,501)	(91)
Other income and revenues	31	13,949	18	14,944	25
Operating profit		260,728		264,600	
Financial charges	32	(42,527)		(52,952)	
Financial income	32	27,472	-	39,735	
Profit before taxes		245,673		251,383	
Income taxes	33	(47,315)		(76,933)	
Net profit/(loss) for the period		198,358		174,450	
Net profit/(loss) – Group		201,984		172,733	
Net profit/(loss) – minority interests		(3,626)		1,717	

(In Euro)	Notes	2016	2015
Basic earnings per share – ordinary shares	34	1.197	1.024
Diluted earnings per share – ordinary shares	34	1.197	1.023

Consolidated statement of comprehensive income

(In thousands of Euro)	Notes	2016	2015
Net profit/(loss) for the period (A)		198,358	174,450
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>			
- Currency translation differences of foreign operations	17	10,543	(13,530)
- Net gain/(loss) from cash flow hedge	3	(2,870)	15,465
- Income taxes		472	(4,253)
		<u>(2,398)</u>	<u>11,212</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		8,145	(2,318)
<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	(677)	107
- Income taxes		81	(154)
		<u>(596)</u>	<u>(47)</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		(596)	(47)
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		7,549	(2,365)
Total comprehensive income for the period, net of taxes (A+B)		205,907	172,085
Group		209,513	167,904
Minority interests		(3,606)	4,181

Consolidated statement of cash flows

(In thousands of Euro)	Notes	2016	of which with related parties	2015	of which with related parties
NET PROFIT / (LOSS) FOR THE PERIOD		198,358		174,450	
Adjustments to reconcile net profit (loss) to net cash from (used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	5-6-7	63,101		59,740	
Allocation / (use) of deferred taxes	33	1,261		(14,155)	
Provision for employee benefit plans	19	792		720	
Allocation to / (use of) the provision for obsolete inventory	11	169		8,203	
Losses and provision for bad debt	12	2,494		325	
Losses / (gains) on disposal of tangible/intangible assets		619		1,200	
Other non-monetary items		2,047		1,655	
Changes in operating assets and liabilities:					
Trade receivables	12	(10,636)	10	(13,135)	(25)
Inventories	11	(16,191)		(41,185)	
Trade payables	22	(22,100)	169	12,014	18
Tax receivables	13	(12,458)		(5,100)	
Tax payables	24	(1,117)		42	
Employee benefits payments	19	(974)		(802)	
Other assets and liabilities		(43,778)	(44,643)	13,681	7,957
Other – net		(617)		(194)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES		160,970	(44,464)	197,459	7,950
Cash flow from investing activities:					
Purchase of tangible assets	5-6	(55,118)	(13)	(67,095)	(7,152)
Purchase of intangible assets	7	(13,421)		(12,860)	
Net change in available-for-sale financial assets		-		7	
Proceeds from the sale of tangible and intangible assets		31		349	
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(68,508)	(13)	(79,599)	(7,152)
Cash flow from financing activities:					
Net change in financial receivables		165		744	
Net change in financial payables		(25,003)	-	(2,701)	-
Dividends paid to shareholders of the Parent company	35	(77,643)	(57,080)	(70,732)	(52,117)
Dividends paid to minority shareholders	35	(1,246)	-	(667)	(667)
Purchase of minority interests in companies consolidated on a line-by-line basis	4	(15,537)		-	
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(119,264)	(57,080)	(73,356)	(52,784)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(26,802)		44,504	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		142,121		96,455	
Increase/(decrease) in cash and cash equivalents		(26,802)		44,504	
Effect of exchange rate translation differences		1,930		1,162	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	16	117,249		142,121	
ADDITIONAL INFORMATION					
Interest paid		4,819		5,498	
Income taxes paid		108,108		82,415	
Interest received		546		484	
Dividends received		-		-	

Statement of changes in consolidated shareholders' equity

(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

(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 01.01.2015	16,841	2,995	4,188	155,220	(15,698)	(317)	129,861	19,081	(2,546)	156,565	466,190	42,004	508,194
Allocation of results	-	-	-	36,444	-	-	120,121	-	-	(156,565)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	172,733	172,733	1,717	174,450
Other comprehensive income/(loss)	-	-	-	-	11,212	(14,891)	(1,106)	-	(44)	-	(4,829)	2,464	(2,365)
Total comprehensive income (loss)	-	-	-	-	11,212	(14,891)	(1,106)	-	(44)	172,733	167,904	4,181	172,085
Distribution of dividends	-	-	-	-	-	-	(70,732)	-	-	-	(70,732)	(667)	(71,399)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	-	(222)	-	-	-	(222)	(703)	(925)
Stock Grant Reserve	-	-	-	-	-	-	-	786	-	-	786	-	786
Reclassifications	38	-	-	12	-	-	5,037	(5,087)	-	-	-	-	-
As at 31.12.2015	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

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 2016 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 14 March 2017.

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 2015 and 2014 is given below.

Ferragamo Finanziaria S.p.A. (In Euro)	31 December 2015	31 December 2014
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	208,480,412	211,835,790
C) Current assets	48,630,145	27,515,093
D) Accrued expenses and deferred income	-	1,133
TOTAL ASSETS	257,110,557	239,352,016
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	147,779,522	144,685,745
- Profit (loss) for the year	40,131,470	36,579,327
B) Provisions for risks and charges	759,989	-
D) Payables	18,689,616	8,336,984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	257,110,557	239,352,016
Guarantees, commitments and other risks	-	-
INCOME STATEMENT		
A) Value of production	50,891	11,973
B) Costs of production	(2,141,586)	(1,226,839)
Difference between value and costs of production	(2,090,695)	(1,214,866)
C) Financial income and charges	39,072,940	37,378,290
E) Extraordinary income and charges	3,316,529	-
Profit before taxes	40,298,774	36,163,424
Income taxes for the year, current and deferred	(167,304)	415,903
Profit (loss) for the year	40,131,470	36,579,327

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 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 30). 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 2016 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2016.

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; 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, specifically the costs for the contractual commitment to renovate in the future leased properties and 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 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 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 note 27; 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 36

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 approved by 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 normally refer to a time period of three years, 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
<i>Key money</i>	On the basis of the residual duration of the asset's lease contract

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.

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 IFRS 11 Joint arrangements: Accounting for interests in joint operations

The amendments to IFRS 11 require a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply the relevant principles for business combinations accounting in IFRS 3. The amendments also clarify that when an entity acquires an additional interest in a joint operation, in which the entity is already a joint operator, but joint control is retained, the previously held interest in the joint operation must not be remeasured. In addition, an exclusion from the scope of IFRS 11 has been added to clarify that the amendments do not apply when the parties sharing control, including the entity which prepares the financial statements, are subject to the joint control of the ultimate controlling entity. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in the same joint operation. The amendments apply prospectively to annual periods beginning on or after 1 January 2016 and early adoption is permitted. This amendment did not have any impact on the financial statements of the Group, as this did not acquire interests in joint operations during the period.

Amendments to IAS 1: use of judgment in financial disclosure

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. In particular, the amendments clarify the following:

- the materiality requirements in IAS 1;
- that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified among those items that will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of profit or loss and other comprehensive income and the statement of financial position.

These amendments are effective for annual periods beginning on or after 1 January 2016, and early adoption is permitted. This amendment did not have any impact on the Group's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part), rather than the economic benefits that are consumed through use of the asset. Therefore the amendments prohibit entities from using a revenue-based method for items of property, plant and equipment, and this method could be used only in very limited circumstances for the amortization of intangible assets. The amendments apply prospectively to annual periods beginning on or after 1 January 2016 and early adoption is permitted. There is no impact on the Group following the application of these amendments, as the Group does not use revenue-based methods of amortization and depreciation of its non current assets.

Amendments to IAS 19 Employee benefits: Employee contributions

IAS 19 mandates that an entity has to consider contributions from employees or third parties when accounting for defined benefit plans. Contributions that are linked to service must be attributed to periods of service as a reduction of service cost. The amendment clarifies that, if the amount of the contributions is independent of the number of years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered, instead of allocating the contributions to periods of service. This amendment did not have any impact on the Group's financial statements.

IFRS annual improvements cycle 2010-2012

The improvements concern the following issues:

IFRS 2 Share-based Payment

This improvement is effective prospectively and clarifies various issues related to the definition of performance conditions and service conditions that represent vesting conditions, including the following:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3: Business Combinations

The amendment is effective prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination must be subsequently measured at fair value through profit or loss, whether or not they fall within the scope of IAS 39.

IFRS 8 Operating Segments

The amendment is effective retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are “similar”;
- The reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is effective retrospectively and clarifies that in IAS 16 and IAS 38 revaluation can be performed using observable inputs by either adjusting the gross carrying amount of the asset to market value, or determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. Furthermore, accumulated depreciation/amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is effective retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

This improvement cycle did not have any impact on the Group’s financial statements.

IFRS annual improvements cycle 2012-2014

The improvements concern the following issues:

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment must be applied prospectively.

IFRS 7 Financial instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively.

IAS 19 Employee benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

Clarifications on the meaning of “elsewhere in the interim financial report”.

The Group has adopted this cycle of improvements and interpretations without recognizing significant changes in the Consolidated Financial Statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception

The amendments address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at

fair value. The amendments are effective for annual periods beginning on or after 1 January 2016, and early adoption is permitted. These amendments did not have any impact on the Group's financial statements.

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. In 2016, the Group performed a preliminary assessment of the main changes that IFRS 9 will introduce, and in 2017 it will assess the potential impact of applying the three aspects discussed in IFRS 9. This preliminary 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 the future.

In general, the Group does not expect these changes to materially affect its financial statements and equity.

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 Group 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 are expected to give rise to cash flows that are solely payments of principal and interest. The Group therefore expects it will continue to measure them at amortized cost in accordance with IFRS 9. However, the Group will further assess the characteristics of the contractual cash flows of these instruments before concluding whether 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 bonds, loans, and trade receivables, either on an annual basis or based on their remaining life. The Group expects it will apply the simplified approach and recognize the expected losses on all trade receivables based on their remaining life. The Group does not expect these changes to materially affect its equity.

c) Hedge accounting

The Group believes that all existing hedging relationships currently designated as effective hedges will continue qualifying for hedge accounting in accordance with IFRS 9. Since IFRS 9 does not change the general principle that an entity should account for effective hedging relationships, the Group does not expect the application of this standard to have a material impact. The Group will further assess the potential changes concerning the accounting for the time value of options, any option premiums paid or received and cross-currency interest rate swaps.

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 expects it will apply the new standard from the mandatory effective date and is still considering whether to apply the full or modified retrospective approach. During 2016, the Group performed a preliminary 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. This assessment may be subject to change following the in-depth analysis currently underway. 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 an element that could require deferring the recognition of revenue compared to the current accounting treatment.

(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 does not expect an impact from the application of the new Standard.

(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. The Group is still assessing the impact on the disclosures required, and therefore the systems, internal control, policies and procedures necessary to collect and present this information. However, considering that the analysis of the contracts and revenue streams shows that revenue is mainly recognized at a specific point in time, and based on the outcomes of the assessments performed, the Group does not expect to face significant implementation challenges concerning the inclusion of additional 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 (the EU is currently endorsing the standard). 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 expects to determine the potential impact of IFRS 16 on its consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

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. The Group is assessing the impact of these amendments on its 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 is assessing the impact of these amendments on its consolidated financial statements.

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 is assessing the impact of these amendments on its consolidated financial statements.

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.

Consolidation area

The Consolidated Financial Statements as at 31 December 2016 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 2016 include the 2016 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 period. 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 2016.

Company name	Location	Currency	Share capital	31 December 2016		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	500,000	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	4,969,107	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	Singaporean Dollar	4,600,000	100%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	100%		
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	100%		
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc.; 2 – Through Ferragamo Hong Kong Ltd.; 3 – Through Ferrimag 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 2016 the composition of the Salvatore Ferragamo Group saw the following changes:

- the liquidation of Ferragamo Latin America Inc. (100%-owned by Salvatore Ferragamo S.p.A.) and its subsidiary Ferragamo St. Thomas Inc. was completed in April 2016;
- the merger of the wholly-owned single-member subsidiary Ma.Ga. Immobiliare S.r.l. into Salvatore Ferragamo S.p.A. was finalized on 22 November 2016 (merger deed dated 15 November 2016). The merger has been effective for accounting and tax purposes retroactively as from 1 January 2016;
- on 20 December 2016, Salvatore Ferragamo S.p.A. acquired the remaining shares in the companies Ferragamo Korea Ltd., Ferragamo (Singapore) Pte Ltd, Ferragamo (Thailand) Limited, and Ferragamo (Malaysia) Sdn. Bhd., raising its interest in them from 80% to 100%.

In addition, on 19 December 2016, the 49% minority interest in the Indian subsidiary Ferragamo Retail India Private Limited was transferred between third parties resident in India. The Group terminated the agreements concerning minority interests with the previous shareholder and entered into new agreements with the new investor in the Indian company, establishing terms similar to the previous ones and economic conditions in line with the current market scenario. For more details, reference should be made to note 37 Put and Call Agreements on Minority Interests.

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 2016 and 2015. As at 31 December 2015, subsidiaries with significant minority interests included also the interest in Ferragamo Korea Ltd., in which Salvatore Ferragamo S.p.A. acquired the remaining 20% shares during 2016, and now therefore wholly owns the company.

Company	Activity	Minority interest (%)	
		31 December 2016	31 December 2015
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 2016 and 2015 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 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	-	-

(In thousands of Euro)	Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Ferragamo Retail HK Limited
31 December 2015		
Non current assets	23,795	10,114
Current assets	123,334	33,742
Non current liabilities	1,460	3,705
Current liabilities	94,949	7,305
Shareholders' equity	50,720	32,846
Minority interests	16,115	7,057
Revenues	138,648	69,541
Profit for the year	4,164	2,023
Net profit/(loss) – minority interests	1,041	506
Total comprehensive income for the period	4,164	2,023
Comprehensive income attributed to minority interests	1,041	506
Net cash provided by (used in) operating activities	(118)	2,047
Net cash provided by (used in) investing activities	(6,983)	(2,065)
Net cash provided by (used in) financing activities	11,024	237
Increase/(decrease) in cash and cash equivalents	3,923	219
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 2016	31 December 2015	31 December 2016	31 December 2015
US Dollar	1.1069	1.1095	1.0541	1.0887
Swiss Franc	1.09016	1.06786	1.0739	1.0835
Japanese Yen	120.197	134.314	123.40	131.07
Pound Sterling	0.8195	0.7258	0.8562	0.7340
Danish Krone	7.4452	7.4587	7.4344	7.4626
Australian Dollar	1.4883	1.4777	1.4596	1.4897
South Korean Won	1,284.18	1,256.55	1,269.36	1,280.79
Hong Kong Dollar	8.5922	8.6014	8.1751	8.4376
Mexican Peso	20.667	17.616	21.7719	18.9145
New Taiwanese Dollar	35.661	35.2352	34.1345	35.8160
Singapore Dollar	1.5275	1.5255	1.5234	1.5417
Thai Baht	39.0428	38.0278	37.7260	39.2480
Malaysian Ringgit	4.5836	4.3373	4.7287	4.6959
Indian Rupee	74.3717	71.1956	71.5935	72.0215
Macau Pataca	8.841	8.853	8.4189	8.6849
Chinese Renminbi	7.3522	6.9733	7.3202	7.0608
Chilean Peso	748.13	726.06	707.68	772.881
Argentine Peso	16.324	10.267	16.715	14.131
Brazilian Real	3.8561	3.7004	3.4305	4.3117
Canadian Dollar	1.4659	1.4186	1.4188	1.5116

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 rate levels;
- 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. 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 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			Market risk
(In thousands of Euro)	Underlying asset	Increase/reduction in underlying interest rates	Impact on the income statement
2016			
POSITIVE CHANGE	MXN	2.17%	116
	CNY	0.19%	(86)
	INR	2.71%	(220)
	THB	0.43%	(19)
Total			(209)
NEGATIVE CHANGE	MXN	(2.17%)	(116)
	CNY	(0.19%)	86
	INR	(2.71%)	220
	THB	(0.43%)	19
Total			209
2015			
POSITIVE CHANGE	MXN	0.16%	3
	CNY	1.25%	(534)
	INR	3.45%	(278)
	THB	0.67%	(24)
Total			(833)
NEGATIVE CHANGE	MXN	(0.16%)	(3)
	CNY	(1.25%)	534
	INR	(3.45%)	278
	THB	(0.67%)	24
Total			833

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 Mexican Peso, Chinese Renminbi, Indian Rupee and Thai Baht whose effects are indicated separately in the above table) showed potential losses or profits in the income statement amounting to 209 thousand Euro for 2016 compared with potential losses or profits amounting to 833 thousand Euro for 2015.

The decreasing 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 the 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 collect a currency other than the Euro for a future date arises (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 2016 the percentages of net revenues of the Parent company in US dollars were around 35%, in yen around 8% and in renminbi around 7%. In the year ended 31 December 2015, the percentage of net revenues generated by the Parent company in US dollars was around 38% of net revenues, in Japanese yen around 7% and in Chinese Renminbi around 6%. The currency risks originate mainly from exports of the Parent company in US dollars, Japanese yen and Chinese renminbi.

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 2016 and 31 December 2015:

Exchange rate risk (In thousands of Euro)	Cash flow hedge reserve	
	2016	2015
Opening balance	(6,188)	(21,653)
+ increases for recognition of new positive effectiveness	12,351	4,587
- decreases for recognition of new negative effectiveness	(15,456)	(40,042)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(10,096)	(1,276)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	10,331	52,196
Closing balance	(9,058)	(6,188)

Overall, the Reserve, which consists of the value changes in hedges for expected transactions in foreign currency, declined by 2,870 thousand Euro overall during 2016, whereas it had risen by 15,465 thousand Euro in 2015. The value changes reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro/US Dollar exchange rate was over 1.22 at the beginning of 2015, steadily declined to less than 1.05 in March 2015, and then stabilized in a range between 1.07 and 1.15 for nearly two years – until November 2016, when it once again accelerated to the downside and eventually reached 1.03. As for the Euro/Japanese Yen exchange rate, over the last two years the Japanese currency has been constantly appreciating against its European peer, moving from a high of 142 in early 2015 to a low of less than 110 in June 2016, and eventually ended the year at 122. The effective amount transferred directly from the Reserve to the income statement under "Revenues from sales" on occurrence of the underlying flows was a negative total of 235 thousand Euro in 2016 while it was a negative total at 50,920 thousand Euro in 2015. During 2015-2016 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 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 2016 and 2015. The number of foreign currencies in the table shows 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 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	-	-

(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 2015						
Exchange rate risk						
Sales expected in USD	263,000	84,000	90,000	75,000	14,000	-
Sales expected in JPY	5,800,000	1,400,000	1,500,000	1,600,000	1,300,000	-
Sales expected in GBP	7,000	2,000	2,000	2,500	500	-
Sales expected in MXN	180,000	60,000	60,000	60,000	-	-
Sales expected in CHF	5,500	1,500	1,500	1,500	1,000	-
Sales expected in AUD	4,500	1,000	1,500	2,000	-	-
Sales expected in CAD	8,500	3,500	3,000	2,000	-	-
Sales expected in CNY	290,000	100,000	90,000	100,000	-	-
Sales expected in HKD	125,000	55,000	10,000	60,000	-	-
Sales expected in SGD	11,000	5,000	6,000	-	-	-
Sales expected in KRW	24,000,000	8,000,000	10,000,000	6,000,000	-	-

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 2016						
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	-	-

(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 2015						
Exchange rate risk						
Sales expected in USD	293,000	93,000	84,000	92,000	24,000	-
Sales expected in JPY	7,000,000	1,900,000	1,100,000	1,700,000	1,500,000	800,000
Sales expected in GBP	7,200	2,200	1,500	1,700	1,800	-
Sales expected in MXN	180,000	60,000	60,000	60,000	-	-
Sales expected in CHF	5,800	1,500	1,500	1,300	1,100	400
Sales expected in AUD	6,000	2,000	500	2,500	1,000	-
Sales expected in CAD	9,500	3,500	3,000	3,000	-	-
Sales expected in CNY	310,000	100,000	80,000	90,000	40,000	-
Sales expected in HKD	135,000	50,000	25,000	40,000	20,000	-
Sales expected in SGD	14,400	4,400	6,000	4,000	-	-
Sales expected in KRW	31,000,000	11,000,000	4,000,000	16,000,000	-	-

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, Canadian Dollar and Hong Kong dollar. As for the *EUR/MXN* exchange rate, the Parent company, after hedging more than 50% of the overall expected foreign currency exposure when establishing the price lists, decided to manage the risk in a more flexible manner with direct spot sales on the market. From a time viewpoint, hedges lasting over one year are included within eighteen months. 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 2016 and 2015.

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 2016	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	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/HKD	11.0%	Derivatives Non-derivatives	242 28	1,333	
	EUR/CAD	9.9%	Derivatives Non-derivatives	885 5	827	
	USD/JPY	12.6%	Derivatives Non-derivatives	2,569 -		
	Total			12,724	29,343	
	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/HKD	(11.0%)	Derivatives Non-derivatives	(302) (35)	(1,663)
		EUR/CAD	(9.9%)	Derivatives Non-derivatives	(1,080) (6)	(1,010)
USD/JPY		-12.6%	Derivatives Non-derivatives	(2,955) -		
Total				(15,604)	(36,615)	

31 December 2015		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	10.8%	Derivatives	668	3,787
			Non-derivatives	35	
	EUR/USD	10.2%	Derivatives	6,576	17,058
			Non-derivatives	(446)	
	EUR/KRW	12.0%	Derivatives	503	1,677
			Non-derivatives	(3)	
	EUR/CNY	9.9%	Derivatives	1,019	2,675
			Non-derivatives	(6)	
	EUR/HKD	10.7%	Derivatives	402	977
			Non-derivatives	26	
	EUR/CAD	9.7%	Derivatives	640	350
			Non-derivatives	7	
	USD/JPY	1.8%	Derivatives	-	-
			Non-derivatives	(8)	
Total				9,413	26,524
31 December 2015		Increase/reduction in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
(In thousands of Euro)					
NEGATIVE CHANGE	EUR/JPY	(10.8%)	Derivatives	(830)	(4,703)
			Non-derivatives	(44)	
	EUR/USD	(10.2%)	Derivatives	(8,076)	(20,948)
			Non-derivatives	542	
	EUR/KRW	(12.0%)	Derivatives	(641)	(2,136)
			Non-derivatives	3	
	EUR/CNY	(9.9%)	Derivatives	(1,243)	(3,262)
			Non-derivatives	6	
	EUR/HKD	(10.7%)	Derivatives	(499)	(1,212)
			Non-derivatives	(32)	
	EUR/CAD	(9.7%)	Derivatives	(777)	(426)
			Non-derivatives	(9)	
	USD/JPY	(1.8%)	Derivatives	-	-
			Non-derivatives	9	
Total				(11,591)	(32,687)

As the above table shows, a positive change in the listed exchange rates (*EUR/JPY*, *EUR/USD*, *EUR/KRW*, *EUR/CNY*, *EUR/HKD*, *EUR/CAD*, and *USD/JPY*) would have resulted in a 12,724 thousand Euro and 9,413 thousand Euro profit as at 31 December 2016 and 31 December 2015, respectively; a negative change in exchange rates would have caused a 15,604 thousand Euro and 11,591 thousand Euro loss as at 31 December 2016 and 31 December 2015, 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 29,343 thousand Euro and 26,524 thousand Euro as at 31 December 2016 and 31 December 2015, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 36,615 thousand Euro and 32,687 thousand Euro as at 31 December 2016 and 31 December 2015, 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 2016, committed credit lines with a number of banks were outstanding for a total of 304,309 thousand Euro, of which 280,000 thousand Euro can be used on one or more occasions (revolving credit lines) and 24,309 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 574,546 thousand Euro.

As at 31 December 2016 the Group had unused committed credit lines (as revolving credit lines or term loans) for 276,821 thousand Euro and uncommitted lines for 480,783 thousand Euro, against gross debt of 121,521 thousand Euro and a net financial debt of 7,998 thousand Euro. As at 31 December 2016 committed credit lines had a maximum residual duration of forty-eight months and a weighted average residual duration of twenty-seven 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 ten months.

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. During 2016 the Parent company, taking advantage of extremely low market interest rates and particularly favorable credit conditions for the Company, renegotiated most of the outstanding committed credit lines, and added some new ones, extending the contractual expiry to a maximum of forty-eight months. In addition, two separate term loans were entered into relating to the subsidiaries Ferragamo Japan KK and Ferragamo Retail India Private Limited, which can be fully repaid upon expiry, with an initial contract duration of thirty-six months and a residual duration as at 31 December 2016 of nine and seven 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 2016, 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. Thanks to the constant availability of an adequate amount of committed credit lines, the most turbulent market phases and the credit crunch could be faced calmly. 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 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

Liquidity risk – Maturity analysis	31 December 2015				
(In thousands of Euro)	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	193,189	8,959	-	-	202,148
Payables to banks	92,305	34,278	24,058	-	150,641
Payables to third parties	5,149	-	-	-	5,149
Guarantee deposits	-	-	296	-	296
Derivatives – non-hedging component	47	40	-	-	87
Derivatives – hedging component	3,910	4,859	-	-	8,769
Total	294,600	48,136	24,354	-	367,090

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months. In 2016, payables to banks had a maximum residual duration below ten 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 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 36 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, which substantially refer to wholesale sales, usually have a maturity of less than 90 days. 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 2016, 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 2016		31 December 2015	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Receivables from others (M/L term)	198	2,198	198	1,397
Trade receivables	179,678	-	167,912	-
Receivables due from credit cards	12,214	-	9,020	-
Cash and cash equivalents	117,249	-	142,121	-
Guarantee deposits	-	17,278	-	16,990
Derivatives	2,839	123	3,709	200
Total	312,178	19,599	322,960	18,587

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 2016 and 31 December 2015, and is almost exclusively limited to the current portion. Excluding “Security 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 December 2014. The agreement includes a 397 thousand Euro payment in two 198 thousand Euro annual installments – the first of which is recognized as current – and a 2,000 thousand Euro payment based on the royalties recovered, which is expected to be paid in annual installments starting from 2018 through 2021; 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 maturities until 2020 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 2016	%	31 December 2015	%
Italy	32,473	18.1%	28,351	16.9%
Europe	33,962	18.9%	30,856	18.4%
North America	27,863	15.5%	27,703	16.5%
Japan	12,030	6.7%	10,425	6.2%
Asia Pacific	62,816	35.0%	59,952	35.7%
Central and South America	10,534	5.8%	10,625	6.3%
Total	179,678	100.0%	167,912	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 2016	155,894	17,154	2,542	1,631	758	1,699	179,678
31 December 2015	147,996	12,692	4,854	1,437	552	381	167,912
Figures in % at 31 December 2016	86.8%	9.6%	1.4%	0.9%	0.4%	0.9%	100.0%
Figures in % at 31 December 2015	88.1%	7.6%	2.9%	0.9%	0.3%	0.2%	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 2016 and 31 December 2015.

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	2016	2015
Percentage of revenues with the biggest customer	1.7%	1.8%
Percentage of revenues with the 3 biggest customers	5.0%	5.1%
Percentage of revenues with the 10 biggest customers	11.1%	11.8%

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 2016 and 2015.

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 37).

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 2016	31 December 2015
Interest-bearing loans	121,251	146,953
Other financial payables	3,379	5,149
Trade and other payables	218,807	253,647
Cash and cash equivalents	117,249	142,121
Net debt	226,188	263,628
Group shareholders' equity	700,022	568,412
Minority interests	29,476	44,815
Shareholders' equity	729,498	613,227
Shareholders' equity and net debt	955,686	876,855
Net debt/shareholders' equity	31.0%	43.0%

4. Business combinations and purchases of minority interests

During 2016 there were no business combinations.

On 20 December 2016, Salvatore Ferragamo S.p.A. finalized the acquisition of the remaining minority interests (20%) in the companies located in South East Asia and South Korea, Ferragamo Korea Ltd., Ferragamo (Singapore) Pte Ltd, Ferragamo (Thailand) Limited, and Ferragamo (Malaysia) Sdn. Bhd.. As a result, Salvatore Ferragamo S.p.A. raised its interest in these companies from 80% to 100%.

The total amount paid for the acquisition was 16,103 thousand US Dollars (corresponding to 15,537 thousand Euro), based on the "net depreciated asset value" of the companies as defined in the purchase agreement. This will be adjusted to determine the final amount of the transaction based on the local statutory financial statements as at 31 December 2016 of the individual companies. The carrying amount of the net assets acquired, as far as the minority interests (20%) are concerned, was 12,812 thousand Euro, resulting in a 2,725 thousand Euro negative change recognized in the Group shareholders' equity.

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016			31 December 2015		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	30,111	-	30,111	29,912	-	29,912
Buildings	68,336	31,946	36,390	66,306	28,923	37,383
Plant and equipment	28,763	22,147	6,616	26,924	20,345	6,579
Industrial and commercial equipment	117,737	80,075	37,662	106,038	67,487	38,551
Other assets	69,422	53,559	15,863	64,318	45,873	18,445
Leasehold improvements	274,255	168,684	105,571	249,033	151,522	97,511
Fixed assets in progress and payments on account	11,479	-	11,479	8,071	-	8,071
Total	600,103	356,411	243,692	550,602	314,150	236,452

The following tables show the change in property, plant and equipment for the years ended 31 December 2016 and 31 December 2015:

(In thousands of Euro)	Value at	Translation	Additions	Disposals	Depreciation	Impairment	Value at
	01.01.2016	difference					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

(In thousands of Euro)	Value at	Translation	Additions	Disposals	Depreciation	Reclassifications	Impairment	Value at
	01.01.2015	difference						31.12.2015
Land	20,010	666	9,236	-	-	-	-	29,912
Buildings	27,485	990	11,868	-	(2,960)	-	-	37,383
Plant and equipment	4,434	8	4,071	-	(1,934)	-	-	6,579
Industrial and commercial equipment	36,853	1,588	14,025	(728)	(11,912)	(1,250)	(25)	38,551
Other assets	16,630	951	8,458	(190)	(7,350)	24	(78)	18,445
Leasehold improvements	89,731	4,881	28,734	(602)	(26,452)	1,226	(7)	97,511
Fixed assets in progress and payments on account	16,934	434	7,526	(16,823)	-	-	-	8,071
Total	212,077	9,518	83,918	(18,343)	(50,608)	-	(110)	236,452

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 and South Korea;
- in "Industrial and commercial equipment" mainly refers to the opening and renovation of stores (11,727 thousand Euro) and the purchase of equipment and moulds (946 thousand Euro) for the fragrances product category;
- in "Other assets" mainly refers to IT equipment (2,779 thousand Euro) and furniture and furnishings (2,495 thousand Euro);

- in leasehold improvements refers mainly to work carried out for the opening or refurbishment of stores – and specifically the renovation of the building that houses the Japanese flagship store in Tokyo's elegant Ginza district;
- 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 18), included the costs for the restoration of premises leased to third parties, which amounted to 5.8 million Euro in 2016 (702 thousand Euro in 2015) and largely derived from the overhaul of the flagship store in Tokyo. Disposals mainly refer to assets relating to stores which have been renovated or closed during the year.

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 697 thousand Euro in “Industrial and commercial equipment”, “Other assets” and “Leasehold improvements” refers to the tangible assets of some stores in relation to their 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 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016			31 December 2015		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	5,310	-	5,310	5,141	-	5,141
Buildings	12,506	10,466	2,040	12,109	9,780	2,329
Total	17,816	10,466	7,350	17,250	9,780	7,470

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 2016 and 31 December 2015:

(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

(In thousands of Euro)	Value at 01.01.2015	Translation difference	Additions	Depreciation	Value at 31.12.2015
Land	4,610	531	-	-	5,141
Buildings	2,405	271	-	(347)	2,329
Total	7,015	802	-	(347)	7,470

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016			31 December 2015		
	Historic Cost	Accumulated amortization	Net value	Historic Cost	Accumulated amortization	Net value
Industrial patents and use of intellectual property rights	26,741	22,399	4,342	24,286	19,609	4,677
Concessions, licenses and trademarks	8,567	6,846	1,721	8,310	6,493	1,817
Development costs	37,934	19,923	18,011	27,525	14,617	12,908
Others	29,788	21,741	8,047	29,311	19,977	9,334
Intangible assets with a finite useful life in progress	5,455	-	5,455	4,860	-	4,860
Total	108,485	70,909	37,576	94,292	60,696	33,596

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2016 and 31 December 2015:

(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 thousands of Euro)	Value at	Translation	Additions	Disposals	Amortization	Value at
	01.01.2015	difference				31.12.2015
Industrial patents and use of intellectual property rights	3,366	114	3,517	(4)	(2,316)	4,677
Concessions, licenses and trademarks	1,665	-	498	-	(346)	1,817
Development costs	10,486	-	6,745	-	(4,323)	12,908
Others	8,391	29	2,629	(25)	(1,690)	9,334
Intangible assets with a finite useful life in progress	5,312	77	4,157	(4,686)	-	4,860
Total	29,220	220	17,546	(4,715)	(8,675)	33,596

In 2016 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 2016 and 31 December 2015:

(In thousands of Euro)	31 December 2016	31 December 2015
Europe	3,717	4,253
North America	1,818	2,075
Asia Pacific	196	268
Central and South America	755	1,021
Total	6,486	7,617

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

8. Available-for-sale financial assets

Available-for-sale financial assets, totaling 20 thousand Euro as at 31 December 2016, were unchanged from the previous year and referred to the minority interest (0.82%) in Polimoda Consulting S.r.l. in liquidation since 2013.

9. Other non current assets

The breakdown of the item "Other non current assets" as at 31 December 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Advances to suppliers	2,198	1,397	801
Other non current assets	5,074	6,056	(982)
Other receivables for long-term hedge derivatives	123	-	123
Total	7,395	7,453	(58)

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 renegotiated and entered into in December 2014. These advances are recovered with the accrual of royalties.

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, as provided for by the relevant standards (straight lining).

"Other receivables for long-term hedge derivatives" amounting to 123 thousand Euro refer 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

The item "Other non current financial assets", totaling 17,278 thousand Euro as at 31 December 2016 (16,874 thousand Euro as at 31 December 2015), refers to guarantee deposits, mainly for existing rental contracts, and is accounted for at amortized cost.

As at 31 December 2015, the line item included 200 thousand Euro in the measurement at fair value of the non-current portion of non-hedging derivatives.

11. Inventories

Inventories refer to the following categories:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Gross value of raw materials, accessories and consumables	51,423	58,709	(7,286)
Provision for obsolete inventory	(5,712)	(7,991)	2,279
Raw materials, accessories and consumables	45,711	50,718	(5,007)
Gross value of finished products and goods for resale	371,839	340,199	31,640
Provision for obsolete inventory	(42,840)	(39,785)	(3,055)
Finished products and goods for resale	328,999	300,414	28,585
Total	374,710	351,132	23,578

The change in raw materials compared to 2015 depends on production volumes for the period; the relevant provision reflects the obsolescence of raw materials (leather and accessories) which are no longer suitable for the

production plans. Inventories of finished products rose by 9.5% to 28,585 thousand Euro. This was attributable in part to the increased stocks for the opening of new stores, in part to sales falling short of production plans, and in part to the exchange rate effect.

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

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Raw materials	(2,279)	472	(2,751)
Finished products	2,448	7,731	(5,283)
Total	169	8,203	(8,034)

12. Trade receivables

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

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Trade receivables	186,645	173,778	12,867
Provision for bad debt	(6,967)	(5,866)	(1,101)
Total	179,678	167,912	11,766

Trade receivables mainly refer to wholesale sales and are due for around 29,041 thousand Euro to fragrances (24,954 thousand Euro as at 31 December 2015) 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. The provision for bad debt was up by 1,101 thousand Euro from 31 December 2015, largely because of the increase in the relevant trade receivables net of the use for the write-off of non-performing loans. In addition, during the year the Group reported 1,046 thousand Euro in credit losses after writing off non-performing trade receivables.

The changes in the provision for bad debt during 2016 were as follows:

(In thousands of Euro)	Value at 01.01.2016	Translation difference	Allocations	Uses	Value at 31.12.2016
Provision for bad debt	5,866	(53)	1,434	(280)	6,967

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 2016	31 December 2015	Change 2016 vs. 2015
Due from tax authorities (value added tax and other taxes)	10,436	8,449	1,987
Due from tax authorities for income taxes	21,402	10,648	10,754
Withholding taxes	16	26	(10)
Total	31,854	19,123	12,731

Tax receivables rose by 12,731 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 2016 for direct income taxes. Specifically, the increase in direct taxes reflected the Parent company's IRAP receivable referring to excess payments on account made during 2016 for the liability accrued in the period, and the settlement of the 2015 IRAP liability as a result of the reduction in direct tax expense thanks to the tax benefit of the so-called "Patent box". The Parent company entered into the relevant ruling, which is effective for annual periods between 2015 and 2019, with Italian tax authorities on 29 December 2016. For further details reference should be made to the Directors' report on operations, section "Significant events occurred during the year".

14. Other current assets

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

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	2016 vs. 2015
Other receivables	50,139	15,959	34,180
Accrued income	10	41	(31)
Prepaid expenses	15,174	14,421	753
Other receivables for short-term hedge derivatives	2,575	3,418	(843)
Total	67,898	33,839	34,059

As at 31 December 2016 other receivables mainly include:

- receivables due from credit card management companies for retail sales amounting to 12,214 thousand Euro (9,020 thousand Euro as at 31 December 2015);
- receivables due from the Holding company Ferragamo Finanziaria S.p.A. for 32,410 thousand Euro (2,420 thousand Euro as at 31 December 2015), broken down as follows:
 - (i) 30,385 thousand Euro to the Parent company Salvatore Ferragamo S.p.A., referring to the domestic fiscal unity for the year 2016 and the settlement of the 2015 IRES liability as a result of the reduction in direct tax expense thanks to the tax benefit of the so-called “Patent box”. The Parent company entered into the relevant ruling, which is effective for annual periods between 2015 and 2019, with Italian tax authorities on 29 December 2016;
 - (ii) 2,025 thousand Euro to receivables concerning the income tax (IRES) refund claim (online request sent on 5 February 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 1,809 thousand Euro (2,477 thousand Euro as at 31 December 2015).

Prepaid expenses mainly include contributions to customers relating to the fit-out of tailored single brand stores and/or stores-in-stores for 7,913 thousand Euro, rents for 3,178 thousand Euro and insurance premiums for 575 thousand Euro.

“Other receivables for short-term hedge derivatives” amounting to 2,575 thousand Euro (3,418 thousand Euro as at 31 December 2015) 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 264 thousand Euro as at 31 December 2016 and referred to the fair value measurement of derivatives for the non-hedge component (291 thousand Euro as at 31 December 2015).

16. Cash and cash equivalents

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

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	2016 vs. 2015
Time deposits	9,845	6,753	3,092
Bank and post office sight deposits	105,549	134,349	(28,800)
Cash and values on hand	1,855	1,019	836
Total	117,249	142,121	(24,872)

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 2016, 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.

As at 31 December 2016 the Group had unused credit lines for 757,604 thousand Euro; as at 31 December 2015, unused credit lines totaled 638,230 thousand Euro.

For the purposes of the consolidated statement of cash flows, the item “Cash and cash equivalents” as at 31 December 2016 and 31 December 2015 was broken down as follows:

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	2016 vs. 2015
Cash and bank sight deposits	107,404	135,368	(27,964)
Time deposits	9,845	6,753	3,092
Total	117,249	142,121	(24,872)

17. Share capital and reserves

The authorized share capital of the Parent Company as at 31 December 2016 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 316,082 thousand Euro, which refers entirely to the Parent company, was set up with retained earnings; the increase registered in the period included 124,466 thousand Euro in profit for the year 2015 net of 77,643 thousand Euro in dividends paid out, which were approved in 2016. The 60 thousand Euro decrease referred to the reclassification for the creation of the “Specific reserve for the share capital increase to service the 2016-2020 Stock Grant Plan”.

The cash flow hedge reserve was negative for 6,884 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2016, given the hedges against exchange rate risk, and is shown net of the tax effect.

The translation reserve, negative for 4,035 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. The positive 1,110 thousand Euro change referred to the recognition of the purchase agreement for the minority interests in the companies located in South Korea and South-East Asia, which are already consolidated on a line-by-line basis (for more details, reference should be made to note 4).

Retained earnings amounting to 149,570 thousand Euro include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. This reserve, during 2016, was affected by the joint impact of several factors. On the one hand, it rose by 48,267 thousand Euro due to the capitalization of the profit for 2015, net of the Parent company’s profit which was allocated to the extraordinary reserve and by 447 thousand Euro due to other minor translation effects. On the other hand, the reserve was down by 77,643 thousand Euro as a result of the dividends paid out by the Parent company in 2016, and 4,460 thousand Euro because of the recognition of put and call agreements on pre-existing minority interests (note 37) as well as the purchase agreement for the minority interests in the companies located in South Korea and South-East Asia, which are already consolidated on a line-by-line basis (see note 4).

The items “Other reserves” and “Effect IAS 19 equity” (net total of 12,359 thousand Euro) include as at 31 December 2016 the values recorded for the valuation differences required by IFRS compared to the local standards of Group companies. The change for the period included 244 thousand Euro deriving from the recognition of the purchase agreement for the remaining minority interests in the companies located in South Korea and South-East Asia. In addition, these line items include the specific reserve set up in 2016 to service the future free share capital increase of the Parent company, consisting of 60 thousand Euro (par value of 0.10 Euro per share) for the 2016-2020 Stock Grant Plan, and the Stock Grant reserve (441 thousand Euro) that includes the measurement at fair value of the rights to receive shares of the Parent company as at 31 December 2016. For details on the Stock Grant Plan reference should be made to note 36.

The amounts are net of the tax effects where applicable.

The changes in shareholders' equity items occurred in 2016 and 2015 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 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
31 December 2015				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	191,676	-	-	191,676
Cash flow hedge reserve	-	-	(4,486)	(4,486)
Translation reserve	-	(15,208)	-	(15,208)
Retained earnings	182,959	-	-	182,959
Other reserves	-	-	12,190	12,190
Total	378,823	(15,208)	10,699	374,314

18. Provisions for risks and charges

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

(In thousands of Euro)	Value at 01.01.2016	Translation difference	Additions	Uses	Value at 31.12.2016
Legal disputes	659	(7)	1,252	(282)	1,622
Other	7,366	(105)	6,064	(619)	12,706
Total	8,025	(112)	7,316	(901)	14,328

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 proceedings and/or disputes during the year, while allocations to the provision refer to labor, legal and fiscal disputes that have arisen during the year.

The provision for other risks mainly includes allocations against likely contingent liabilities; the main allocation concerns expenses for the restoration of premises leased to third parties recognized pursuant to the relevant contractual obligations (10,646 thousand Euro); 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 5,818 thousand Euro referring to costs for the restoration of premises. 5,188 thousand Euro related to the leases of the stores in Japan, and specifically the building in Tokyo's elegant Ginza district, where the flagship store – which was recently overhauled – and the offices of the Japanese subsidiary Ferragamo Japan KK are located.

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 2016 – Tax and customs disputes and audits".

19. Employee benefit liabilities

The following table shows the breakdown of employee benefits as at 31 December 2016 and 31 December 2015:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Employee defined benefit liabilities	12,177	11,532	645
Other employee benefit liabilities	106	132	(26)
Total	12,283	11,664	619

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 2016 and 2015:

(In thousands of Euro)	31 December 2016			31 December 2015		
	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	15,038	(3,506)	11,532	14,422	(2,932)	11,490
Current Service Cost	528	-	528	446	-	446
Financial charges/(income)	298	(63)	235	264	(51)	213
Changes included in net profit/(loss) for the period	826	(63)	763	710	(51)	659
Returns on plan assets	-	2	2	-	70	70
Actuarial loss/(gain) arising from:						
- financial assumptions	600	-	600	(37)	-	(37)
- demographic assumptions	82	-	82	(67)	-	(67)
- experience-based adjustments	(7)	-	(7)	(73)	-	(73)
Translation differences	306	(188)	118	585	(321)	264
Changes included in other comprehensive income items	981	(186)	795	408	(251)	157
Contributions paid by the employer	-	(490)	(490)	-	(426)	(426)
Benefits paid	(559)	136	(423)	(502)	154	(348)
Other changes	(559)	(354)	(913)	(502)	(272)	(774)
Value at the end of the period	16,286	(4,109)	12,177	15,038	(3,506)	11,532

Employee defined benefit liabilities of the Group's Italian companies (the Parent company and Ferragamo Parfums S.p.A.) amounted to 8,877 thousand Euro, up by 250 thousand Euro compared to 31 December 2015.

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

	31 December 2016	31 December 2015
Annual rate of salary increase	3.56%	3.87%
Annual discount rate	1.13%	1.53%
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 4.67% 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 3,300 thousand Euro, up by 395 thousand Euro compared to 31 December 2015. 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 2016	31 December 2015
Annual rate of salary increase	2.0% - 5.25%	2.0% - 5.25%
Annual discount rate	0.35% - 7.20%	0.48% - 8.08%

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 2016 and 31 December 2015 concerning employee benefit obligations of Italian companies, which have the highest impact on total defined benefit obligations:

(In thousands of Euro)	% change	2016		2015	
		Additions	Disposals	Additions	Disposals
Annual rate of salary increase	+/- 0.5%	30	(28)	22	(21)
Annual discount rate	+/- 0.5%	(445)	483	(401)	434
Mortality rate	+/- 0.025%	(3)	3	(2)	2
Staff turnover rate	+/- 0.5%	(49)	52	(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)	2016	2015
Top managers, middle managers and store managers	729.99	682.48
White collars	2,780.43	2,791.12
Blue collars	261.26	250.05
Temporary Agency staff	131.94	184.80
Total	3,903.62	3,908.45

Average staff is mostly unchanged compared to the previous year.

20. Other non current liabilities

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

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Payables for deferred rents	60,499	55,091	5,408
Other payables	253	296	(43)
Other payables for hedging derivatives	4	-	4
Total	60,756	55,387	5,369

Payables for deferred rents mainly refer to the straight lining of rents over the contract period for the property leased in the United States (50,152 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 2016 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 27.

21. Non current financial liabilities

The item "Non current financial liabilities" amounts to 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).

22. Trade payables

The breakdown of trade payables was as follows:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Trade payables	179,165	201,243	(22,078)
Advances from customers	1,091	905	186
Total	180,256	202,148	(21,892)

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

This item consists of payables relating to the normal commercial activity carried out by Group companies, in particular costs for the purchase of raw materials, parts and costs relating to manufacturing in outsourcing.

23. Interest-bearing loans & borrowings

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

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Medium/long-term financial payables to banks	-	23,312	(23,312)
Short-term financial payables to banks	121,251	123,641	(2,390)
Total	121,251	146,953	(25,702)

The Group's financial requirements are covered by short-term payables relating to short- and medium/long-term bank credit lines. During 2016 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 average bank debt. During the year the Parent company, taking advantage of particularly favorable market interest rates and credit conditions for the Parent company, renegotiated almost all the outstanding committed credit lines, and added some new ones, extending the contractual expiry to a maximum of forty-eight months. In addition, two separate term loans (initially granted at medium/long-term) were entered into relating to the subsidiaries Ferragamo Japan KK and Ferragamo Retail India Private Limited, which can be fully repaid upon expiry, with an original contract duration of thirty-six months and a residual duration as at 31 December 2016 of nine and seven 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 lasting more than one year, the market interest rate can be reviewed on a quarterly or annual basis.

Uses range from a few days to a maximum of nine months. 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 2016 committed credit lines had a maximum residual duration of forty-eight months and a weighted average residual duration of twenty-seven months. The credit lines and the related financial business are spread among leading national and international banks. At the date of this Report there were no outstanding uses of lines over more than ten months.

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 2016		31 December 2015	
	Agreed	Used	Agreed	Used
Committed credit lines	304,309	27,488	290,868	28,557
Revolving credit lines	280,000	3,179	267,556	5,245
Term loans	24,309	24,309	23,312	23,312
Uncommitted credit lines	574,546	93,763	494,315	118,396
Total	878,855	121,251	785,183	146,953

The following table provides the breakdown and changes in the net financial position as at 31 December 2016 and 31 December 2015, 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
	2016	2015	2016 vs. 2015
A. Cash	1,855	1,019	836
B. Other cash equivalents	115,394	141,102	(25,708)
C. Cash and cash equivalents (A)+(B)	117,249	142,121	(24,872)
Derivatives – non-hedging component	264	291	(27)
Other financial assets	-	-	-
D. Current financial receivables	264	291	(27)
E. Current bank payables	121,251	123,641	(2,390)
F. Derivatives – non-hedging component	526	70	456
G. Other current financial payables	3,379	5,149	(1,770)
H. Current financial debt (E)+(F)+(G)	125,156	128,860	(3,704)
I. Current financial debt, net (H)-(C)-(D)	7,643	(13,552)	21,195
J. Non current bank payables	-	23,312	(23,312)
K. Derivatives – non-hedging component	355	-	355
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	355	23,312	(22,957)
O. Net financial debt (I)+(N)	7,998	9,760	(1,762)

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 2016 the financial and non-financial covenants were complied with by all the companies involved.

24. Tax payables

As at 31 December 2016 tax payables amounted to 21,615 thousand Euro (22,648 thousand Euro as at 31 December 2015) and concerned payables for income taxes pertaining to the period, VAT and other taxes due by Group companies. The net 1,033 thousand Euro increase from 31 December 2015 was largely attributable to VAT payables and the payables for taxes withheld by the companies as withholding agents and due to Italian tax authorities. Meanwhile, the payables for direct taxes declined also because of the tax benefits granted to the Parent company (reference should be made to the section "Significant events occurred during the year" in the Directors' report on operations).

25. Other current liabilities

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

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	2016 vs. 2015
Other payables	28,311	40,986	(12,675)
Payables to social security institutions	5,407	5,545	(138)
Accrued expenses	2,872	2,603	269
Deferred income	1,961	2,365	(404)
Other payables for hedge derivatives	12,766	7,613	5,153
Total	51,317	59,112	(7,795)

"Other payables" mainly included the Group's payables to employees for amounts accrued but not yet paid at the reporting date (21,746 thousand Euro); 1,490 thousand Euro in payables to the Holding company Ferragamo Finanziaria S.p.A. (16,772 thousand Euro in 2015) as part of the domestic fiscal unity – almost exclusively referring to Ferragamo Parfums S.p.A., as in 2016 Salvatore Ferragamo S.p.A. reported a receivable for the fiscal year 2016 and the settlement of the IRES for 2015, as explained in note 14 "Other current assets"; in

addition, they included payables to suppliers and service providers which had not been invoiced at the reporting date.

The item “Payables to social security institutions” refers to payables 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 27.

26. 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 2016	31 December 2015	Change 2016 vs. 2015
Short-term derivatives	526	70	456
Other current financial payables	3,379	5,149	(1,770)
Total	3,905	5,219	(1,314)

The item “Other current financial payables” as at 31 December 2016 includes:

- the put option (2,212 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 2015, this item amounted to 4,167 thousand Euro.
- 1,167 thousand Euro for payables to the minority shareholder of Ferragamo Retail India Private Limited. As at 31 December 2015, this item amounted to 982 thousand Euro.

For further details, reference should be made to note 37.

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 27 below.

27. 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 2016 and 31 December 2015.

Classification of financial instruments and presentation of their fair value

(In thousands of Euro)	31 December 2016			31 December 2015		
	Book value		Fair Value	Book value		Fair Value
	Current portion	Non current portion		Current portion	Non current portion	
Financial assets at fair value through profit or loss						
Derivatives – non-hedging component	264	-	264	291	200	491
Available-for-sale financial assets	-	20	20	-	20	20
Receivables and loans						
Receivables from others (M/L term)	198	2,198	2,396	198	1,397	1,589
Receivables due from credit cards	12,214	-	12,214	9,020	-	9,020
Trade receivables	179,678	-	179,678	167,912	-	167,912
Guarantee deposits	-	17,278	17,278	-	16,674	16,674
Cash and cash equivalents	117,249	-	117,249	142,121	-	142,121
Derivatives – hedging component	2,575	123	2,698	3,418	-	3,418
Total	312,178	19,619	331,797	322,960	18,291	341,245

FINANCIAL LIABILITIES	31 December 2016			31 December 2015		
	Book value		Fair Value	Book value		Fair Value
	<i>Current</i>	<i>Non current</i>		<i>Current</i>	<i>Non current</i>	
(In thousands of Euro)	<i>portion</i>	<i>portion</i>		<i>portion</i>	<i>portion</i>	
Liabilities at amortized cost						
Trade payables and payments on account	180,256	-	180,256	202,148	-	202,148
Payables to banks	121,251	-	121,251	123,641	23,312	146,953
Other financial payables	3,379	-	3,379	5,149	-	5,149
Guarantee deposits	56	253	309	-	296	296
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	526	355	881	70	-	70
Derivatives – hedging component	12,766	4	12,770	7,613	-	7,613
Total	318,234	612	318,846	338,621	23,608	362,229

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.

‘Medium/long-term receivables from others’ 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 December 2014. The agreement includes a 397 thousand Euro payment in two 198 thousand Euro annual installments – the first of which is recognized as current – and a 2,000 thousand Euro payment based on a repayment plan to be calculated in accordance with future royalties. This is expected to be paid in annual installments starting from 2018 through 2021. 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 maturities until 2020 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. 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 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.

(In thousands of Euro)	2016	2015
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	(8,597)	(12,245)
Derivatives – hedging component	(235)	(50,920)
<i>Net gains/(losses) on financial instruments recognized in shareholders' equity:</i>		
Derivatives – hedging component	(2,870)	15,465
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	662	552
Interest expense	5,533	6,096
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>		
	580	614
<i>Interest income accrued on financial instruments written-off</i>		
	-	-
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	1,434	115

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 2016 and 2015.

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 2016 and 2015.

28. Revenues

In the years ended 31 December 2016 and 31 December 2015 revenues totaled 1,437,923 thousand Euro and 1,430,039 thousand Euro respectively and can be broken down as shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Retail revenues	912,361	892,041	20,320
Wholesale revenues	502,648	513,582	(10,934)
Licenses and services	9,960	11,540	(1,580)
Rental income investment properties	12,954	12,876	78
Total	1,437,923	1,430,039	7,884

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.

29. Cost of goods sold and operating costs

Cost of goods sold and operating costs in the years ended 31 December 2016 and 31 December 2015 were 1,191,144 thousand Euro and 1,180,383 thousand Euro respectively and were classified by function as follows:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Cost of goods sold	472,808	481,961	(9,153)
Style, product development and logistics costs	44,167	43,839	328
Sales & distribution costs	469,191	455,452	13,739
Marketing & communication costs	71,217	72,471	(1,254)
General and administrative costs	113,663	109,159	4,504
Other operating costs	20,098	17,501	2,597
Total	1,191,144	1,180,383	10,761

Costs rose by 0.9% compared to 2015 due to turnover, which was essentially unchanged (+0.6%) from 2015.

30. 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)	2016	2015	Change 2016 vs. 2015
Raw materials, finished products and consumables used	262,879	270,899	(8,020)
Costs for services	630,154	623,312	6,842
Personnel costs	214,912	208,931	5,981
Amortization and depreciation	62,404	59,630	2,774
Write-downs of tangible/intangible assets	697	110	587
Other charges	20,098	17,501	2,597
Total	1,191,144	1,180,383	10,761

31. Other income and revenues

Other income and revenues are broken down as follows:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Expense recovery	2,840	2,557	283
Rental income from owner-occupied property	2,335	2,391	(56)
Advertising contributions	7	175	(168)
Other income and revenues	7,212	8,295	(1,083)
Gains on disposal of tangible/intangible assets	45	21	24
Windfall profit	1,510	1,505	5
Total	13,949	14,944	(995)

Other income, totaling 13,949 thousand Euro, was down 995 thousand Euro from 31 December 2015, mainly because of two factors: the decline in insurance refunds received during the year (in 2015, the Group had been reimbursed for the damage caused by the fire at the Leonardo da Vinci international airport in Rome-Fiumicino, where two stores of the Italian retail chain were located) and the recognition in 2016 of the 2,387 thousand Euro Tax Credit for Research and Development Expenditure (art. 3 of Italian Legislative 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 Salvatore Ferragamo S.p.A. for the years 2015 and 2016 (787 thousand Euro for 2015 and 1,600 thousand Euro for 2016).

32. Financial operations

Financial operations are broken down as follows:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Financial charges			
Interest expense	4,819	5,498	(679)
Discount charges and other financial charges	2,389	2,257	132
Losses on exchange rate differences	19,269	26,170	(6,901)
Financial charges for fair value adjustment of derivatives	16,050	19,027	(2,977)
Total	42,527	52,952	(10,425)

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Financial income			
Gains on disposal of investments to third parties	-	1	(1)
Interest income	546	484	62
Other financial income	116	68	48
Gains on exchange rate differences	19,357	32,400	(13,043)
Financial income for fair value adjustment of derivatives	7,453	6,782	671
Total	27,472	39,735	(12,263)

Interest expense derives mainly from short-term bank loans and, to a lesser extent, from bank loans originally 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, both to Group companies (intercompany level) and to third parties. During 2016 net exchange rate gains amounted to 88 thousand Euro compared to net exchange rate gains of 6,230 thousand Euro in 2015.

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.

33. Income taxes

The taxes recorded in the income statement were as follows:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Current taxes	(46,054)	(91,088)	45,034
Deferred taxes	(1,261)	14,155	(15,416)
Total	(47,315)	(76,933)	29,618
Tax rate	19.3%	30.6%	

The steady decline in current taxes was attributable to, among other things, the significant reduction in the Parent company's direct tax expense (IRES and IRAP) due to the benefit associated with the so-called "Patent Box". The cumulative impact for the years 2015 and 2016 was recognized in 2016 and amounted to a 32,040 thousand Euro reduction in direct tax expense (deducting 13,551 thousand Euro for 2015 and 18,489 thousand Euro for 2016). Reference should be made to the section "Significant events occurred during the year" in the Directors' report on operations.

Deferred taxes include the allocation in the year of deferred tax assets on tax losses for the year totaling 5,469 thousand Euro.

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 2016 and 31 December 2015.

(In thousands of Euro)	31 December 2016	31 December 2015	31 December 2016	31 December 2015	2016	2015
	Statement of financial position		Shareholders' equity		Income statement	
Deferred tax assets						
- on employee benefits	1,854	1,789	906	825	(67)	125
- on tangible assets	6,092	4,263	-	-	1,890	1,067
- on intangible assets	1,112	1,039	-	-	73	(36)
- on the cash flow hedge reserve	1,210	554	2,174	1,702	183	993
- on the valuation of inventories	12,450	13,257	-	-	(919)	2,260
- on the elimination of the profit unrealized in inventories	53,015	56,657	-	-	(3,642)	8,914
- on tax losses	9,312	4,344	-	-	5,469	(671)
- on taxed provisions	3,448	4,234	-	-	(814)	(55)
- for other temporary differences	21,784	21,401	-	-	(769)	1,572
Deferred tax assets	110,277	107,538	3,080	2,527	1,404	14,169
Deferred tax liabilities						
- on employee benefits	(37)	(45)	-	-	8	-
- on tangible assets	(482)	(547)	-	-	67	60
- on the valuation of inventories	(3,020)	(1,773)	-	-	(1,244)	(113)
- for other temporary differences	(3,022)	(1,559)	-	-	(1,496)	39
Deferred tax liabilities	(6,561)	(3,924)	-	-	(2,665)	(14)
Net effect	103,716	103,614	3,080	2,527	(1,261)	14,155

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 2016 and 31 December 2015 were as follows:

(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	

(In thousands of Euro)		31 December 2015		
Expiry	Previous tax losses	Tax rate	Deferred tax assets	
Without time limits	10,924	30.00%	3,277	
1 to 3 years	886	25.00%	222	
3 to 5 years	3,379	25.00%	845	
Total	15,189	28.60%	4,344	

Tax losses of Group companies as at 31 December 2016 and 31 December 2015 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 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	

(In thousands of Euro)		Expiry				
31 December 2015	Without time limits	Within 1 year	1 to 3 years	3 to 5 years	over 5 years	
46,316	32,609	92	1,636	7,605	4,374	

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

(In thousands of Euro)		2016	2015
Profit before taxes		245,673	251,383
<i>IRES rate in force for the year</i>		(27.5%)	(27.5%)
Theoretical tax charge		(67,560)	(69,130)
IRAP effect		(9,655)	(9,306)
(Non-deductible costs) net of non-taxable income		(1,676)	2,056
Differences arising from different rates – foreign countries		2,251	2,083
Other effects		(233)	(249)
Effects from non-registration of deferred taxes		(3,231)	(2,300)
2015-2016 Patent Box impact (IRES and IRAP)		32,040	-
Effects of taxation for transparency of income of foreign companies resident in countries/areas with a privileged tax regime		-	(87)
2015-2016 Research and Development Tax Credit impact (IRES-IRAP)		749	-
Total differences		20,245	(7,803)
Total taxes from the income statement		(47,315)	(76,933)
Effective tax rate		(19.3%)	(30.6%)

34. 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 Stock Grant Plans in the two periods being compared. As for 2016, the Group considered the 2016-2020 Stock Grant Plan, detailed in note 36; as for 2015, the Group considered the 2012 Stock Grant Plan, which ended in 2015.

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

	2016	2015
Net profit (loss) – shareholders of the Parent company (Euro)	201,983,790	172,732,944
Average number of ordinary shares	168,790,000	168,629,671
Basic earnings per share – ordinary shares (Euro)	1.197	1.024
Average number of ordinary shares	168,790,000	168,629,671
Dilution effect: number of shares which could have been issued (Stock Grant Plan)	15,872	160,329
Diluted average number of ordinary shares	168,805,872	168,790,000
Diluted earnings per share – ordinary shares (Euro)	1.197	1.023

Other information

35. Dividends

In order to implement the resolution of the Shareholders' Meeting of 21 April 2016, the Parent company Salvatore Ferragamo S.p.A. paid shareholders a single dividend of 0.46 Euro per share, relating to the profit for 2015, for a total amount of 77,643,400 Euro, with coupon detachment on 23 May 2016 and payment of the dividend as from 25 May 2016.

Other Group companies, during 2016, paid third-party shareholders dividends amounting to 1,246 thousand Euro.

36. 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, the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below.

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 will identify the above performance targets for each cycle.

Specifically, there are two targets for the 1st Cycle, 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 the 1st Cycle 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 Budget	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 and 2 August 2016, as part of the 1st cycle of the plan, with the favorable opinion of the Nomination and Remuneration Committee, the Board of Directors identified 18 beneficiaries from among the management personnel of Salvatore Ferragamo S.p.A. (including the Managing Director Eraldo Poletto) and some of its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., and Ferragamo Mexico S. de R.L. de C.V.), granting options for a total of 230,000 ordinary shares in the Company Salvatore Ferragamo S.p.A.. The Board of Directors may make further grants to 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	-
(ii) assigned in the period	230,000
(iii) cancelled in the period	15,000
(iv) exercised in the period	-
(v) expired in the period	-
(vi) outstanding at the end of the period	215,000
(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

	Number	(In thousands of Euro)
		2016 Fair Value
<u><i>Rights to receive shares assigned to Salvatore Ferragamo S.p.A.'s top managers</i></u>		
- at the start of the year	-	-
- assigned in the year	170,000	349
- cancelled in the period	15,000	31
- at the end of the period	155,000	318
<u><i>Rights to receive shares assigned to the subsidiaries' top managers</i></u>		
- at the start of the year	-	-
- assigned in the period	60,000	123
- at the end of the period	60,000	123
<u><i>Total rights to receive shares assigned to Ferragamo Group's top managers</i></u>		
- at the start of the year	-	-
- assigned in the period	230,000	472
- cancelled in the period	15,000	31
- at the end of the period	215,000	441

The rights to receive shares that were cancelled in the period, amounting to 15,000 shares, refer to an employee of Salvatore Ferragamo S.p.A. who was a beneficiary and who resigned in 2016. Pursuant to the Plan, the free assignment of the shares is dependent on the fact that, at the share vesting date, there is an employment and/or partnership and/or administrative relationship between the beneficiary and the Parent company or one of the 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 two start dates of the plan's vesting period:

Fair Value measurement – Start date of the vesting period of the rights of 4 July 2016

	<u>Assessment A (TSR)</u>	<u>Assessment B (Consolidated gross profit before taxes)</u>
- Share price at the vesting period start date (04/07/2016)	Euro 18.56	Euro 18.56
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	between 20% and 39%	-
- Correlation of the share price between Ferragamo and similar companies	33%	-
- Expected dividends	1.96%	1.96%
- Risk-free interest rate**	(0.61%)	-
Fair Value per share at the vesting period start date	Euro 7.189/share	Euro 17.686/share

Fair Value measurement – Start date of the vesting period of the rights of 2 August 2016

	<u>Assessment A (TSR)</u>	<u>Assessment B (Consolidated gross profit before taxes)</u>
- Share price at the vesting period start date (02/08/2016)	Euro 20.57	Euro 20.57
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	between 20% and 39%	-
- Correlation of the share price between Ferragamo and similar companies	33%	-
- Expected dividends	2.02%	2.02%
- Risk-free interest rate**	(0.58%)	-
Fair Value per share at the vesting period start date	Euro 9.255/share	Euro 19.6/share

*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 as the yield on Euro Area government bonds at the start date of the vesting period for a period of 2.5 years, which is the remaining term of the plan.

37. 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. The agreements with the partners in Ferragamo Korea Ltd, Ferragamo (Malaysia) Sdn. Bhd., Ferragamo (Singapore) Pte Ltd, and Ferragamo (Thailand) Limited were terminated in 2016 after Salvatore Ferragamo S.p.A. acquired the remaining minority interests.

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 2016.

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 2016 financial debt amounted to 2,212 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 options 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 2016 financial debt was 1,167 thousand Euro.

38. 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)	2016	2015
Retail net revenues	912,361	892,041
Wholesale net revenues	502,648	513,582
Licenses and services	9,960	11,540
Rental income investment properties	12,954	12,876
Revenues	1,437,923	1,430,039
Gross profit	965,115	948,078
Gross profit %	67.1%	66.3%
Personnel costs	(201,099)	(194,868)
Rental costs	(209,682)	(202,968)
Amortization, depreciation and write-downs of non current assets	(62,163)	(58,967)
Communication costs	(65,726)	(67,794)
Other costs (net of other income)	(165,717)	(158,881)
Operating profit	260,728	264,600
Net financial (charges)/income	(15,055)	(13,217)
Profit before taxes	245,673	251,383
Income taxes	(47,315)	(76,933)
Net profit/(loss)	198,358	174,450
EBITDA*	323,829	324,340

* 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 2016	31 December 2015
Inventories	374,710	351,132
Trade receivables	179,678	167,912
Tangible assets and investment property	251,042	243,922
Intangible assets with a finite useful life	37,576	33,596
Other assets	234,722	184,847
Total assets gross of cash and cash equivalents and current financial receivables	1,077,728	981,409
Net financial debt	7,998	9,760
Trade payables	180,256	202,148
Other liabilities	166,860	160,760
Shareholders' equity	722,614	608,741
Total liabilities and shareholders' equity (net of cash and cash equivalents and current financial receivables)	1,077,728	981,409

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 2016	132,693	74,335	22,381	76,020	7,759	313,188
31 December 2015	120,436	80,033	8,128	82,809	10,259	301,665

39. Transactions with related parties

This section describes the transactions with related parties undertaken in the years ended 31 December 2016 and 31 December 2015.

(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)
<i>(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)</i>						
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 Miletta 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%

(In thousands of Euro)	2015		31 December 2015			
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	1	(7)	1	2,420	-	(16,772)
<i>(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)</i>						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	19	(7,377)	3	70	(26)	-
Lungarno Alberghi S.r.l.	170	(652)	65	-	(28)	-
Fondazione Ferragamo	2	(190)	-	-	(60)	-
Companies connected to members of the Board of Directors						
Bacco S.r.l.	-	(3)	-	-	-	-
Il Borro S.r.l.	8	-	3	-	-	-
Marchesi Antinori S.p.A.	12	-	-	-	-	-
Osteria del Borro S.r.l.	-	(1)	-	-	-	-
Castiglion del Bosco Hotel S.r.l.	12	-	-	-	-	-
The European House Ambrosetti S.p.A.	2	-	-	-	-	-
Rubino S.r.l.	-	(125)	-	16	(4)	-
Arpa S.r.l.	12	(36)	2	-	(16)	-
Studio Legale Portale Visconti	-	(102)	-	-	(102)	-
CECAM S.r.l.	-	-	-	-	(56)	-
Baia di Scarlino S.r.l.	4	-	1	-	-	-
Viesca Agricola S.r.l.	4	-	4	-	-	-
Imaginex Management Co. Ltd.	10	(514)	-	-	(28)	(73)
Wharf T&T Ltd.	-	(22)	-	-	-	-
Times Square Ltd.	-	(3,087)	-	-	-	-
Wharf Realty Ltd.	-	(10,000)	-	-	-	-
LongJin Zonghe Kaifa (Chengdu) LTD	-	(2,281)	-	599	-	-
Dalian Times Square Commercial Co. Ltd	-	(1,172)	-	329	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(678)	-	167	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(615)	-	413	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(93)	-	6	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletti Ferragamo	-	(125)	-	-	-	-
Massimo Ferragamo	-	(135)	-	-	(24)	-
Giacomo Ferragamo	-	(705)	-	-	-	(179)
Angelica Visconti	-	(107)	-	-	-	(40)
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(6,342)	-	-	-	(1,397)
Total	256	(34,369)	79	4,020	(344)	(18,461)
Group total	1,430,039	(683,478)	167,912	50,713	(202,148)	(59,112)
% ratio	0.0%	5.0%	0.0%	7.9%	0.2%	31.2%

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 liabilities included 1,490 thousand Euro in IRES payables of the company Ferragamo Parfums S.p.A for the fiscal year 2016, while Other assets included a 30,385 thousand Euro IRES receivable of Salvatore Ferragamo S.p.A. referring in part to 2016 (excess payments on account made during 2016 for the liability accrued in the period) and in part to the settlement of the 2015 tax liability as a result of the tax benefit in favor of Salvatore Ferragamo S.p.A related to the so-called "Patent box". This resulted in a significant reduction in tax expense starting from the fiscal year 2015. For more details, see "Significant events occurred during the year" in the Directors' report on operations. 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 Legislative Decree no. 201 of 6 December 2011, which was recognized in 2012.

The income statements included 343 thousand Euro in service costs charged back, as approved by the Board of Directors meeting of 30 June 2016, and 17 thousand Euro in the cost of Salvatore Ferragamo S.p.A.'s acquisition of a permanent right of way (for both pedestrians and vehicles) on some plots of land in Osmannoro owned by Ferragamo Finanziaria S.p.A.. This is related to the construction of the new logistics center.

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. 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 relevant accounts payable balances) refer largely to rents for the premises used as stores in the Italian chain.

Fondazione Ferragamo

The costs incurred in 2016 refer for 101 thousand Euro to the services provided for the management of the Salvatore Ferragamo historical archive (100 thousand Euro in 2015) and for 90 thousand Euro to donations to support the institutional activities of the Foundation (90 thousand Euro in 2015). 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:

Caretti & Associati S.p.A.

The costs refer to services rendered in 2016 in accordance with the Board of Directors' resolution of 30 June 2016.

Imaginex Management Co. Ltd.

Costs and the relevant payables mainly refer to rents for premises for an outlet store and the office in Hong Kong. Revenues refer to occasional product sales.

Times Square Ltd.

Costs (and the related accounts payable balances) mainly refer to rents for premises for a store in Hong Kong.

Wharf Realty Ltd.

Costs refer to rents for premises for a store in Hong Kong.

LongJin Zonghe Kaifa (Chengdu) LTD

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

Other related parties connected to members of the Board of Directors

Wanda Miletta Ferragamo

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

Massimo Ferragamo

Costs (and the relevant trade payables) refer to a consultancy agreement between Massimo Ferragamo and Ferragamo USA Inc..

Giacomo Ferragamo

Costs (and the relevant payables) refer to the cost incurred by the Parent company in relation to the employment relationship between Giacomo Ferragamo and the Parent company, including a variable bonus and the Stock Grant Plan cost.

Angelica Visconti

Costs (and the relevant payables) refer to the cost incurred by the Parent company in relation to the employment relationship between Angelica Visconti and the Parent company, including a variable bonus and 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 note 40, while information on Managers with strategic responsibilities is provided in the table below:

Full name	Role
Michele Norsa*	Managing Director
Eraldo Poletto**	Managing Director
Ernesto Greco	General Manager of Administration, Finance, Control and Information Systems
Massimo Barzaghi	Deputy General Manager of Market Coordination and Supply Chain Manager
Sofia Ciucchi***	Deputy General Manager of the Product Department and Human Resources Manager

* Michele Norsa was Managing Director until 2 August 2016

** Eraldo Poletto was appointed Managing Director effective 3 August 2016

*** Sofia Ciucchi resigned effective 31 December 2016

Costs relating to Managers with strategic responsibilities (and the relevant payables) refer to the cost incurred by the Group in relation to the employment relationship, including the variable bonuses, the costs relating to the Stock Grant Plan and, in the case of the Managing Director, also refer to the amount due as Managing Director, including the variable pay. In 2016, total costs (including the costs for key management personnel no longer at the company at 31 December 2016) amounted to 5,732 thousand Euro, including 5,558 thousand Euro in wages for employees and fees for directors as well as 174 thousand Euro in Stock Grant Plan costs.

40. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)				2016					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	-	c) d) e)	400	-	1,100
Eraldo Poletto	Managing Director	3.08-31.12	b)	333	-	c) d) e) f)	615	144	1,092
Michele Norsa	Managing Director	1.01-2.08		898	-	c) d) e) f)	2,024	-	2,922
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				3,096	130		3,039	144	6,409

a) upon approval of the 2017 financial statements

b) until the next Shareholders' Meeting

c) car

d) mobile phone

e) insurance policies

f) accommodation

Statutory Auditors

(In thousands of Euro)				2016			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	
Fulvio Favini	Chairman	01.01-31.12	a)	64	12	-	76
	Acting Statutory Auditor						56
Gerolamo Gavazzi	Acting Statutory Auditor	01.01-31.12	a)	48	8	-	56
Alessandra Daccò	Auditor	01.01-31.12	a)	48	8	-	
Total				160	28	-	188

a) upon approval of the 2016 financial statements

(*) Other fees refer to amounts due for the position as Chairman or member of the Supervisory Board pursuant to Leg. Decree 231/2001.

It should be noted that for Directors and Statutory Auditors no severance indemnities are envisaged.

41. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2016	31 December 2015
Sureties provided by third parties in the interests of Group companies	8,665	8,168
Guarantees provided by third parties in the interests of Group companies	3,669	2,825
Guarantees provided by Group companies in the interests of third parties	45,063	93,374
Total	57,397	104,367

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 US\$ 6 million (equal to 5,692 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 as at 31 December 2016 and 31 December 2015 relating to operating leases, broken down by expiry date:

(In thousands of Euro)	31 December 2016	31 December 2015
Within 1 year	141,244	127,703
1 to 5 years	354,420	353,354
Over 5 years	226,924	263,082
Total	722,588	744,139

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 2016 totaled 209,821 thousand Euro (203,071 thousand Euro in 2015).

42. Significant non-recurring events and transactions

During 2016, the Salvatore Ferragamo Group did not carry out significant non-recurring transactions and no significant non-recurring events occurred.

43. 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.

44. Subsidiaries highlights

Subsidiaries highlights are shown in the table below.

(In thousands)		2016			2015		
Company	Currency	Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	38,276	3,609	20,401	33,674	3,995	16,792
Ferragamo Japan K.K.	JPY	13,543,572	(963,771)	2,166,427	14,889,316	325,821	3,132,082
Ferragamo Korea Ltd.	KRW	150,001,423	5,087,733	71,494,503	145,088,627	5,522,273	74,406,770
Ferragamo Espana S.L.	EURO	10,419	(80)	3,199	11,531	505	3,279
Ferragamo Latin America Inc.*	USD	-	(6)	-	-	(30)	56
Ferragamo St. Thomas Inc.*	USD	-	-	-	-	-	-
Ferrimag Limited	HKD	-	(1,299)	122,543	-	(86)	123,842
Ferragamo Retail HK Limited	HKD	489,275	(41,944)	235,199	598,155	17,397	277,143
Ferragamo Retail Taiwan Limited	TWD	805,948	(4,105)	316,705	813,178	4,533	322,691
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,043,591	93,260	376,301	823,642	57,689	282,523
Ferragamo Retail Nederland B.V.	EURO	5,650	270	2,598	6,298	626	2,328
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	972,176	16,786	374,910	966,839	29,037	358,124
Ferragamo (Singapore) Pte. Ltd.	SGD	41,707	(4,905)	2,742	45,830	(2,632)	7,648
Ferragamo (Thailand) Limited	THB	215,207	(18,783)	62,169	189,545	(15,670)	80,930
Ferragamo (Malaysia) Sdn Bhd	MYR	46,291	(1,666)	22,518	42,573	754	24,184
Ferragamo Hong Kong Ltd.	USD	272,329	27,413	217,521	312,930	32,546	190,063
Ferragamo USA Group	USD	370,989	(8,173)	93,273	372,789	9,826	101,654
Ferragamo Deutschland GmbH	EURO	12,431	(692)	11,263	13,360	988	11,955
Ferragamo Belgique SA	EURO	1,845	(54)	1,270	2,315	133	1,323
Ferragamo Monte-Carlo S.A.M.	EURO	1,096	(116)	998	1,103	(80)	1,114
Ferragamo (Suisse) SA	CHF	8,975	(103)	4,363	10,353	739	5,066
Ferragamo U.K. Limited	GBP	17,146	(1)	8,538	14,936	(304)	7,040
Ferragamo France S.A.S.	EURO	23,369	(542)	9,773	28,934	(308)	10,335
Ferragamo Parfums S.p.A.	EURO	86,061	3,304	19,831	85,931	2,136	16,587
Ferragamo Chile S.A.	CLP	902,809	17,792	108,412	1,100,266	(109,015)	90,620
Ferragamo Austria GmbH	EURO	4,075	113	3,713	4,382	404	3,600
Ferragamo Retail India Private Limited	INR	437,330	(130,974)	(553,725)	443,016	(89,479)	(422,400)
Ferragamo Retail Macau Limited	MOP	150,126	(502)	91,961	147,587	20,127	92,463
Ferragamo Moda (Shanghai) Co.Ltd	CNY	252,775	(16,773)	(50,129)	241,666	(44,978)	(33,355)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	19,395	(8,990)	18,776	19,097	(9,489)	20,766
Ferragamo Argentina S.A.	ARS	23,782	(2,065)	(5,222)	14,527	(4,815)	(5,157)
Ferragamo Denmark ApS	DKK	5,382	(3,297)	719	4,766	(1,985)	4,015
Ma.Ga. Immobiliare S.r.l. (single-member company)**	EURO	-	-	-	-	(12)	766

*Company liquidated and dissolved in 2016

** Company merged into Salvatore Ferragamo S.p.A. during 2016

45. Significant events occurred after 31 December 2016

No significant events occurred after 31 December 2016.

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 2016
Audit	EY S.p.A.	Parent company		204
Other services	i) EY S.p.A.	Parent company		30
	ii) Network of EY S.p.A.	Parent company	1	74
Subtotal				308
Audit	i) EY S.p.A.	Subsidiaries		104
	ii) Network of EY S.p.A.	Subsidiaries		806
Tax assistance services	Network of EY S.p.A.	Subsidiaries		58
Other services	Network of EY S.p.A.	Subsidiaries		39
Subtotal				1,007
Total				1,315

1) The item refers mainly to IT support services.

Florence, 14 March 2017

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Statement pursuant to paragraph 154 bis of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)

1. The undersigned Eraldo Poletto in his capacity as “Managing Director” and Marco Fortini 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 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 2016 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2016 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 2016:

- 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 2016 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, 14 March 2017

Managing Director
Eraldo Poletto

Manager charged with preparing Company’s Financial Reports
Marco Fortini



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Independent auditor's report in accordance with articles 14 and 16 of legislative decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Salvatore Ferragamo Group, which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of cash flow and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 I.v.
Iscritta alla S.G. del Registro delle Imprese presso la C.C.I.A.A. di Roma
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Circoscrizione al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Salvatore Ferragamo Group as at 31 December 2016, 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 article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of 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. The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of Salvatore Ferragamo Group as at 31 December 2016.

Florence, 30 March 2017

EY S.p.A.
Signed by: Marco Mignani, partner

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

Salvatore Ferragamo S.p.A.

Draft of Separate Financial Statements as at 31 December 2016

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Financial statements

Statement of financial position – assets

(In Euro)					
	Notes	31 December 2016	<i>of which with related parties</i>	31 December 2015	<i>of which with related parties</i>
NON CURRENT ASSETS					
Property, plant and equipment	5	72,329,144		65,893,967	
Intangible assets with a finite useful life	6	25,617,741		19,956,709	
Investments in subsidiaries	7	207,079,231		184,130,887	
Available-for-sale financial assets	8	20,000		20,000	
Other non current assets	9	542,012		270,833	
Other non current financial assets	10	308,490	86,000	270,740	86,000
Deferred tax assets	36	9,435,245		10,290,948	
TOTAL NON CURRENT ASSETS		315,331,863	86,000	280,834,084	86,000
CURRENT ASSETS					
Inventories	11	97,520,221		95,404,487	
Trade receivables	12	183,341,451	133,233,033	178,602,753	128,922,054
Tax receivables	13	16,703,550		12,560,051	
Other current assets	14	41,265,383	32,347,739	9,872,474	1,962,388
Other current financial assets	15	36,924,959	36,696,617	12,678,115	12,402,471
Cash and cash equivalents	16	59,478,013		61,532,126	
TOTAL CURRENT ASSETS		435,233,577	202,277,389	370,650,006	143,286,913
TOTAL ASSETS		750,565,440	202,363,389	651,484,090	143,372,913

Statement of financial position – liabilities and shareholders' equity

(In Euro)					
	Notes	31 December 2016	of which with related parties	31 December 2015	of which with related parties
SHAREHOLDERS' EQUITY					
Share capital	17	16,879,000		16,879,000	
Reserves	17	355,216,419		232,878,046	
Net profit/(loss) for the period		191,066,413		202,108,784	
TOTAL SHAREHOLDERS' EQUITY		563,161,832		451,865,830	
NON CURRENT LIABILITIES					
Provisions for risks and charges	18	18,022,453		14,251,428	
Employee benefit liabilities	19	7,133,665		7,139,018	
Other non current liabilities	20	733,575		1,034,200	
Deferred tax liabilities	36	2,897,557		3,320,118	
TOTAL NON CURRENT LIABILITIES		28,787,250		25,744,764	
CURRENT LIABILITIES					
Trade payables	21	126,913,899	7,489,094	131,546,754	3,063,803
Interest-bearing loans & borrowings	22	-		-	
Tax payables	23	4,544,934		4,227,457	
Other current liabilities	24	25,839,531	2,228,826	37,047,450	18,388,013
Other current financial liabilities	25	1,317,994		1,051,835	
TOTAL CURRENT LIABILITIES		158,616,358	9,717,920	173,873,496	21,451,816
TOTAL LIABILITIES		187,403,608	9,717,920	199,618,260	21,451,816
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		750,565,440	9,717,920	651,484,090	21,451,816

Income statement

(In Euro)			<i>of which with related parties</i>		<i>of which with related parties</i>
	Notes	2016		2015	
Revenues from sales and services	27	823,626,465	558,429,657	824,795,834	593,221,443
Change in inventories of finished products		6,338,948	-	(2,838,696)	
Costs for raw materials, goods and consumables	28	(221,797,962)	(2,689,668)	(229,492,230)	(2,446,532)
Costs for services	29	(306,685,970)	(20,462,135)	(303,275,010)	(17,492,098)
Personnel costs	30	(63,245,570)	(2,532,770)	(62,258,247)	(2,840,272)
Amortization, depreciation and write-downs	31	(15,455,238)	-	(15,140,261)	
Other operating costs	32	(8,513,815)	(4,091,689)	(3,538,123)	(90,614)
Other income and revenues	33	9,332,961	1,356,998	9,214,306	1,309,926
Operating profit		223,599,819		217,467,573	
Financial charges	34	(32,696,982)		(43,180,208)	
Financial income	35	34,035,901	5,836,018	93,512,954	59,099,563
Profit before taxes		224,938,738		267,800,319	
Income taxes	36	(33,872,325)		(65,691,535)	
Net profit/(loss) for the period		191,066,413		202,108,784	

Statement of comprehensive income

(In thousands of Euro)			
	Notes	2016	2015
Net profit/(loss) for the period (A)		191,066	202,109
<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	(3,025)	11,854
- Income taxes		656	(3,260)
		<u>(2,369)</u>	<u>8,594</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		(2,369)	8,594
<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	(262)	330
- Income taxes		63	(142)
		<u>(199)</u>	<u>188</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		(199)	188
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		(2,568)	8,782
Total comprehensive income for the period, net of taxes (A+B)		188,498	210,891

Statement of cash flows

(In Euro)	Notes	2016	<i>of which with related parties</i>	2015	<i>of which with related parties</i>
Net profit/(loss) for the period		191,066,413		202,108,784	
Adjustments to reconcile net profit (loss) to net cash from (used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets	5-6	15,455,238		15,140,261	
Allocation / (use of) deferred taxes	36	1,151,554		(1,037,793)	
Provision for employee benefit plans	19	109,084		95,542	
Allocation to / (use of) the provision for obsolete inventory	11	(1,965,200)		1,234,757	
Allocation to / (use of) the provisions for risks and charges		1,525,735		1,199,610	
Losses and provision for bad debt	12	466,992		-	
Losses / (gains) on disposal of tangible and intangible assets		(21,687)		113,849	
Write-down / (restatement value) of investments in subsidiaries	7	(3,266,116)		4,379,376	
Stock Grant Plan costs	37	318,017		475,945	
Other non-monetary items		(119,146)		97,580	
Changes in operating assets and liabilities:					
Trade receivables		(2,225,114)	(4,310,979)	(29,423,769)	(15,180,749)
Inventories	11	(150,534)		(51,164)	
Trade payables	21	(4,632,855)	4,425,291	4,799,140	58,183
Tax receivables		(4,486,950)		(9,065,067)	
Tax payables	23	317,477		(853,848)	
Employee benefits payments	19	(376,339)		(331,142)	
Other assets	10-14	(32,274,007)	(30,385,351)	(1,188,643)	
Other liabilities	24	(16,360,813)	(16,159,187)	7,150,998	6,002,003
Other – net		(53,013)		(80,543)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES		144,478,736	(46,430,226)	194,763,873	(9,120,563)
Cash flow from investing activities:					
Purchase of tangible assets	5	(13,385,074)	(12,860)	(17,122,188)	(7,302,589)
Purchase of intangible assets	6	(12,113,701)		(8,038,307)	(75,700)
Purchase of financial assets (investments in subsidiaries)	7	(19,126,552)		(3,872,000)	
Proceeds from the sale of tangible and intangible assets		30,022		20,498	
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(44,595,305)	(12,860)	(29,011,997)	(7,378,289)
Cash flow from financing activities:					
Net change in financial receivables	15	(24,294,144)	(24,294,146)	(12,402,942)	(12,402,471)
Net change in financial payables	22	-		(29,200,000)	
Dividends paid	41	(77,643,400)	(57,080,278)	(70,732,200)	(52,116,943)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(101,937,544)	(81,374,424)	(112,335,142)	(64,519,414)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(2,054,113)		53,416,734	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		61,532,126		8,115,392	
Increase/(decrease) in cash and cash equivalents	16	(2,054,113)		53,416,734	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		59,478,013		61,532,126	
ADDITIONAL INFORMATION					
Interest paid		17,333		63,294	
Income taxes paid		83,810,413		64,163,922	
Interest received		303,941		175,977	
Dividends received		5,652,243		59,099,133	

Statement of changes in shareholders' equity

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		-
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

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 01.01.2015	16,841	4,188	2,995	155,220	25,478	(10,051)	(1,299)	10,373	107,176	310,921
Profit/(loss) for 2015									202,109	202,109
Other comprehensive income/(losses)						8,594	188			8,782
Total comprehensive income (loss)	-	-	-	-	-	8,594	188	-	202,109	210,891
Allocation of 2014 result				36,444					(36,444)	-
Distribution of dividends									(70,732)	(70,732)
Stock Grant Reserve								786		786
Reclassifications	38			12				(50)		-
As at 31.12.2015	16,879	4,188	2,995	191,676	25,478	(1,457)	(1,111)	11,109	202,109	451,866

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 2016 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 14 March 2017.

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 2015 and 2014 is given below.

Ferragamo Finanziaria S.p.A. (In Euro)	31 December 2015	31 December 2014
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	208,480,412	211,835,790
C) Current assets	48,630,145	27,515,093
D) Accrued expenses and deferred income	-	1,133
TOTAL ASSETS	257,110,557	239,352,016
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	147,779,522	144,685,745
- Profit (loss) for the year	40,131,470	36,579,327
B) Provisions for risks and charges	759,989	-
D) Payables	18,689,616	8,336,984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	257,110,557	239,352,016
 Guarantees, commitments and other risks	 -	 -
INCOME STATEMENT		
A) Value of production	50,891	11,973
B) Costs of production	(2,141,586)	(1,226,839)
Difference between value and costs of production	(2,090,695)	(1,214,866)
C) Financial income and charges	39,072,940	37,378,290
E) Extraordinary income and charges	3,316,529	-
Profit before taxes	40,298,774	36,163,424
Income taxes for the year, current and deferred	(167,304)	415,903
Profit (loss) for the year	40,131,470	36,579,327

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 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 2016 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 2016 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2016.

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;

- 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 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 payments 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 approved by 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 normally refer to a time period of three years, 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. 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 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.

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 IFRS 11 Joint arrangements: Accounting for interests in joint operations

The amendments to IFRS 11 require a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply the relevant principles for business combinations accounting in IFRS 3. The amendments also clarify that when an entity acquires an additional interest in a joint operation, in which the entity is already a joint operator, but joint control is retained, the previously held interest in the joint operation must not be remeasured. In addition, an exclusion from the scope of IFRS 11 has been added to clarify that the amendments do not apply when the parties sharing control, including the entity which prepares the financial statements, are subject to the joint control of the ultimate controlling entity. The amendments apply both to the initial acquisition of an interest in a joint operation, and the acquisition of an additional interest in the same joint operation. The amendments apply prospectively to annual periods beginning on or after 1 January 2016 and early adoption is permitted. This amendment did not have any impact on the financial statements of the Company, as this did not acquire interests in joint operations during the period.

Amendments to IAS 1: use of judgment in financial disclosure

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. In particular, the amendments clarify the following:

- the materiality requirements in IAS 1;
- that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- that entities have flexibility as to the order in which they present the notes to financial statements;
- that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified among those items that will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of profit or loss and other comprehensive income and the statement of financial position.

These amendments are effective for annual periods beginning on or after 1 January 2016, and early adoption is permitted. This amendment did not have any impact on the Company's financial statements.

Amendments to IAS 16 and IAS 38: Clarification of acceptable methods of depreciation and amortization

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part), rather than the economic benefits that are consumed through use of the asset. Therefore the amendments prohibit entities from using a revenue-based method for items of property, plant and equipment, and this method could be used only in very limited circumstances for the amortization of intangible assets. The amendments apply prospectively to annual periods beginning on or after 1 January 2016 and early adoption is permitted. There is no impact on the Company following the application of these amendments, as the Company does not use revenue-based methods of amortization and depreciation of its non current assets.

Amendments to IAS 19 Employee benefits: Employee contributions

IAS 19 mandates that an entity has to consider contributions from employees or third parties when accounting for defined benefit plans. Contributions that are linked to service must be attributed to periods of service as a reduction of service cost. The amendment clarifies that, if the amount of the contributions is independent of the number of years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered, instead of allocating the contributions to periods of service. This change did not have any impact on the Company's financial statements.

IFRS annual improvements cycle 2010-2012

The improvements concern the following issues:

IFRS 2 Share-based Payment

This improvement is effective prospectively and clarifies various issues related to the definition of performance conditions and service conditions that represent vesting conditions, including the following:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same Group;
- A performance condition may be a market or non-market condition;

- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3: Business Combinations

The amendment is effective prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination must be subsequently measured at fair value through profit or loss, whether or not they fall within the scope of IAS 39.

IFRS 8 Operating Segments

The amendment is effective retrospectively and clarifies that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in IFRS 8.12, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are “similar”;
- The reconciliation of segment assets to total assets is required to be disclosed only if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is effective retrospectively and clarifies that in IAS 16 and IAS 38 revaluation can be performed using observable inputs by either adjusting the gross carrying amount of the asset to market value, or determining the market value of the carrying amount and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. Furthermore, accumulated depreciation/amortization is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is effective retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

This improvement cycle did not have any impact on the Company’s financial statements.

IFRS annual improvements cycle 2012-2014

The improvements concern the following issues:

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment must be applied prospectively.

IFRS 7 Financial instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively.

IAS 19 Employee benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

Clarifications on the meaning of “elsewhere in the interim financial report”.

The Company has adopted this cycle of improvements and interpretations without recognizing significant changes in the Separate Financial Statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception

The amendments address the issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the

investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2016, and early adoption is permitted. These amendments did not have any impact on the Company's financial statements.

Amendments to IAS 27: Equity method in separate financial statements

The amendments will allow the entity to use the equity method in separate financial statements to measure investments in subsidiaries, joint ventures and associates. Entities which already apply IFRS and decide to change the accounting method by adopting the equity method in their separate financial statements must apply the amendment retrospectively. In the case of first-time adopters, an entity which decides to use the equity method in separate financial statements must apply it as from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, and early adoption is permitted. These amendments did not have any impact on the Company's financial statements.

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. In 2016, the Company performed a preliminary assessment of the main changes that IFRS 9 will introduce, and in 2017 it will assess the potential impact of applying the three aspects discussed in IFRS 9. This preliminary 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 the future.

In general, the Company does not expect these changes to materially affect its financial statements and equity.

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 are expected to give rise to cash flows that are solely payments of principal and interest. The Company therefore expects it will continue to measure them at amortized cost in accordance with IFRS 9. However, the Company will further assess the characteristics of the contractual cash flows of these instruments before concluding whether 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 bonds, loans, and trade receivables, either on an annual basis or based on their remaining life. The Company expects it will apply the simplified approach and recognize the expected losses on all trade receivables based on their remaining life. The Company does not expect these changes to materially affect its equity.

c) Hedge accounting

The Company believes that all existing hedging relationships currently designated as effective hedges will continue qualifying for hedge accounting in accordance with IFRS 9. Since IFRS 9 does not change the general principle that an entity should account for effective hedging relationships, the Company does not expect the application of this standard to have a material impact. The Company will further assess the potential changes

concerning the accounting for the time value of options, any option premiums paid or received and cross-currency interest rate swaps.

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 from contracts with customers, replacing all the current revenue recognition requirements included in other 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 expects it will apply the new standard from the mandatory effective date and is still considering whether to apply the full or modified retrospective approach. During 2016, the Company performed a preliminary 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 the Company level. This assessment may be subject to change following the in-depth analysis currently underway. 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 an element that could require deferring the recognition of revenue compared to the current accounting treatment.

(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 does not expect an impact from the application of the new Standard.

(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. The Company is still assessing the impact on the disclosures required, and therefore the systems, internal control, policies and procedures necessary to collect and present this information. However, considering that the analysis of the contracts and revenue streams shows that revenue is mainly recognized at a specific point in time, and based on the outcomes of the assessments performed, the Company does not expect to face significant implementation challenges concerning the inclusion of additional disclosures.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces 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 (the EU is currently endorsing the standard). 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 expects to determine the potential impact of IFRS 16 on its separate financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

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. The Company is assessing the impact of these amendments on its 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 Company is assessing the impact of these amendments on its financial statements.

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 is assessing the impact of these amendments on its financial statements.

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.

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 control 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 interest rates;
- price risk, relating to the sensitivity of the assets and liabilities market value to changes in the level of market 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 2016 and 2015, considering the amounts of sensitive assets and liabilities, interest rate trends, and the relevant market volatility, which reached levels close to zero, showed no contingent gains and losses through profit or loss.

The possible upward or downward change in the market's benchmark interest rates has a minor 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 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).

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 collect a currency other than the Euro for a future date arises (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 2016 the percentages of net revenues of the Company in US dollars were around 35%, in yen around 8% and in renminbi around 7%. In the year ended 31 December 2015, the percentage of net revenues realized by the Company in US dollars was around 38% of net revenues, in Japanese yen around 7% and in Chinese renminbi around 6%. The currency risks originate mainly from exports of the Company in US dollars, Japanese yen and Chinese renminbi.

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. 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 2016 and 31 December 2015:

Exchange rate risk (In thousands of Euro)	Cash flow hedge reserve	
	2016	2015
Opening balance	(2,010)	(13,864)
+ increases for recognition of new positive effectiveness	12,351	4,587
- decreases for recognition of new negative effectiveness	(15,457)	(40,041)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(8,859)	(2,711)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	8,940	50,019
Closing balance	(5,035)	(2,010)

Overall, the 'Reserve', which consists of the value changes in hedges for expected transactions in foreign currency, declined by 3,025 thousand Euro overall during 2016, whereas it had risen by 11,854 thousand Euro in 2015. The value changes reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro/US Dollar exchange rate was over 1.22 at the beginning of 2015, steadily declined to less than 1.05 in March 2015, and then stabilized in a range between 1.07 and 1.15 for nearly two years – until November 2016, when it once again accelerated to the downside and eventually reached 1.03. As for the Euro/Japanese Yen exchange rate, over the last two years the Japanese currency has been constantly appreciating against its European peer, moving from a high of 142 in early 2015 to a low of less than 110 in June 2016, and eventually ended the year at 122. The effective amount transferred directly from the "Reserve" to the income statement under "Revenues from sales" on occurrence of the underlying flows was a negative total of 81 thousand Euro in 2016 while it was a negative total of 47,308 thousand Euro in 2015. During 2016-2015 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 2016 and 2015. 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 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	-	-
31 December 2015						
Exchange rate risk						
Sales expected in USD	263,000	84,000	90,000	75,000	14,000	-
Sales expected in JPY	5,800,000	1,400,000	1,500,000	1,600,000	1,300,000	-
Sales expected in GBP	7,000	2,000	2,000	2,500	500	-
Sales expected in MXN	180,000	60,000	60,000	60,000	-	-
Sales expected in CHF	5,500	1,500	1,500	1,500	1,000	-
Sales expected in AUD	4,500	1,000	1,500	2,000	-	-
Sales expected in CAD	8,500	3,500	3,000	2,000	-	-
Sales expected in CNY	290,000	100,000	90,000	100,000	-	-
Sales expected in HKD	125,000	55,000	10,000	60,000	-	-
Sales expected in SGD	11,000	5,000	6,000	-	-	-
Sales expected in KRW	24,000,000	8,000,000	10,000,000	6,000,000	-	-

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

(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	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	-	-	-

(In thousands) 31 December 2015	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	200,000	84,000	92,000	24,000	-	-
Sales expected in JPY	5,100,000	1,100,000	1,700,000	1,500,000	800,000	-
Sales expected in GBP	6,000	1,800	2,000	2,200	-	-
Sales expected in MXN	120,000	60,000	60,000	-	-	-
Sales expected in CHF	4,800	1,500	1,500	1,400	400	-
Sales expected in AUD	4,000	500	2,500	1,000	-	-
Sales expected in CAD	6,000	3,000	3,000	-	-	-
Sales expected in CNY	210,000	80,000	90,000	40,000	-	-
Sales expected in HKD	85,000	25,000	40,000	20,000	-	-
Sales expected in SGD	10,000	6,000	4,000	-	-	-
Sales expected in KRW	20,000,000	4,000,000	16,000,000	-	-	-

The most important hedge, in terms of notional volume of the currency being hedged, is aimed at mitigating the risk generated by fluctuations in the exchange rates between the Euro and the following currencies: US dollar, Japanese yen, Chinese renminbi, South Korean Won and Hong Kong dollar.

As for the *EUR/MXN* exchange rate, the Parent company, after hedging more than 50% of the overall expected foreign currency exposure when establishing the price lists, decided to manage the risk in a more flexible manner with direct spot sales on the market.

From a time viewpoint, hedges lasting over one year are included within eighteen months. 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 2016 and 2015.

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 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 Non-derivatives	1,451 (536)	5,222
	EUR/USD	10.6%	Derivatives Non-derivatives	7,107 (6,224)	18,107
	EUR/KRW	11.7%	Derivatives Non-derivatives	495 (746)	1,485
	EUR/HKD	11.0%	Derivatives Non-derivatives	242 (299)	1,333
	EUR/CNY	8.8%	Derivatives Non-derivatives	606 (815)	2,369
	EUR/MXN	16.0%	Derivatives Non-derivatives	- (2,330)	-
	EUR/CAD	9.9%	Derivatives Non-derivatives	885	827
	Total				(164)
NEGATIVE CHANGE	EUR/JPY	(13.6%)	Derivatives Non-derivatives	(1,905) 705	(6,859)
	EUR/USD	(10.6%)	Derivatives Non-derivatives	(8,784) 7,692	(22,379)
	EUR/KRW	(11.7%)	Derivatives Non-derivatives	(626) 943	(1,879)
	EUR/HKD	(11.0%)	Derivatives Non-derivatives	(302) 372	(1,663)
	EUR/CNY	(8.8%)	Derivatives Non-derivatives	(723) 971	(2,825)
	EUR/MXN	(16.0%)	Derivatives Non-derivatives	- 3,218	-
	EUR/CAD	(9.9%)	Derivatives Non-derivatives	(1,080)	(1,010)
	Total				481
<hr/>					
31 December 2015		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	10.8%	Derivatives Non-derivatives	668 (665)	3,787
	EUR/USD	10.2%	Derivatives Non-derivatives	6,576 (5,815)	17,058
	EUR/KRW	12.0%	Derivatives Non-derivatives	503 (576)	1,677
	EUR/HKD	10.7%	Derivatives Non-derivatives	402 (402)	977
	EUR/CNY	9.9%	Derivatives Non-derivatives	1,019 (954)	2,675
	EUR/MXN	13.1%	Derivatives Non-derivatives	368 (1,926)	736
	EUR/CAD	9.7%	Derivatives Non-derivatives	640 (200)	350
	Total				(362)
NEGATIVE CHANGE	EUR/JPY	(10.8%)	Derivatives Non-derivatives	(830) 826	(4,703)
	EUR/USD	(10.2%)	Derivatives Non-derivatives	(8,076) 7,141	(20,948)
	EUR/KRW	(12.0%)	Derivatives Non-derivatives	(641) 734	(2,136)
	EUR/HKD	(10.7%)	Derivatives Non-derivatives	(499) 499	(1,212)
	EUR/CNY	(9.9%)	Derivatives Non-derivatives	(1,243) 1,163	(3,262)
	EUR/MXN	(13.1%)	Derivatives Non-derivatives	(479) 2,508	(958)
	EUR/CAD	(9.7%)	Derivatives Non-derivatives	(777) 243	(426)
	Total				569

As the table above shows, a positive change in the exchange rates (EUR/JPY, EUR/USD, EUR/KRW, EUR/HKD, EUR/CNY, EUR/MXN and EUR/CAD) would have resulted in a 164 thousand Euro and 362 thousand Euro loss as at 31 December 2016 and 31 December 2015, respectively; similarly, a negative change in the exchange rates would have caused 481 thousand Euro and a 569 thousand Euro profit as at 31 December 2016 and 31 December 2015, 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 29,343 thousand Euro and 27,260 thousand Euro as at 31 December 2016 and 31 December 2015, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 36,615 thousand Euro and 33,645 thousand Euro as at 31 December 2016 and 31 December 2015, 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 2016 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 295,000 thousand Euro as well as committed, revolving short and medium/long-term credit lines negotiated on a bilateral basis by the Company and, for some contracts, they can be used by several borrowers in their own accounting currency which may be different from the Euro (so-called multiborrower and/or multicurrency credit lines), for a total of 280,000 thousand Euro.

As at 31 December 2016 the Company's uses of these credit lines were equal to zero (both committed and uncommitted credit lines). Compared to the 280,000 thousand Euro available, the total amount available for the committed credit lines, considering the uses made by other Group companies which have access to such credit lines, was 276,821 thousand Euro; as at the reporting date, the Company's uses of these credit lines were equal to zero and the net financial position amounted to a surplus of 95,085 thousand Euro; as at 31 December 2015 the Company's net financial position amounted to a surplus of 73,158 thousand Euro.

As at 31 December 2016 committed credit lines had a maximum residual duration of forty-eight months and a weighted average residual duration of twenty-seven months. The credit lines and the related financial business are spread among leading national and international banks. At the date of this Report there were no outstanding uses of lines by Salvatore Ferragamo S.p.A.. 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. During 2016 the Company, taking advantage of extremely low market interest rates and particularly favorable credit conditions for the Company, renegotiated almost all the outstanding committed credit lines, and added some new ones, extending the contractual expiry to a maximum of forty-eight months. Cash surpluses are used with reference banks in short-term (usually between one day and thirty 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 which are close to 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. Thanks to the constant availability of an adequate amount of committed credit lines, the most turbulent market phases and the credit crunch 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 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

Liquidity risk – Maturity analysis (In thousands of Euro)					31 December 2015
	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	116,583	12,166	-	-	128,749
Payables to subsidiaries	2,798	-	-	-	2,798
Derivatives – non-hedging component	1,029	40	-	-	1,069
Derivatives – hedging component	3,910	4,859	-	-	8,769
Total	124,320	17,065	-	-	141,385

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months, with values amounting to 14 thousand Euro as at 31 December 2016 and nil values as at 31 December 2015 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 23 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 2016		31 December 2015	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Trade receivables	183,341	-	178,603	-
Receivables due from credit cards	372	-	190	-
Cash and cash equivalents	59,478	-	61,532	-
Guarantee deposits	-	343	-	306
Derivatives	2,803	123	3,694	-
Total	245,994	466	244,019	306

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 2016 and 31 December 2015, 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 2016	%	31 December 2015	%
Italy	29,054	15.8%	24,577	13.8%
Europe	30,995	16.9%	34,564	19.3%
North America	51,071	27.9%	47,965	26.9%
Japan	2,531	1.4%	4,151	2.3%
Asia Pacific	46,556	25.4%	44,328	24.8%
Central and South America	23,134	12.6%	23,018	12.9%
Total	183,341	100.0%	178,603	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 2016	161,439	2,535	1,606	3,221	3,871	10,669	183,341
31 December 2015	158,207	2,602	2,069	3,257	3,236	9,233	178,603
Figures in % at 31 December 2016	88.1%	1.4%	0.9%	1.8%	2.1%	5.8%	100.0%
Figures in % at 31 December 2015	88.6%	1.5%	1.2%	1.8%	1.8%	5.2%	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 2016 and 31 December 2015.

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	2016	2015
Percentage of revenues with the biggest customer	1.2%	1.4%
Percentage of revenues with the 3 biggest customers	2.9%	3.5%
Percentage of revenues with the 10 biggest customers	6.9%	7.7%

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 2016 and 2015.

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 1,167 thousand Euro (982 thousand Euro as at 31 December 2015) 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 2016	31 December 2015
Other financial payables	1,167	982
Trade and other payables	139,988	160,981
Cash and cash equivalents	59,478	61,532
Net debt	81,677	100,431
Total shareholders' equity	566,988	453,323
Shareholders' equity and net debt	648,665	553,754
Net debt/shareholders' equity	14.41%	22.15%

4. Business combinations

During 2016 there were no business combinations.

Merger of Ma.Ga. Immobiliare S.r.l. (single-member company)

On 22 November 2016, the merger of the single-member company Ma.Ga Immobiliare S.r.l. into Salvatore Ferragamo S.p.A. was finalized by filing the deed of merger of 15 November 2016 with the Florence Company Register. The merger had begun with the approval of its draft terms at the meeting of Salvatore Ferragamo S.p.A.'s Board of Directors on 30 June 2016, and continued with the approval of the merger by Salvatore Ferragamo S.p.A.'s Board of Directors at the extraordinary meeting of 2 August 2016 and the Shareholders' Meeting of the single-member company Ma.Ga. Immobiliare S.r.l. on 2 August 2016. The resolution approved by the Company's Board of Directors on 2 August 2016 and the relevant attachments are available to the public at the Company's registered office, in Florence, Via Tornabuoni 2, as well as the Company's website at <http://group.ferragamo.com> in the Section Governance/Extraordinary Operations, and the authorized storage mechanism "NIS- Storage" (www.emarketstorage.com). The merging company did not carry out any rights issue as part of the transaction. The only ownership interest in Ma.Ga. Immobiliare S.r.l. single-member company was canceled without assigning or swapping shares. In addition, no changes were made to Salvatore Ferragamo S.p.A.'s Bylaws. For the purposes of the merger, the financial position of the two entities as at 31 December 2015 was considered.

The merger is effective for accounting and tax purposes retroactively as from 1 January 2016, consistently with the accounting in the 2015 Consolidated Financial Statements, to which reference should be made. For details about the merger's impact on the Separate Financial Statements, reference should be made to the Explanatory notes (note 5).

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016			31 December 2015		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	18,010	-	18,010	15,949	-	15,949
Buildings	35,026	8,712	26,314	34,321	7,665	26,656
Plant and equipment	26,740	20,187	6,553	24,689	18,196	6,493
Industrial and commercial equipment	22,058	18,424	3,634	21,287	16,820	4,467
Other assets	30,008	25,395	4,613	28,047	22,989	5,058
Leasehold improvements	20,306	16,592	3,714	19,216	14,761	4,455
Fixed assets in progress and payments on account	9,491	-	9,491	2,816	-	2,816
Total	161,639	89,310	72,329	146,325	80,431	65,894

The following table shows the changes in Property, plant and equipment for the year ended 31 December 2016:

(In thousands of Euro)	Value at	Additions	Disposals	Depreciation	Contribution from merger	Impairment	Value at
	01.01.2016						31.12.2016
Land	15,949	-	-	-	2,061	-	18,010
Buildings	26,656	714	(8)	(1,048)	-	-	26,314
Plant and equipment	6,493	2,168	-	(2,108)	-	-	6,553
Industrial and commercial equipment	4,467	776	-	(1,609)	-	-	3,634
Other assets	5,058	1,961	-	(2,378)	-	(28)	4,613
Leasehold improvements	4,455	1,090	-	(1,831)	-	-	3,714
Fixed assets in progress and payments on account	2,816	7,140	(465)	-	-	-	9,491
Total	65,894	13,849	(473)	(8,974)	2,061	(28)	72,329

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 and showrooms that were refurbished during the year;
- in the item "Other assets" mainly refers to IT equipment (1,335 thousand Euro) and furniture and furnishings (458 thousand Euro);
- in the item "Leasehold improvements" refers mainly to work carried out for the renovation of stores.

Concerning land, the "Contribution from merger" column refers to the impact of the merger of the wholly-owned single-member subsidiary Ma.Ga. Immobiliare S.r.l. into the Company. The merger is effective for accounting and tax purposes retroactively as from 1 January 2016 (had the merger been accounted for at the effective date, the impact would be unchanged). The 2,061 thousand Euro amount refers to the contribution of land from the single-member company Ma.Ga Immobiliare S.r.l., to which the 1,821 thousand Euro merger deficit was entirely allocated.

The single-member company Ma.Ga. Immobiliare S.r.l. owned land located in an area where Salvatore Ferragamo S.p.A. launched a project to expand the site in Osmannoro by building a new logistics center, as previously indicated in the 2015 Annual Report. The merger was made for economic and strategic reasons, and specifically because of the need to integrate the two Companies to have more building plots and building rights for the purposes of the construction of a new logistics center at the Osmannoro-Sesto Fiorentino facility. For details reference should be made to the information provided in the Directors' report on operations in the section "Significant events occurred during the year".

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 (9,327 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 28 thousand Euro in “Other assets” refers to the tangible assets of a store at the Rome airport in relation to its closure due to relocation.

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016			31 December 2015		
	Historic Cost	Accumulated amortization	Net value	Historic Cost	Accumulated amortization	Net value
Development costs	37,748	19,895	17,853	27,525	14,617	12,908
Industrial patents and use of intellectual property rights	13,221	11,729	1,492	12,299	10,776	1,523
Concessions, licenses and trademarks	6,418	5,366	1,052	6,161	5,143	1,018
Intangible assets with a finite useful life in progress	5,221	-	5,221	4,508	-	4,508
Total	62,608	36,990	25,618	50,493	30,536	19,957

The following table shows the changes in Intangible assets with a finite useful life for the year ended 31 December 2016:

(In thousands of Euro)	Value at	Additions	Disposals	Amortization	Value at
	01.01.2016				31.12.2016
Development costs	12,908	10,223	-	(5,278)	17,853
Industrial patents and use of intellectual property rights	1,523	922	-	(953)	1,492
Concessions, licenses and trademarks	1,018	256	-	(222)	1,052
Intangible assets with a finite useful life in progress	4,508	3,557	(2,844)	-	5,221
Total	19,957	14,958	(2,844)	(6,453)	25,618

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” (922 thousand Euro) refer for 888 thousand Euro to the cost for licenses to use software for Company management procedures and for 34 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 increase in Intangible assets with a finite useful life in progress mainly referred to the so-called “Old Replacement” project (2,161 thousand Euro), whose aim is introducing a new SAP-based distribution system integrated with the logistic shipping and billing system. The project was still in progress at the end of 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.

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)								
Company	% investment	Value at 01.01.16	Additions	Restatement	Write-downs	Stock Grant	Disposals	Value at 31.12.16
Ferragamo Parfums S.p.A.	100	30,057	-	10,713	-	31	-	40,801
Ferragamo Mexico S. de R.L. de C.V.	99.73	499	-	-	-	21	-	520
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	8,736	1,741	-	-	-	-	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	-	-	-	-	-	807
Ferragamo USA Inc.	100	57,847	-	-	-	31	-	57,878
Ferragamo Japan K.K.	71	8,397	-	-	-	-	-	8,397
Ferragamo Hong Kong Ltd.	100	12,665	-	-	-	41	-	12,706
Ferragamo (Malaysia) Sdn. Bhd.	100	1,911	926	-	-	-	-	2,837
Ferragamo (Singapore) Pte Ltd	100	2,739	364	-	(3,103)	-	-	-
Ferragamo Korea Ltd.	100	21,321	13,953	-	-	-	-	35,274
Ferragamo Retail Macau Limited	75.2	1,241	-	-	-	-	-	1,241
Ferragamo Retail Nederland B.V.	100	2,291	-	-	-	-	-	2,291
Ferragamo (Thailand) Limited	100	1,779	294	-	-	-	-	2,073
Ferragamo Brasil Roupas e Acessorios Ltda.	99	-	1,741	-	(1,741)	-	-	-
Ma. Ga. Immobiliare S.r.l. (single-member company)	100	2,064	-	-	-	-	(2,064)	-
Total		184,131	19,019	10,713	(4,844)	124	(2,064)	207,079

The increase in the interest in Ferragamo U.K. Limited referred to the 1,500,000 Pound Sterling share capital increase authorized by the British subsidiary on 29 September 2016, which was entirely subscribed for by Salvatore Ferragamo S.p.A.. As a result, the subsidiary's share capital now totals 7,672,735 Pound Sterling.

The increase in the interest in Ferragamo Brasil Roupas e Acessorios Ltda. referred to the 7,000,000 Reals share capital increase authorized by the Brazilian subsidiary on 27 April 2016, which was subscribed for 99% by Salvatore Ferragamo S.p.A and for the remaining 1% by Ferragamo USA Inc.. As a result, the subsidiary's share capital now totals 55,615,000.00 Reals.

For details concerning the increases in the interests in Ferragamo (Malaysia) Sdn. Bhd, Ferragamo (Singapore) Pte Ltd, Ferragamo Korea Ltd., and Ferragamo (Thailand) Limited, reference should be made to the section "Significant events occurred during the year" in the Directors' report on operations.

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 using as a starting point the budget for 2017 as prepared and approved by the Board of Directors, using the expected cash flows based on the three-year plan approved by the Company's Board of Directors for the 2016-2018 period and management's expectations regarding the trends on the markets where the investments are located.

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 2015);
- Discount rate (Weighted Average Cost of Capital, WACC): 7.80% (7.80% as at 31 December 2015).

The results of the analyses undertaken are provided below:

- write-downs were recorded on the investments in Ferragamo (Singapore) Pte Ltd and Ferragamo Brasil Roupas e Acessorios Ltda for a total of 4,844 thousand Euro to reflect the reductions in assets following the losses incurred in these markets and so as to adjust their book value to the corresponding recoverable value;
- a restatement of investments in Ferragamo Parfums S.p.A. was recorded for a total of 10,713 thousand Euro relating to previous write-downs (up to the maximum limit of the purchase/subscription cost), in order to adjust the related book value to the corresponding recoverable amount.

The sensitivity analysis concerning the aforementioned key assumptions which were used to determine the recoverable amount (changes in the growth rate of +/-0.5% and changes in WACC of +/-0.5%), did not reveal significantly different results for the recoverable amount of the investments being tested.

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 01.01.16	Additions	Write- downs	Value at 31.12.16
Ferragamo Argentina SA	95	(348)	107	(57)	(298)
Ferragamo Retail India Private Limited	51	(2,991)	-	(953)	(3,944)
Ferragamo Moda (Shanghai) Co. Ltd.	75	(3,543)	-	(1,593)	(5,136)
Total		(6,882)	107	(2,603)	(9,378)

The increase in the interest in Ferragamo Argentina SA referred to the 2,000,000 Peso share capital increase finalized on 4 March 2016, 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 4,969,107 Peso.

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 31.12.16
			Currency	Amount	Euro	Euro	Euro
Ferragamo Parfums S.p.A.	Florence	100	Euro	10,000	19,831	3,304	40,801
Ferragamo Austria GmbH	Vienna	100	Euro	1,853	3,713	113	4,434
Ferragamo Deutschland GmbH	Munich	100	Euro	3,300	11,263	(692)	9,246
Ferragamo Belgique SA	Brussels	100	Euro	750	1,270	(54)	1,066
Ferragamo France S.A.S.	Paris	100	Euro	4,334	9,773	(542)	9,945
Ferragamo (Suisse) SA	Mendrisio	100	Chf	1,000	4,062	(95)	890
Ferragamo Espana S.L.	Madrid	100	Euro	4,600	3,199	(80)	1,001
Ferragamo U.K. Limited	London	100	Gbp	7,673	9,973	(2)	10,477
Ferragamo Retail Nederland B.V.	Amsterdam	100	Euro	500	2,598	270	2,291
Ferragamo Denmark ApS	Copenhagen	100	Dkk	500	97	(443)	807
Ferragamo Australia Pty Ltd.	Sydney	100	Aud	13,637	13,977	2,425	4,132
Ferragamo USA Inc.*	New York	100	Usd	74,012	88,486	(7,383)	57,878
Ferragamo Monte-Carlo S.A.M.	Monte Carlo	100	Euro	304	998	(116)	1,063
Ferragamo Mexico S. de R.L. de C.V.	Mexico City	99.73	Mxn	4,593	17,284	4,512	520
Ferragamo Japan K.K.	Tokyo	71	Yen	305,700	17,556	(8,018)	8,397
Ferragamo Hong Kong Ltd.	Hong Kong	100	Hkd	1	206,357	24,765	12,706
Ferragamo Chile S.A.	Santiago	99	Clp	1,362,590	149	20	-
Ferragamo (Thailand) Limited	Bangkok	100	Thb	100,000	1,648	(481)	2,073
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur	100	Myr	1,300	4,762	(363)	2,837
Ferragamo (Singapore) Pte Ltd	Singapore	100	Sgd	4,600	1,800	(3,211)	-
Ferragamo Argentina S.A.	Buenos Aires	95	Ars	4,969	(312)	(126)	(298)
Ferragamo Retail India Private Limited	New Delhi	51	Inr	150,000	(7,734)	(1,761)	(3,944)
Ferragamo Korea Ltd.	Seoul	100	Kwon	3,291,200	56,323	3,962	35,274
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, PRC	75	Usd	11,120	(6,848)	(2,281)	(5,136)
Ferragamo Retail Macau Limited	Macau	75.2	Mop	25	10,923	(57)	1,241
Ferragamo Brasil Roupas e Acessorios Ltda.	Sao Paulo	99	Brl	55,615	5,473	(2,331)	-
Total							197,701

* Data refer to the Ferragamo USA Group.

8. Available-for-sale financial assets

Available-for-sale financial assets, totaling 20 thousand Euro as at 31 December 2016, were unchanged from the previous year and referred to the minority interest (0.82%) in Polimoda Consulting S.r.l. in liquidation since 2013.

9. Other non current assets

“Other non current assets”, amounting to 542 thousand Euro (271 thousand Euro as at 31 December 2015), included 123 thousand Euro related to the measurement at fair value of the non-current portion of outstanding hedging derivatives – which the Parent company entered into to hedge the exchange rate risk on sales in currencies other than the Euro – and 419 thousand Euro in 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 2015 and 2016.

10. Other non current financial assets

Other non current financial assets, totaling 308 thousand Euro as at 31 December 2016 (271 thousand Euro as at 31 December 2015), 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 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Gross value of raw materials, accessories and consumables	39,049	45,911	(6,862)
Provision for obsolete inventory	(4,488)	(7,127)	2,639
Raw materials, accessories and consumables	34,561	38,784	(4,223)
Gross value of finished products and goods for resale	74,230	67,217	7,013
Provision for obsolete inventory	(11,271)	(10,597)	(674)
Finished products and goods for resale	62,959	56,620	6,339
Total	97,520	95,404	2,116

The change in stocks of raw materials, down by 4,223 thousand Euro compared to 2015, 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 increased by 6,339 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.

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

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Raw materials	2,639	472	2,167
Finished products	(674)	762	(1,436)
Total	1,965	1,234	731

12. Trade receivables

The breakdown of the item “Trade receivables” as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Trade receivables from third parties	54,976	54,086	890
Provision for bad debt	(4,841)	(4,391)	(450)
Trade receivables from subsidiaries	133,206	128,908	4,298
Total	183,341	178,603	4,738

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 2016 were as follows:

(In thousands of Euro)	Value at 01.01.2016	Allocations	Uses	Value at 31.12.2016
Provision for bad debt	4,391	467	(17)	4,841

For an analysis of past due 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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Due from tax authorities (valued added tax)	2,775	4,674	(1,899)
Other tax receivables	10,250	7,886	(2,364)
Due from tax authorities (IRAP)	3,679	-	3,679
Total	16,704	12,560	4,144

Tax receivables increased by 4,144 thousand Euro compared to the previous year.

Specifically, the increase in Due from tax authorities for Irap, amounting to 3,679 thousand Euro, included the following:

- 1,705 thousand Euro due to the settlement of the 2015 Irap tax; this amount was the result of the reduction in direct tax expense thanks to the tax benefit associated with the so-called “Patent box”. The Company entered into the relevant ruling, which is effective for annual periods between 2015 and 2019, on 29 December 2016. For details reference should be made to the information provided in the Directors' report on operations in the section “Significant events occurred during the year”;
- 1,974 thousand Euro from the excess payments on account made during 2016 compared to the direct Irap income tax liability for the period ended 31 December 2016.

Other tax receivables mainly included:

- the 2,387 thousand Euro Research and Development Tax Credit for the years 2015 and 2016 (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 (UNICO, a unified tax return form) for the same period;
- the 277 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 419 thousand Euro non-current portion was recognized under “Other non current assets”. The 425 thousand Euro tax credit for donations made in 2016 was recognized in the Income Statement under “Other income”.

14. Other current assets

The breakdown of the item “Other current assets” as at 31 December 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Receivables due from credit card management companies	372	190	182
Receivables from staff	6	12	(6)
Other receivables for short-term hedge derivatives	2,575	3,418	(843)
Other receivables	2,589	953	1,636
Accrued income	5	40	(35)
Prepaid expenses	3,343	3,174	169
Receivables from the Holding company	32,348	1,962	30,386
Receivables from social security institutions	27	123	(96)
Total	41,265	9,872	31,393

Receivables due from the Holding company Ferragamo Finanziaria S.p.A. (32,348 thousand Euro) are broken down as follows:

- 1,962 thousand Euro refer to 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, Law Decree no. 201 of 6 December 2011) which were recognized in 2012;
- 30,386 thousand Euro refer to the domestic fiscal unity for the year 2016 and the settlement of the 2015 IRES tax as a result of the reduction in direct tax expense thanks to the tax benefit of the so-called “Patent box”. The Company entered into the relevant ruling, which is effective for annual periods between 2015 and 2019, with Italian tax authorities on 29 December 2016.

Other receivables for hedge derivatives totaling 2,575 thousand Euro (3,418 thousand Euro as at 31 December 2015) 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 include rents (1,027 thousand Euro), expenses relating to the fit-out of tailored single brand stores and/or stores-in-stores managed by third parties (TPOS) (1,696 thousand Euro) and insurance premiums (43 thousand Euro).

The item mainly includes advances to suppliers (2,288 thousand Euro), up by 1,403 thousand Euro from 31 December 2015.

15. Other current financial assets

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Financial receivables due from subsidiaries	36,697	12,402	24,295
Short-term derivatives	228	276	(48)
Total	36,925	12,678	24,247

Financial receivables due from subsidiaries included the loans granted to the subsidiaries Ferragamo Deutschland GmbH, Ferragamo France S.A.S., Ferragamo Parfums S.p.A., Ferragamo Japan KK, Ferragamo Usa Inc, and 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 228 thousand Euro and refers to the fair value measurement of derivatives for the non-hedge component (276 thousand Euro as at 31 December 2015). 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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Bank and post office deposits	59,329	61,505	(2,176)
Cash and values on hand	149	27	122
Total	59,478	61,532	(2,054)

Bank and post office deposits, which include time deposits expiring in no more than 30 days, refer to temporary cash holdings mainly to meet imminent payments or to make intercompany loans. As at 31 December 2016, the Company had 571,821 thousand Euro in unused credit lines, considering the drawdowns by the other Group companies that can access them. As at 31 December 2015, unused credit lines totaled 500,000 thousand Euro.

17. Share capital and reserves

The authorized **share capital** of the Company as at 31 December 2016 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, amounting to 316,082 thousand Euro, is made up of retained earnings; the change during the period was the result of a 124,466 thousand Euro increase arising from the profit for 2015 net of 77,643 thousand Euro in dividends paid out – as resolved in 2016 – and a decrease due to the reclassification of

60 thousand Euro to the Specific reserve for free share capital increases set up to service the 2016-2020 Stock Grant plan (1st cycle).

The revaluation reserve consists of:

- Revaluation reserve as per Law 342/00 amounting to 4,593 thousand Euro;
- Revaluation reserve as per Law 350/03 amounting to 7,420 thousand Euro;
- Revaluation reserve as per 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 negative for 3,826 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2016, 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 1,310 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 11,610 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, it includes the specific reserve set up in 2016 to service the Company's future free share capital increase for a nominal amount of 60 thousand Euro (nominal value of 0.10 Euro each) for the 2016-2020 Stock Grant Plan and the Stock Grant Reserve (441 thousand Euro) which includes the fair value as at 31 December 2016 of the rights assigned to receive shares of the Company. For details on the Stock Grant Plan reference should be made to note 37. Finally, the item "Other reserves" includes 1.4 thousand Euro for the provision as per art. 55 of Presidential Decree 597/1973 relating to VAT recovery pursuant to art. 15 of Law 26/04/1983.

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)

Shareholders' equity	Value at 31.12.16	Possibility of use	Amount available	Summary of uses made in the last three years
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	820	
Extraordinary reserve	316,082	A - B - C	316,082	60
Reserve for adoption of IAS/IFRS	6,427	B*	2,007	
Accumulated gains/losses	(356)	B		
Cash flow hedge reserve	(3,826)			
IAS 19 reserve	(1,310)			
Specific reserve for share capital increase to serve the Stock Grant Plan	60			
Stock Grant Reserve	5,478			
Net profit/(loss) for the year	191,066			
Total	563,162.4		347,382.4	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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	Value at			Value at
	01.01.2016	Allocations	Uses	
Legal disputes	646	996	(282)	1,360
Provision for other risks	6,723	561	-	7,284
Provision for excess write-downs of investments	6,882	2,603	(107)	9,378
Total	14,251	4,160	(389)	18,022

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 the year.

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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	
Employee benefit liabilities (severance indemnities)	9,708	9,661	47
Advances on employee severance indemnities	(2,574)	(2,522)	(52)
Total	7,134	7,139	(5)

The following table sets out the changes occurred during the period:

(In thousands of Euro)	31 December	31 December
	2016	2015
Present value of the obligation at the beginning of the period	7,139	7,705
Financial charge	109	95
Benefits paid	(376)	(331)
Actuarial loss/(gain) arising from:		
- financial assumptions	276	(199)
- demographic assumptions	49	(64)
- experience-based adjustments	(63)	(67)
Total actuarial loss / (gain)	262	(330)
Present value of the obligation at the end of the period	7,134	7,139

The main assumptions used in determining the present value of employee severance indemnities were as follows:

	2016	2015
Annual discount rate	1.13%	1.53%
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 4.67% per year.

Here below is a quantitative sensitivity analysis for the main assumptions as at 31 December 2016 and 31 December 2015 concerning employee benefit obligations:

(In thousands of Euro)	% change	2016		2015	
		Additions	Disposals	Additions	Disposals
Annual discount rate	+/- 0.5%	(347)	376	(326)	352
Mortality rate	+/- 0.025%	(2)	2	(1)	1
Staff turnover rate	+/- 0.5%	(32)	34	(22)	23

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)	2016	2015
Top managers, middle managers and store managers	143.64	137.33
White collars	532.15	537.28
Blue collars	180.83	177.87
Temporary Agency staff	10.19	9.98
Total	866.81	862.46

Average staff is mostly unchanged compared to the previous year.

20. Other non current liabilities

The breakdown of the item “Other non current liabilities” as at 31 December 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Payables for deferred rents	730	1,034	(304)
Other payables for hedging derivatives	4	-	4
Total	734	1,034	- (300)

Payables for deferred rents refer almost entirely to the straight lining of rents over the contract period for leased property.

The item “Other payables for hedge derivatives” shows the fair value valuation at the end of the year of non current outstanding derivatives (hedge component) entered into by the Parent company to manage exchange rate risk. For further details, reference should be made to note 26.

21. Trade payables

The breakdown of Trade payables as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Trade payables to third parties	114,449	124,226	(9,777)
Invoices to be received	5,438	4,523	915
Payables to subsidiaries	7,027	2,798	4,229
Total	126,914	131,547	(4,633)

Trade payables do not bear interest and usually become due after 60/90 days. This item consists of payables relating to the normal commercial activity carried out by the Company, in particular costs for the purchase of raw materials, parts and manufacturing in outsourcing.

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 2016 and 31 December 2015 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).

During 2016 the Parent company, taking advantage of particularly favorable market interest rates and credit conditions for the Company, renegotiated almost all the outstanding committed credit lines, and added some new ones, extending the contractual expiry to a maximum of forty-eight months.

As at 31 December 2016 committed credit lines had a maximum residual duration of forty-eight months and a weighted average residual duration of twenty-seven 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 2016		31 December 2015	
	Agreed	Used	Agreed	Used
Committed credit lines	280,000	-	240,000	-
Uncommitted credit lines	295,000	-	260,000	-
Total	575,000	-	500,000	-

The following table provides the breakdown and changes in the net financial position as at 31 December 2016 and 31 December 2015, 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
	2016	2015	2016 vs. 2015
A. Cash	149	27	122
B. Other cash equivalents	59,329	61,505	(2,176)
C. Cash and cash equivalents (A)+(B)	59,478	61,532	(2,054)
Derivatives – non-hedging component	228	276	(48)
Other financial assets *	36,697	12,402	24,295
D. Current financial receivables	36,925	12,678	24,247
E. Current bank payables	-	-	-
F. Derivatives – non-hedging component	1,318	1,052	266
G. Other current financial payables	-	-	-
H. Current financial debt (E)+(F)+(G)	1,318	1,052	266
I. Current financial debt, net (H)-(C)-(D)	(95,085)	(73,158)	(21,927)
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)	(95,085)	(73,158)	(21,927)

* 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 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	31 December	31 December	Change
	2016	2015	2016 vs. 2015
Payables for current taxes – IRAP	-	1,066	(1,066)
Tax payables due to foreign tax authorities for VAT	161	124	37
Tax payables for withholdings applied	2,779	3,037	(258)
Tax payables due to foreign tax authorities	1,605	-	1,605
Total	4,545	4,227	318

Tax payables due to foreign tax authorities, totaling 1,605 thousand Euro, represented the amount due to Korean tax authorities for the taxes withheld as withholding agent on the payment 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 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Payables to the Holding company	-	16,772	(16,772)
Payables to staff	7,161	6,949	212
Payables to social security institutions	3,053	3,105	(52)
Other payables to third parties	536	481	55
Other payables for hedging derivatives	12,766	7,613	5,153
Accrued expenses	1,570	987	583
Deferred income	754	1,140	(386)
Total	25,840	37,047	(11,207)

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 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 2016 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:

- 197 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;
- 500 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 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	31 December 2016	31 December 2015	Change 2016 vs. 2015
Short-term derivatives	151	70	81
Other current financial payables	1,167	982	185
Total	1,318	1,052	266

As at 31 December 2016 "Other current financial payables" amounting to 1,167 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 2015, this item amounted to 982 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 2016 and 31 December 2015.

Classification of financial instruments and presentation of their fair value

FINANCIAL ASSETS	31 December 2016			31 December 2015		
	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	228	-	228	276	-	276
Available-for-sale financial assets	-	20	20	-	20	20
Receivables and loans						
Receivables due from credit cards	372	-	372	190	-	190
Trade receivables	183,341	-	183,341	178,603	-	178,603
Receivables for loans due from subsidiaries	36,697	-	36,697	12,402	-	12,402
Guarantee deposits	-	308	308	-	271	271
Cash and cash equivalents	59,478	-	59,478	61,532	-	61,532
Derivatives – hedging component	2,575	123	2,698	3,418	-	3,418
Total	282,691	451	283,142	256,421	291	256,712
FINANCIAL LIABILITIES						
FINANCIAL LIABILITIES	31 December 2016			31 December 2015		
	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	126,914	-	126,914	131,547	-	131,547
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	1,318	-	1,318	1,052	-	1,052
Derivatives – hedging component	12,766	4	12,770	7,613	-	7,613
Total	140,998	4	141,002	140,212	-	140,212

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 Group 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 2016 and 2015.

(In thousands of Euro)	31 December 2016	31 December 2015
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	(10,381)	(11,345)
Derivatives – hedging component	81	(47,308)
<i>Net gains/(losses) on financial instruments recognized in shareholders' equity:</i>		
Derivatives – hedging component	(3,025)	11,854
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	304	177
Interest expense	106	167
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>		
	540	562
<i>Interest income accrued on financial instruments written-off</i>		
	-	-
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	467	-

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 2016 and 2015.

27. Revenues from sales and services

The breakdown of Revenues from sales and services as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Wholesale revenues	729,381	723,530	5,851
Retail and e-commerce revenues	72,569	78,196	(5,627)
Royalties for concessions of trademarks	8,539	8,969	(430)
Other services	6,311	6,470	(159)
Other revenues	6,826	7,631	(805)
Total	823,626	824,796	(1,170)

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. (global 2016 turnover amounting to 37,174 thousand Euro compared to 38,890 thousand Euro in 2015); to the **watches** product category to the company Vertime B.V. belonging to the Timex Group (global 2016 turnover amounting to 14,580 thousand Euro compared to 14,324 thousand Euro in 2015); 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 2016 and 31 December 2015:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Raw materials	145,593	162,703	(17,110)
Finished products	66,403	62,448	3,955
Packaging	4,297	4,638	(341)
Other purchases of materials	825	923	(98)
Stationery	457	435	22
Change in inventories of raw materials, accessories and consumables	4,223	(1,655)	5,878
Total	221,798	229,492	(7,694)

29. Costs for services

The breakdown of Costs for services as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Manufacturing in outsourcing	197,615	199,184	(1,569)
Production, general, administrative and sales costs	88,755	85,165	3,590
Costs for the use of third-party assets	20,316	18,926	1,390
Total	306,686	303,275	3,411

As at 31 December 2016 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 28,506 thousand Euro;
- consultancy costs and fees to third parties (legal, administrative, product, manufacturing process, IT and other minor costs) for a total amount of 20,977 thousand Euro;
- freight and logistics costs totaling 10,109 thousand Euro;
- costs for services from subsidiaries totaling 4,559 thousand Euro; for details on these costs reference should be made to the note “Transactions with related parties” below;
- maintenance and utility costs of 5,055 thousand Euro;
- fees paid to Directors, Statutory Auditors and Supervisory Board for a total amount of 6,597 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 (16,821 thousand Euro).

30. Personnel costs

The breakdown of Personnel costs as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Salaries and wages	46,978	45,963	1,015
Stock grant plan costs	174	475	(301)
Social security and welfare cost	13,005	12,748	257
Allocation of severance indemnities and allocation to complementary pension funds	3,089	3,072	17
Total	63,246	62,258	988

31. Amortization, depreciation and write-downs

The breakdown of Amortization, depreciation and write-downs as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Depreciation of tangible assets	8,974	9,697	(723)
Amortization of intangible assets	6,453	5,443	1,010
Write-downs of tangible assets	28	-	28
Total	15,455	15,140	315

32. Other operating costs

The item “Other operating costs”, amounting to 8,514 thousand Euro as at 31 December 2016, mainly includes allocations to the provision for risks and charges of 1,457 thousand Euro, allocations to the provision for bad debt for an amount of 467 thousand Euro and donations of 982 thousand Euro, among which of particular note is the donation in support of culture, referred to in art. 1 of the Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”, of 600 thousand Euro for the restoration of the Fountain of Neptune in Piazza della Signoria in Florence (first one of the three donations for a total amount of 1,500,000 Euro). “Other operating costs” included the 4,000 thousand Euro one-off adjustment made to the operating result of the subsidiary Ferragamo France S.A.S. to ensure the continuity of the business, compensating for the loss that the subsidiary would have reported for the year. This negative performance was attributable to the challenges faced by the luxury market in France, where tourist flows have dramatically declined after multiple terrorist attacks in the last two years. This also prevented Ferragamo France S.A.S. from leveraging the investment made to expand and overhaul the flagship store in Avenue Montaigne, Paris, to its full potential. In relation to the allocation to the provision for risks and charges, reference should be made to note 18.

33. Other income and revenues

As at 31 December 2016 “Other income and revenues” amounted to 9,333 thousand Euro and mainly included:

- recovery of expenses from subsidiaries (1,343 thousand Euro);
- advertising contributions from third parties (2,449 thousand Euro);
- 2,387 thousand Euro tax credit for Research and Development Expenditure (787 thousand Euro for 2015 and 1,600 thousand Euro for 2016) (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);
- tax credit of 425 thousand Euro, accounting for 65% of the donations made in 2016 referred to in art. 1 of the Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”;
- the share pertaining to 2016 (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 share pertaining to 2016 (300 thousand Euro) relating to *key money* (1,500 thousand Euro) as set out in the contract with the company Marchon Europe B.V. (part of the American group Marchon) for the licensing of the Salvatore Ferragamo brand with reference to the worldwide production and distribution of Ferragamo branded eyewear for men and women;
- insurance refunds recorded during the year amounting to 243 thousand Euro.

Finally, the item includes revenues from museum exhibitions (89 thousand Euro), 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 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	Change		
	2016	2015	2016 vs. 2015
Financial charges for fair value adjustment of derivatives	14,956	17,700	(2,744)
Write-down of investments	7,447	11,586	(4,139)
Losses on exchange rate differences	9,300	12,812	(3,512)
Other financial charges	867	924	(57)
Financial charges on employee benefits under IAS 19	109	95	14
Interest expense	18	63	(45)
Total	32,697	43,180	(10,483)

35. Financial income

The breakdown of the item “Financial income” as at 31 December 2016 and 31 December 2015 is set out in the following table:

(In thousands of Euro)	Change		
	2016	2015	2016 vs. 2015
Financial income for fair value adjustment of derivatives	4,575	6,355	(1,780)
Dividends from investments in subsidiaries	5,652	59,099	(53,447)
Restatement value of investments	10,713	7,206	3,507
Gains on exchange rate differences	12,747	20,676	(7,929)
Interest income	304	177	127
Other financial income	45	-	45
Total	34,036	93,513	(59,477)

Dividends from investments include the dividends paid by the following investee companies:

- Ferragamo (Suisse) SA equal to 553 thousand Euro;
- Ferragamo Korea Ltd equal to 5,099 thousand Euro.

36. Income taxes

The breakdown of Income taxes as at 31 December 2016 and 31 December 2015 is shown in the following table:

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Current taxes	(32,720)	(66,729)	34,009
Deferred taxes	(1,152)	1,037	(2,189)
Total	(33,872)	(65,692)	31,820

The decline in current taxes was attributable to, among other things, the significant reduction in the Company's direct tax expense (IRES and IRAP) due to the benefit associated with the so-called "Patent Box". The cumulative impact for the years 2015 and 2016 was recognized in 2016 and amounted to a 32,040 thousand Euro reduction in direct tax expense (deducting 13,551 thousand Euro for 2015 and 18,489 thousand Euro for 2016). Reference should be made to the Directors' report on operations, section "Significant events occurred during the year".

(In thousands of Euro)	2016	2015	Change 2016 vs. 2015
Current taxes			
IRES	(27,415)	(57,508)	30,093
IRES – taxation for transparency of income of foreign companies resident in countries/territories with a privileged tax regime	-	(87)	87
IRAP	(5,305)	(9,134)	3,829
Total	(32,720)	(66,729)	34,009
Deferred taxes			
IRES deferred in current year	108	1,375	(1,267)
IRAP deferred in current year	57	47	10
Use of IRES deferred in previous years	(1,254)	(375)	(879)
Use of IRAP deferred in previous years	(63)	(10)	(53)
Total	(1,152)	1,037	(2,189)
Total income taxes	(33,872)	(65,692)	31,820

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 2016 and 31 December 2015:

(In thousands of Euro)	31 December 2016	31 December 2015	31 December 2016	31 December 2015	2016	2015
	Statement of financial position		Shareholders' equity		Income statement	
Deferred tax assets						
- on employee benefits	487	420	414	351	(5)	(6)
- on tangible assets	770	780	-	-	(10)	361
- on the cash flow hedge reserve	1,210	554	1,208	553	-	-
- on the valuation of inventories	3,844	4,983	-	-	(1,140)	340
- on receivables	632	636	-	-	1	(190)
- on taxed provisions	2,384	2,314	-	-	-	351
- for other temporary differences	108	604	-	-	(421)	181
Deferred tax assets	9,435	10,291	1,622	904	(1,575)	1,037
Deferred tax liabilities						
- for other temporary differences	(2,898)	(3,320)	-	-	423	-
Deferred tax liabilities	(2,898)	(3,320)	-	-	423	-
Net effect	6,537	6,971	1,622	904	(1,152)	1,037

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 2016 and 31 December 2015 is as follows:

(In thousands of Euro)	2016	%	2015	%
IRES				
Profit before taxes	224,939		267,800	
Theoretical taxes	61,858	27.5%	73,645	27.5%
Actual taxes	28,561	12.70%	56,595	21.13%
Difference due to:	(33,297)	(14.8%)	(17,050)	(6.4%)
i) Effect of taxation for transparency of income of foreign companies resident in countries/territories with a privileged tax regime	-	0.0%	87	0.0%
ii) Effect of withholding taxes on foreign dividends	517	0.2%	-	-
iii) Effect of previous years income taxes	129	0.1%	(337)	(0.1%)
iv) Effect of the Patent Box, tax year 2015	(11,868)	(5.3%)	-	0.00%
v) Effect of permanent increases (decreases):				
Increases				
Write-downs of investments	2,048	0.9%	3,186	1.2%
Other permanent differences		0.6%		0.3%
Decreases				
Income from subsidiaries (dividends)	(1,477)	(0.7%)	(16,232)	(6.1%)
Restatement value of investments	(2,958)	(1.3%)	(1,982)	(0.7%)
IRAP deduction	(344)	(0.2%)	(370)	(0.1%)
Effect of the Patent Box, tax year 2016	(16,193)	(7.2%)	-	0.0%
2015-2016 Research and Development Tax Credit impact	(656)	(0.3%)	-	0.0%
Other permanent differences	(3,897)	(1.7%)	(2,277)	(0.9%)
Total difference	(33,297)	(14.8%)	(17,050)	(6.4%)
IRAP				
Net value of production	223,600		217,468	
Theoretical taxes	8,720	3.9%	8,481	3.9%
Actual taxes	5,311	2.4%	9,097	4.2%
Difference due to:	(3,409)	(1.5%)	616	0.3%
i) Effect of increases in regional IRAP rates	125	0.1%	117	0.1%
ii) Effect of the Patent Box, tax year 2015	(1,683)	(0.8%)	-	0.0%
iii) Effect of previous years income taxes	(64)	(0.0%)	-	0.0%
iv) Effect of permanent increases (decreases):				
Increases				
Personnel costs	2,751	1.2%	2,417	1.1%
Other permanent differences	79	0.0%	308	0.1%
Decreases				
Tax wedge	(2,194)	(1.0%)	(2,141)	(1.0%)
Effect of the Patent Box, tax year 2016	(2,296)	(1.0%)	-	0.0%
2015-2016 Research and Development Tax Credit impact	(93)	(0.0%)	-	0.0%
Other permanent differences	(34)	0%	(85)	(0.0%)
Total difference	(3,409)	(1.5%)	616	0.3%

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, the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below.

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 will identify the above performance targets for each cycle.

Specifically, there are two targets for the 1st Cycle, 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 the 1st Cycle 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 Budget	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 and 2 August 2016, as part of the 1st cycle of the plan, with the favorable opinion of the Nomination and Remuneration Committee, the Board of Directors identified 18 beneficiaries from among the management personnel of Salvatore Ferragamo S.p.A. (including the Managing Director Eraldo Poletto) and some of its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., and Ferragamo Mexico S. de R.L. de C.V.), granting options for a total of 230,000 ordinary shares in the Company Salvatore Ferragamo S.p.A.. The Board of Directors may make further grants to 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	-
(ii) assigned in the period	230,000
(iii) canceled in the period	15,000
(iv) exercised in the period	-
(v) expired in the period	-
(vi) outstanding at the end of the period	215,000
(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

	Number	(In thousands of Euro)
		2016 Fair Value
<u><i>Rights to receive shares assigned to Salvatore Ferragamo S.p.A.'s top managers</i></u>		
- at the start of the year	-	-
- assigned in the year	170,000	349
- cancelled in the period	15,000	31
- at the end of the period	155,000	318
<u><i>Rights to receive shares assigned to the subsidiaries' top managers</i></u>		
- at the start of the year	-	-
- assigned in the period	60,000	123
- at the end of the period	60,000	123
<u><i>Total rights to receive shares assigned to Ferragamo Group's top managers</i></u>		
- at the start of the year	-	-
- assigned in the period	230,000	472
- cancelled in the period	15,000	31
- at the end of the period	215,000	441

The rights to receive shares that were cancelled in the period, amounting to 15,000 shares, refer to an employee of Salvatore Ferragamo S.p.A. who was a beneficiary and who resigned in 2016. Pursuant to the Plan, the free assignment of the shares is dependent on the fact that, at the share vesting date, there is an employment and/or partnership and/or administrative relationship between the beneficiary and the Parent company or one of the 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 two start dates of the plan's vesting period:

Fair Value measurement – Start date of the vesting period of the rights of 4 July 2016

	<u>Assessment A (TSR)</u>	<u>Assessment B (Consolidated gross profit before taxes)</u>
- Share price at the vesting period start date (04/07/2016)	Euro 18.56	Euro 18.56
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	between 20% and 39%	-
- Correlation of the share price between Ferragamo and similar companies	33%	-
- Expected dividends	1.96%	1.96%
- Risk-free interest rate**	(0.61%)	-
Fair Value per share at the vesting period start date	Euro 7.189/share	Euro 17.686/share

Fair Value measurement – Start date of the vesting period of the rights of 2 August 2016

	<u>Assessment A (TSR)</u>	<u>Assessment B (Consolidated gross profit before taxes)</u>
- Share price at the vesting period start date (02/08/2016)	Euro 20.57	Euro 20.57
- Expected volatility*	33%	-
- Expected volatility of the share price of similar companies	between 20% and 39%	-
- Correlation of the share price between Ferragamo and similar companies	33%	-
- Expected dividends	2.02%	2.02%
- Risk-free interest rate**	(0.58%)	-
Fair Value per share at the vesting period start date	Euro 9.255/share	Euro 19.6/share

*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 as the yield on Euro Area government bonds at the start date of the vesting period for a period of 2.5 years, which is 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 2016 and 2015; 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)	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)	-	-	-	-
Halldis Italia S.r.l.	-	(2)	-	-	-	-
Castiglione del Bosco S.a.r.l.	-	(10)	-	-	(8)	-
Nautor Holding S.r.l.	3	-	4	-	-	-
The European House Ambrosetti S.p.A.	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 Miletto 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 responsibilities	-	(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%

(In thousands of Euro)	2015			31 December 2015		
	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.)	1	(7)	1	1,962	-	(16,772)
Related companies						
Palazzo Feroni Finanziaria S.p.A	18	(7,377)	3	70	(26)	-
Lungarno Alberghi S.r.l.	12	(624)	8	-	(5)	-
Fondazione Ferragamo	2	(190)	-	-	(60)	-
Companies connected to members of the Board of Directors						
Osteria del Borro S.r.l.	-	(1)	-	-	-	-
Bacco S.r.l.	-	(3)	-	-	-	-
Rubino S.r.l.	-	(125)	-	16	(4)	-
Arpa S.r.l.	10	(26)	-	-	(14)	-
Marchesi Antinori S.p.A.	12	-	-	-	-	-
Studio Legale Portale Visconti	-	(102)	-	-	(102)	-
Il Borro S.r.l.	2	-	2	-	-	-
The European House	-	-	-	-	-	-
Ambrosetti S.p.A.	2	-	-	-	-	-
CECAM S.r.l.	-	-	-	-	(56)	-
Other related parties connected to members of the Board of Directors						
Wanda Miletto Ferragamo	-	(125)	-	-	-	-
Giacomo Ferragamo	-	(705)	-	-	-	(179)
Angelica Visconti	-	(107)	-	-	-	(40)
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities*	-	(6,342)	-	-	-	(1,397)
Total	59	(15,734)	14	2,048	(267)	(18,388)
Company's total	824,796	(607,328)	178,603	10,143	(131,547)	(37,047)
% ratio	0.0%	2.6%	0.0%	20.2%	0.2%	49.6%

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 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.

Other assets included a 30,386 thousand Euro IRES receivable of Salvatore Ferragamo S.p.A. referring in part to 2016 (excess payments on account made during 2016 for the liability accrued in the period) and in part to the settlement of the 2015 tax liability as a result of the tax benefit in favor of the Company, the so-called "Patent box". This resulted in a significant reduction in tax expense starting from the fiscal year 2015. For more details, reference should be made to the section "Significant events occurred during the year" in the Directors' report on operations. 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 income statements included 343 thousand Euro in service costs charged back, as approved by the Board of Directors' meeting of 30 June 2016, and 17 thousand Euro in the cost of Salvatore Ferragamo S.p.A.'s acquisition of a permanent right of way (for both pedestrians and vehicles) on some plots of land in Osmannoro owned by Ferragamo Finanziaria S.p.A.. This is related to the construction of the new logistics center.

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. 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 relevant accounts payable balances) refer largely to rents for the premises used as stores in the Italian chain.

Fondazione Ferragamo

The costs incurred in 2016 refer for 101 thousand Euro to the services provided for the management of the Salvatore Ferragamo historical archive (100 thousand Euro in 2015) and for 90 thousand Euro to donations to support the institutional activities of the Foundation (90 thousand Euro in 2015). 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:

Caretti & Associati S.p.A.

The costs refer to costs for services rendered in 2016 in accordance with the Board of Directors' resolution of 30 June 2016.

Other related parties connected to members of the Board of Directors

Wanda Miletta Ferragamo

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

Giacomo Ferragamo

Costs (and the relevant payables) refer to the cost incurred by the Company in relation to the employment relationship between Giacomo Ferragamo and the Company, including a variable bonus and the Stock Grant Plan cost.

Angelica Visconti

Costs (and the relevant payables) refer to the cost incurred by the Company in relation to the employment relationship between Angelica Visconti and the Company, including a variable bonus and 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 note 40, while information on Managers with strategic responsibilities is provided in the table below:

Full name	Role
Michele Norsa*	Managing Director
Eraldo Poletto**	Managing Director
Ernesto Greco	General Manager of Administration, Finance, Control and Information Systems
Massimo Barzagli	Deputy General Manager of Market Coordination and Supply Chain Manager
Sofia Ciucchi***	Deputy General Manager of the Product Department and Human Resources Manager

* Michele Norsa was Managing Director until 2 August 2016

** Eraldo Poletto was appointed Managing Director effective 3 August 2016

*** Sofia Ciucchi resigned effective 31 December 2016

Costs relating to Managers with strategic responsibilities (and the relevant payables) refer to the cost incurred by the Company in relation to the employment relationship, including the variable bonuses, the costs relating to the Stock Grant Plan and, in the case of the Managing Director, also refer to the amount due as Managing Director, including the variable pay. In 2016, total costs (including the costs for key management personnel no longer at the company as at 31 December 2016) amounted to 5,732 thousand Euro, including 5,558 thousand Euro in wages for employees and fees for directors as well as 174 thousand Euro in Stock Grant Plan costs.

Intragroup transactions

The following tables show the overall values of transactions with subsidiaries:

Company	Trade receivables		Other current financial assets		Total	Total
	2016	2015	2016	2015	2016	2015
Ferragamo Deutschland GmbH	1,808	1,938	2,805	-	4,613	1,938
Ferragamo France S.A.S.	3,452	3,099	7,317	-	10,769	3,099
Ferragamo (Suisse) SA	578	614	-	-	578	614
Ferragamo Monte-Carlo S.A.M.	175	160	-	-	175	160
Ferragamo Belgique SA	271	322	-	-	271	322
Ferragamo Espana S.L.	1,396	1,649	3	-	1,399	1,649
Ferragamo U.K. Limited	2,193	2,155	-	-	2,193	2,155
Ferragamo Austria GmbH	531	667	-	-	531	667
Ferragamo Denmark Aps	127	148	-	-	127	148
Ferragamo Parfums S.p.A.	1,992	1,678	1,852	-	3,844	1,678
Ferragamo Retail Nederland B.V.	722	792	-	-	722	792
Total Europe	13,245	13,222	11,977	-	25,222	13,222
Ferragamo Hong Kong Ltd.	33,140	33,125	-	-	33,140	33,125
Ferragamo Retail HK Limited	33	41	-	-	33	41
Ferragamo Australia Pty Ltd.	1,748	1,076	1	-	1,749	1,076
Ferragamo Japan K.K.	1,684	3,247	8,104	-	9,788	3,247
Ferragamo Moda (Shanghai) Co. Ltd.	155	389	-	-	155	389
Ferragamo Retail India Private Limited	6,613	4,977	-	-	6,613	4,977
Ferragamo Retail Taiwan Limited	35	37	-	-	35	37
Ferragamo Retail Macau Limited	5	1	-	-	5	1
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	436	823	-	-	436	823
Ferragamo Korea Ltd.	4,713	3,996	-	-	4,713	3,996
Ferragamo (Singapore) Pte Ltd	10	26	-	-	10	26
Ferragamo Thailand Limited	2	184	-	-	2	184
Ferragamo (Malaysia) Sdn. Bhd.	5	21	-	-	5	21
Total Asia Pacific	48,579	47,943	8,105	-	56,684	47,943
Ferragamo Usa Inc.	48,047	45,130	8,541	6,445	56,588	51,575
Ferragamo Canada Inc.	2,177	2,326	8,074	5,957	10,251	8,283
Total North America	50,224	47,456	16,615	12,402	66,839	59,858
Ferragamo Mexico S. de R.L. de C.V.	16,867	16,644	-	-	16,867	16,644
Ferragamo Chile S.A.	1,265	1,406	-	-	1,265	1,406
Ferragamo Argentina S.A.	1,329	1,491	-	-	1,329	1,491
Ferragamo Brasil Roupas & Acessorios Ltda.	1,697	746	-	-	1,697	746
Total Central and South America	21,158	20,287	-	-	21,158	20,287
Total	133,206	128,908	36,697	12,402	169,903	141,310

(In thousands of Euro)

Company	Trade payables		Total	Total
	2016	2015	2016	2015
Ferragamo France S.A.S	4,108	120	4,108	120
Ferragamo (Suisse) SA	335	4	335	4
Ferragamo Espana S.L.	-	3	-	3
Ferragamo U.K. Limited	120	82	120	82
Ferragamo Parfums S.p.A.	220	293	220	293
Ma.Ga. Immobiliare S.r.l. (single-member company)	-	113	-	113
Total Europe	4,783	615	4,783	615
Ferragamo Usa Inc.	1,480	1,354	1,480	1,354
Total North America	1,480	1,354	1,480	1,354
Ferragamo Hong Kong Ltd.	301	265	301	265
Ferragamo Australia Pty Ltd.	114	92	114	92
Ferragamo Japan K.K.	297	213	297	213
Ferragamo Retail India Private Limited	42	51	42	51
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	-	192	-	192
Ferragamo Korea Ltd.	10	9	10	9
Total Asia Pacific	764	822	764	822
Ferragamo Mexico S. de R.L. de C.V.	-	7	-	7
Total Central and South America	-	7	-	7
Total	7,027	2,798	7,027	2,798

(In thousands of Euro)										
Company	Revenues from sales and services				Other income and revenues		Financial income		Total	
	Revenues from sales		Revenues from services (including royalties)		2016	2015	2016	2015	2016	2015
	2016	2015	2016	2015						
Ferragamo Deutschland GmbH	5,070	6,358	64	116	35	34	8	-	5,177	6,508
Ferragamo France S.A.S.	9,742	11,731	105	130	62	65	20	-	9,929	11,926
Ferragamo (Suisse) SA	5,686	6,924	44	55	31	-	553	1,452	6,314	8,431
Ferragamo Monte-Carlo S.A.M.	326	510	15	15	2	-	-	-	343	525
Ferragamo Belgique SA	798	1,084	16	15	4	-	-	-	818	1,099
Ferragamo Espana S.L.	4,001	4,962	58	62	34	6	1	-	4,094	5,030
Ferragamo U.K. Limited	10,294	9,472	93	96	27	1	-	-	10,414	9,569
Ferragamo Austria GmbH	1,489	1,903	16	17	6	-	-	-	1,511	1,920
Ferragamo Denmark Aps	231	670	15	15	3	10	-	-	249	695
Ferragamo Parfums S.p.A.	58	77	3,397	2,980	260	221	3	-	3,718	3,278
Ferragamo Retail Nederland B.V.	3,084	2,965	26	30	23	-	-	-	3,133	2,995
Total Europe	40,779	46,656	3,849	3,531	487	337	585	1,452	45,700	51,976
Ferragamo Hong Kong Ltd.	202,005	231,609	896	915	343	324	-	55,603	203,244	288,451
Ferragamo Retail HK Limited	-	-	135	161	7	12	-	-	142	173
Ferragamo Australia Pty Ltd.	11,486	9,004	106	20	43	113	-	-	11,635	9,137
Ferragamo Japan K.K.	50,582	46,264	275	229	50	70	-	-	50,907	46,563
Ferragamo Korea Ltd.	28,517	29,407	613	731	93	128	5,099	-	34,322	30,266
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	-	-	380	389	32	34	-	-	412	423
Ferragamo Moda (Shanghai) Co. Ltd.	-	-	141	186	15	17	-	-	156	203
Ferragamo Retail India Private Limited	2,101	2,556	-	-	-	-	-	-	2,101	2,556
Ferragamo (Malaysia) Sdn. Bhd.	-	-	80	90	11	14	-	-	91	104
Ferragamo (Singapore) Pte Ltd	-	-	131	138	17	20	-	-	148	158
Ferragamo Retail Taiwan Limited	-	-	119	160	11	12	-	-	130	172
Ferragamo Retail Macau Limited	-	-	25	-	2	1	-	2,044	27	2,045
Ferragamo (Thailand) Limited	-	-	71	81	9	11	-	-	80	92
Total Asia Pacific	294,691	318,840	2,972	3,100	633	756	5,099	57,647	303,395	380,343
Ferragamo USA Inc.	171,200	181,766	903	466	161	129	5	-	172,269	182,361
Sator Realty Inc.	-	-	-	-	30	25	-	-	30	25
Ferragamo Canada Inc.	12,958	10,756	39	43	7	-	147	-	13,151	10,799
Total North America	184,158	192,522	942	509	198	154	152	-	185,450	193,185
Ferragamo Mexico S. de R.L. de C.V.	28,125	25,189	-	-	23	40	-	-	28,148	25,229
Ferragamo Chile S.A.	612	694	-	-	1	1	-	-	613	695
Ferragamo Argentina S.A.	124	742	-	-	-	-	-	-	124	742
Ferragamo Brasil Roupas e Acessorios Ltda.	2,093	1,380	-	-	1	1	-	-	2,094	1,381
Total Central and South America	30,954	28,005	-	-	25	42	-	-	30,979	28,047
Total	550,582	586,023	7,763	7,140	1,343	1,289	5,836	59,099	565,524	653,551

(In thousands of Euro)								
Company	Purchase of finished products, raw materials, accessories and consumables		Costs for services		Other operating costs		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	Ferragamo France S.A.S.	8	15	109	120	4,000	-	4,117
Ferragamo Espana S.L.	38	63	3	2	-	-	41	65
Ferragamo (Suisse) SA	1,972	1,904	-	-	-	-	1,972	1,904
Ferragamo U.K. Limited	9	31	121	81	-	-	130	112
Ferragamo Retail Nederland B.V.	1	22	-	-	-	-	1	22
Ferragamo Deutschland GmbH	7	30	-	-	-	-	7	30
Ferragamo Austria GmbH	1	7	-	-	-	-	1	7
Ferragamo Denmark ApS	2	-	-	-	-	-	2	-
Ferragamo Parfums S.p.A.	358	337	180	187	-	-	538	524
Ferragamo Monte-Carlo S.A.M.	-	4	-	-	-	-	-	4
Ferragamo Belgique SA	-	10	-	-	-	-	-	10
Total Europe	2,396	2,423	413	390	4,000	-	6,809	2,813
Ferragamo Hong Kong Ltd.	-	-	415	390	-	-	415	390
Ferragamo Retail India Private Limited	-	-	42	51	-	-	42	51
Ferragamo Japan K.K.	259	6	757	763	-	-	1,016	769
Ferragamo Korea Ltd.	-	-	64	32	-	-	64	32
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	-	-	-	193	-	-	-	193
Ferragamo Australia Pty Ltd.	-	-	212	172	-	-	212	172
Total Asia Pacific	259	6	1,490	1,601	-	-	1,749	1,607
Ferragamo USA Inc.	-	-	2,633	2,683	-	-	2,633	2,683
Total North America	-	-	2,633	2,683	-	-	2,633	2,683
Ferragamo Mexico S.de R.L. de C.V.	-	-	23	13	-	-	23	13
Total Central and South America	-	-	23	13	-	-	23	13
Total	2,655	2,429	4,559	4,687	4,000	-	11,214	7,116

40. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)				2016					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	-	c) d) e)	400	-	1,100
Eraldo Poletto	Managing Director	3.08-31.12	b)	333	-	c) d) e) f)	615	144	1,092
Michele Norsa	Managing Director	1.01-2.08		898	-	c) d) e) f)	2,024	-	2,922
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				3,096	130		3,039	144	6,409

- a) upon approval of the 2017 financial statements
b) until the next Shareholders' Meeting
c) car
d) mobile phone
e) insurance policies
f) accommodation

Statutory Auditors

(In thousands of Euro)				2016			
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
Fulvio Favini	Chairman	01.01-31.12	a)	64	12	-	76
Gerolamo Gavazzi	Acting Statutory Auditor	01.01-31.12	a)	48	8	-	56
Alessandra Daccò	Acting Statutory Auditor	01.01-31.12	a)	48	8	-	56
Total				160	28	-	188

- a) upon approval of the 2016 financial statements
(*) Other fees refer to amounts due for the position as Chairman or member of the Supervisory Board pursuant to 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 21 April 2016, Salvatore Ferragamo S.p.A. paid shareholders a single dividend of 0.46 Euro per share, relating to the profit for 2015, for a total amount of 77,643,400 Euro, with coupon detachment on 23 May 2016 and payment of the dividend as from 25 May 2016.

42. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2016	31 December 2015
Sureties provided by third parties to third parties in the interests of the Company	5,271	3,642
Sureties provided by third parties to third parties in the interests of Group companies	2,687	3,820
Guarantees provided by the Company to third parties in the interests of Group companies	56,803	85,547
Total	64,761	93,009

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 US\$ 6 million (equal to 5,692 thousand Euro) relating to a lease contract of the Ferragamo USA Group.

The following table shows the minimum future payments due at 31 December 2016 and 31 December 2015 relating to operating leases, broken down by expiry date:

(In thousands of Euro)	31 December 2016	31 December 2015
Within 1 year	16,957	14,706
1 to 5 years	49,835	44,461
Over 5 years	22,222	30,544
Total	89,014	89,711

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 2016 totaled 16,821 thousand Euro (15,608 thousand Euro in 2015).

43. Significant non-recurring events and transactions

During 2016, 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:

Company name	Location	Currency	Share capital	31 December 2016		Notes
				Controlling interest (%)		
				Direct	Indirect	
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	500,000	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	4,969,107	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)
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%		
Ferragamo Korea Ltd.	Seoul, South Korea	South Korean Won	3,291,200,000	100%		
Ferragamo (Singapore) Pte. Ltd.	Singapore	Singapore Dollar	4,600,000	100%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	100%		
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	100%		
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc.

2 – Through Ferragamo Hong Kong Ltd.

3 – Through Ferrimag Limited

46. Significant events occurred after 31 December 2016

No significant events occurred after 31 December 2016.

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 2016, totaling 191,066,413 Euro, as follows:

- a) to Shareholders a gross dividend of 0.46 Euro for each of the 168,790,000 ordinary shares for a total of 77,643,400 Euro;
- b) the remainder amount, equal to 113,423,013 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 2016
Audit	EY S.p.A.	Salvatore Ferragamo S.p.A.		204
Other services	i) EY S.p.A. ii) Network of EY S.p.A.	Salvatore Ferragamo S.p.A. Salvatore Ferragamo S.p.A.	1	30 74
Total				308

1) The item refers mainly to IT support services

Florence, 14 March 2017

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Statement pursuant to paragraph 154 bis of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)

1. The undersigned Eraldo Poletto in his capacity as “Managing Director” and Marco Fortini 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 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 2016 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2016 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 2016:

- 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, 14 March 2017

Managing Director
Eraldo Poletto

Manager charged with preparing Company’s Financial Reports
Marco Fortini

SALVATORE FERRAGAMO S.p.A.

Report of the Board of Statutory Auditors

for the Shareholders' Meeting, pursuant to art. 153 of Italian Legislative Decree no. 58/1998 (TUF, Testo Unico della Finanza, Consolidated Law on Finance) and art. 2429 of the Italian Civil Code.

Dear Shareholders,

During the year ended 31 December 2016, the Board of Statutory Auditors of Salvatore Ferragamo S.p.A. (hereinafter also referred to as the "Company") performed the supervisory activities required by law for corporations listed on regulated markets, considering Consob's communications on corporate controls and in accordance with the Rules of Conduct for the Board of Statutory Auditors of Listed Companies recommended by the Italian National Board of Accountants and Auditors (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili).

SUPERVISORY AND CONTROL ACTIVITIES UNDERTAKEN BY THE BOARD OF STATUTORY AUDITORS

In 2016, the Board of Statutory Auditors held 11 meetings; in addition, it took part in the 9 meetings held by the Board of Directors, the 8 meetings of the Control and Risk Committee – which operates also as the Committee responsible for transactions with related parties – the 5 meetings of the Nomination and Remuneration Committee, and the Shareholders' Meeting.

Supervisory and control activities consisted in:

1. Supervision of compliance with the law and the bylaws as well as the disclosure requirements set out in applicable regulations, including corporate governance rules as detailed in the Corporate Governance Code issued by Borsa Italiana S.p.A. for listed companies.
2. Supervision of the principles of good administration: the Board of Statutory Auditors has ascertained, on the basis of the information obtained from the directors and corporate departments, that the transactions having a material impact on the Company's financial performance, financial position and cash flows approved and undertaken in the year were consistent with the corporate purpose and not manifestly imprudent, risky, or such as to compromise the integrity of corporate assets. In addition, the Board of Statutory Auditors:
 - o determined that no atypical or unusual transactions were undertaken with Group companies, third parties or related parties;
 - o oversaw that the transactions with subsidiaries and Related Parties were not contrary to the Company's interest, and that the latter were undertaken in compliance with the Related Party Procedure approved by the Board of Directors as well as applicable laws.

The information provided by the Directors in the Directors' report on operations and the Explanatory Notes about ordinary transactions that had an impact on the company's financial performance, financial position and cash flows undertaken with subsidiaries and related parties at arm's length is adequate.

The Board believes that corporate procedures include adequate controls as regards transactions with related parties and/or involving a potential conflict of interest, and that such controls are effective.

3. Adequacy of the organizational structure: the Board of Statutory Auditors oversaw the adequacy of the organizational structure, which was fully described in the Report on corporate governance and ownership structure, in relation to the size of the Company and the Group and also in light of the organizational changes arising from the replacement of the Managing Director. According to the Board of Statutory Auditors, this structure is adequate.

In addition, the Board of Statutory Auditors undertook the following activities:

- o on 22 March 2017, it examined whether the procedures adopted by the Board of Directors to assess the independence of its independent directors were properly implemented, as well as if any events occurred causing the directors concerned to no longer meet the independence requirement compared to the assessment performed at the time of their appointment
- o on 24 January 2017, it performed the periodic self-assessment of the requirements for the members of the Board of Statutory Auditors required by law and the Corporate Governance Code, especially as far as the independence requirement is concerned.

No issues arose.

4. Concerning remuneration policies, the Board of Statutory Auditors examined the processes that led to the definition of the Company's short- and medium-term share-based incentive schemes and remuneration policies, focusing especially on the remuneration criteria for Executive Directors, Key Management Personnel, and the Manager charged with preparing Company's Financial Reports

5. Adequacy of the administrative and accounting system: the Board of Statutory Auditors supervised the financial reporting process. This activity included:

- o examining the periodic reports by the Manager charged with preparing Company's Financial Reports concerning the financial disclosure process in compliance with the provisions of the Law on Savings 262/05 and the Internal Audit reports concerning activities undertaken to ensure the correct implementation of the procedural controls over accounting and administration risks;
- o examining the instructions issued by the Company to subsidiaries, including non-EU entities, concerning both the annual financial statements and interim reports, through meetings with corporate departments, independent auditors, and other supervisory bodies; in particular, the Board ascertained that the information flows from non-EU subsidiaries were adequate to audit the annual and interim financial statements as required by article 36 of the Markets Regulation;
- o analyzing the documentation on the activities carried out by the Supervisory Bodies of subsidiaries, also through specific meetings, and discussing the findings of the Independent Auditors;
- o examining the statements of the Managing Director and the Manager charged with preparing Company's Financial Reports pursuant to the provisions of art. 154-bis of the Consolidated Law on Finance.

Based on the work carried out, and considering the conclusions of the Independent Auditors, the Board found no evidence of significant failures concerning the adequacy of the administrative and accounting procedures and the financial reporting process of the Company and the Group.

6. Adequacy and effectiveness of the internal control and risk management system: the Board of Statutory Auditors oversaw and assessed the adequacy of the internal control system, in terms of both structure and operations, by:

- a) participating in the activities of the Control and Risk Committee and, when the issues discussed required it, addressing them together with the Committee;
- b) examining the periodic reports on the integrated enterprise risk management system by the Risk Management & Compliance Department, the Managing Director, and the Control and Risk Committee;

- c) directly acquiring information from the heads of corporate departments;
- d) examining the Internal Audit interim and annual reports on:
 - the activities performed by the department, its findings, the recommended improvements, and the supervision of their implementation;
 - the assessment of the adequacy and effectiveness of the internal control system for the purposes of keeping risks within acceptable limits;
- e) examining and obtaining information on the organizational and procedural work undertaken by the Company pursuant to Italian Legislative Decree no. 231/2001 on the administrative liability of legal entities, as the responsibilities of the Supervisory Body were assigned to the Board of Statutory Auditors. In its report on the activities performed during the year ended 31 December 2016, the Supervisory Body found no issues to be addressed, describing an overall satisfactory situation substantially in line with the Organization, Management and Control Model; the Model was updated in March 2017 in light of the organizational changes occurred, regulatory developments, and the examination of the relevant laws;
- f) examining the conclusions reached by the Board of Directors, with the assistance of the Control and Risk Committee and the support of Internal Audit, which found the internal control and risk management system of the Company and its key subsidiaries to be effective and suitable for the business and risk profile as set out in the Report on corporate governance and ownership structure.

Based on the activities undertaken either directly or with the support of Internal Audit, and considering the conclusions of the control departments, the Board found no anomalies that can be considered indicators of material weaknesses in the internal control and risk management system.

OPINIONS PROVIDED BY THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors issued the opinions required by law, which in 2016 concerned:

- o the co-option of the new Managing Director and the consistency of the proposed remuneration with the Company's policy
- o variable pay for executive directors and directors holding specific positions
- o the appointment of the Internal Audit Director, the definition of his remuneration, and the approval of the work plan

and, in the first few months of 2017:

- o the appointment of the Manager charged with preparing Company's Financial Reports on 14 March 2017
- o the authorization to purchase and dispose of treasury shares, to be submitted to the Shareholders' Meeting of 27 April 2017 for approval.

SUPERVISION OF AUDIT WORK

The Board of Statutory Auditors, defined in Italian Legislative Decree no. 39 of 27 January 2010 as the "Internal Control and Audit Committee", supervised the work of the Independent Auditors, and reports that:

- a) the reports of the Independent Auditors Ernst Young S.p.A., appointed by the Shareholders' Meeting to audit the Company's consolidated and separate financial statements, issued today pursuant to Italian Legislative Decree no. 39 of 27 January 2010, include no exceptions or disclosure requests, and the separate and consolidated financial statements as at 31 December 2016 give a true and fair view of the financial position of the Company and the Group as at 31 December 2016, the financial performance, and the cash flows for the year ended as at that date, in compliance with the International Financial Reporting Standards (IFRS) adopted by European Union. In addition, in the opinion of the Independent Auditors, the Directors' report on operations in the separate and consolidated financial statements as well as the information provided in the Report on corporate governance and ownership structure are consistent with the separate and consolidated financial statements as at 31 December 2016;
- b) Ernst Young S.p.A. also submitted the report on the fundamental issues that emerged during the audit to the Board of Statutory Auditors, in its capacity as the Internal Control and Audit Committee, finding no material weaknesses in the internal control system as far as the financial reporting process is concerned;
- c) the Statutory Auditors held periodic meetings with the Independent Auditors' representatives, also pursuant to art. 150, paragraph 3, of the Consolidated Law on Finance, during which no facts or issues emerged to be discussed in this report;
- d) the Independent Auditors submitted to the Board of Statutory Auditors a report in which they affirmed their independence and found no situations that could compromise their independence or disqualify them from performing their duties pursuant to the aforementioned Decree 39/2010;
- e) Ernst Young S.p.A. and the entities in its network received the fees indicated in the table included in the consolidated financial statements under the heading "Disclosure pursuant to art. 149-duodecies of the Issuers Regulation". Services other than audit, which account for 18% of the total amount of audit services, consisted of tax advisory services for foreign subsidiaries and other services that mainly concern:
 - IT support, including to the Internal Audit;
 - supporting in-house teams in performing and verifying the activities undertaken in compliance with Italian Law 262/05 on foreign subsidiaries.

Considering the type and number of duties assigned to the Independent Auditors' network by Salvatore Ferragamo S.p.A. and the Group companies, and the provisions in articles 10 and 17 of the Decree 39/2010, the Board of Statutory Auditors believes there are no issues concerning the independence of the Independent Auditors.

SUPERVISION OF THE PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Concerning the preparation of the separate and consolidated financial statements, the Board of Statutory Auditors supervised their general structure and ensured, both directly and based on the information received from the Independent Auditors, their compliance with legal provisions concerning their basis of presentation and structure as well as the adoption of proper accounting policies.

The Board of Statutory Auditors notes that on 14 March 2017, the Board of Directors, after consulting the Control and Risk Committee, approved the results of the impairment tests before approving the separate financial statements, as required by the rules for the preparation of the separate financial statements.

Considering also the findings of the Independent Auditors, the Statutory Auditors do not have any observations or particular proposals to submit to the Shareholders' Meeting, pursuant to art. 153, paragraph 2 of the Consolidated Law on Finance, and raise no objections to the approval of the financial statements as at 31 December 2016 as submitted by the Board of Directors as well as of the resolutions made by the Board.

FINAL REMARKS

The Board of Statutory Auditors did not receive any complaints from Shareholders pursuant to art. 2408 of the Italian Civil Code or other complaints. 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 situations or irregularities or circumstances to be reported in this document or to the Supervisory Authority.

Florence, 30 March 2017

THE BOARD OF STATUTORY AUDITORS

Fulvio Favini

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Independent auditor's report in accordance with articles 14 and 16 of legislative decree n. 39, dated 27 January 2010 (Translation from the original Italian text)

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

Report on the financial statements

We have audited the accompanying financial statements of Salvatore Ferragamo S.p.A., which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of cash flow and statement of changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.
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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Salvatore Ferragamo S.p.A. as at 31 December 2016, 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 article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of 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. The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Salvatore Ferragamo S.p.A. as at 31 December 2016.

Florence, 30 March 2017

EY S.p.A.
Signed by: Marco Mignani, partner

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