

Salvatore Ferragamo

Salvatore Ferragamo Group
Annual Report as at 31 December 2019

Salvatore Ferragamo S.p.A.

Florence

Contents

General information	3
Board of Directors' report on operations as at 31 December 2019	4
Corporate boards	5
Group structure	6
Group description	7
Main Stock Market indicators – Salvatore Ferragamo S.p.A.	8
1. The Group's main income and financial results for the year 2019	10
2. Introduction	11
3. The Salvatore Ferragamo Group's activities	11
4. The Group's operating performance	15
5. Operating performance of the Parent company Salvatore Ferragamo S.p.A.	28
6. Reconciliation between the Parent company's net profit/(loss) for the period and shareholders' equity and the consolidated values of the Group	33
7. Results of Group companies	34
8. Significant events occurred during the year	35
9. Information on corporate governance and ownership structure	39
10. Other information	42
11. Human resources management and development	43
12. Environmental protection	44
13. Research and development	45
14. Transactions with related parties	45
15. Main risks and uncertainties	45
16. Significant events occurred after 31 December 2019	48
17. Macroeconomic situation and outlook	49
18. Separate Financial Statements as at 31 December 2019 of Salvatore Ferragamo S.p.A. – Proposal for approval	50
Consolidated Financial Statements as at 31 December 2019	52
Financial Statements	53
Consolidated Statement of Financial Position – Assets	53
Consolidated Statement of Financial Position – Liabilities and Shareholders' Equity	54
Consolidated Income Statement	55
Consolidated Statement of Comprehensive Income	56
Consolidated Statement of Cash Flows	57
Statement of changes in consolidated shareholders' equity	58
Explanatory notes to the consolidated financial statements	59
Comments on the main statement of financial position items (assets, shareholders' equity and liabilities)	95
Comments on the main income statement items	112
Other information	117
Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation	131
Statement pursuant to article 154 bis of Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)	132
Independent Auditor's Report	133
Separate Financial Statements as at 31 December 2019	140
Financial Statements	141
Statement of financial position – assets	141
Statement of financial position – liabilities and shareholders' equity	142
Income statement	143
Statement of comprehensive income	144
Statement of cash flows	145
Statement of changes in shareholders' equity	146
Explanatory notes to the separate financial statements	147
Comments on the main statement of financial position items (assets, shareholders' equity and liabilities)	176
Comments on the main income statement items	192
Other information	198
Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation	214
Statement pursuant to article 154 bis of Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)	216
Report of the Board of Statutory Auditors	217
Independent Auditor's Report	227

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 2019

Corporate boards	5
Group structure.....	6
Group description.....	7
Main Stock Market indicators – Salvatore Ferragamo S.p.A.	8
1. The Group's main income and financial results for the year 2019	10
2. Introduction.....	11
3. The Salvatore Ferragamo Group's activities.....	11
4. The Group's operating performance.....	15
5. Operating performance of the Parent company Salvatore Ferragamo S.p.A.	28
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9. Information on corporate governance and ownership structure	39
10. Other information.....	42
11. Human resources management and development	43
12. Environmental protection.....	44
13. Research and development.....	45
14. Transactions with related parties.....	45
15. Main risks and uncertainties.....	45
16. Significant events occurred after 31 December 2019.....	48
17. Macroeconomic situation and outlook	49
18. Separate Financial Statements as at 31 December 2019 of Salvatore Ferragamo S.p.A. – Proposal for approval	50

Corporate boards

Board of

Directors (1)

Ferruccio Ferragamo (4)	Chairman
Micaela le Divelec Lemmi (4)(9)	Managing Director
Giacomo Ferragamo (4)	Deputy Chairman
Giovanna Ferragamo (5)	
Leonardo Ferragamo (5)	
Diego Paternò Castello di San Giuliano (5)	
Angelica Visconti (4)	
Francesco Caretti (5)	
Peter Woo Kwong Ching (5)	
Umberto Tombari (5)(6)	
Marzio Alessandro Alberto Saà (5)(6)	
Chiara Ambrosetti (5)(6)	
Lidia Fiori (5)(6)	

Control and Risk Committee

Marzio Alessandro Alberto Saà	Chairman
Umberto Tombari	
Chiara Ambrosetti	
Lidia Fiori (10)	

Nomination and Remuneration Committee

Umberto Tombari	Chairman
Marzio Alessandro Alberto Saà	
Lidia Fiori	
Chiara Ambrosetti (10)	

Product and Brand Strategy Committee

Ferruccio Ferragamo	Chairman
Micaela le Divelec Lemmi	
Giacomo Ferragamo	
Diego Paternò Castello di San Giuliano	
Angelica Visconti	

Board of Statutory Auditors (2)

Andrea Balelli	Chairman
Fulvio Favini	Acting Statutory Auditor
Paola Caramella (8)	Acting Statutory Auditor
Roberto Coccia	Substitute Statutory Auditor
Antonietta Donato (8)	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 20 April 2018 and serving for the 2018-2020 period.

(2) Appointed by the Shareholders' Meeting on 20 April 2017 and serving for the 2017-2019 period.

(3) Appointed for the 2011-2019 period

(4) Executive director

(5) Non-executive director

(6) Independent director pursuant to article 147-ter, paragraph 4 and article 148, paragraph 3 of Italian Legislative Decree no. 58 of 24 February 1998 ("Testo Unico della Finanza" or "T.U.F.", Consolidated Law on Finance) and article 3 of the Corporate Governance Code.

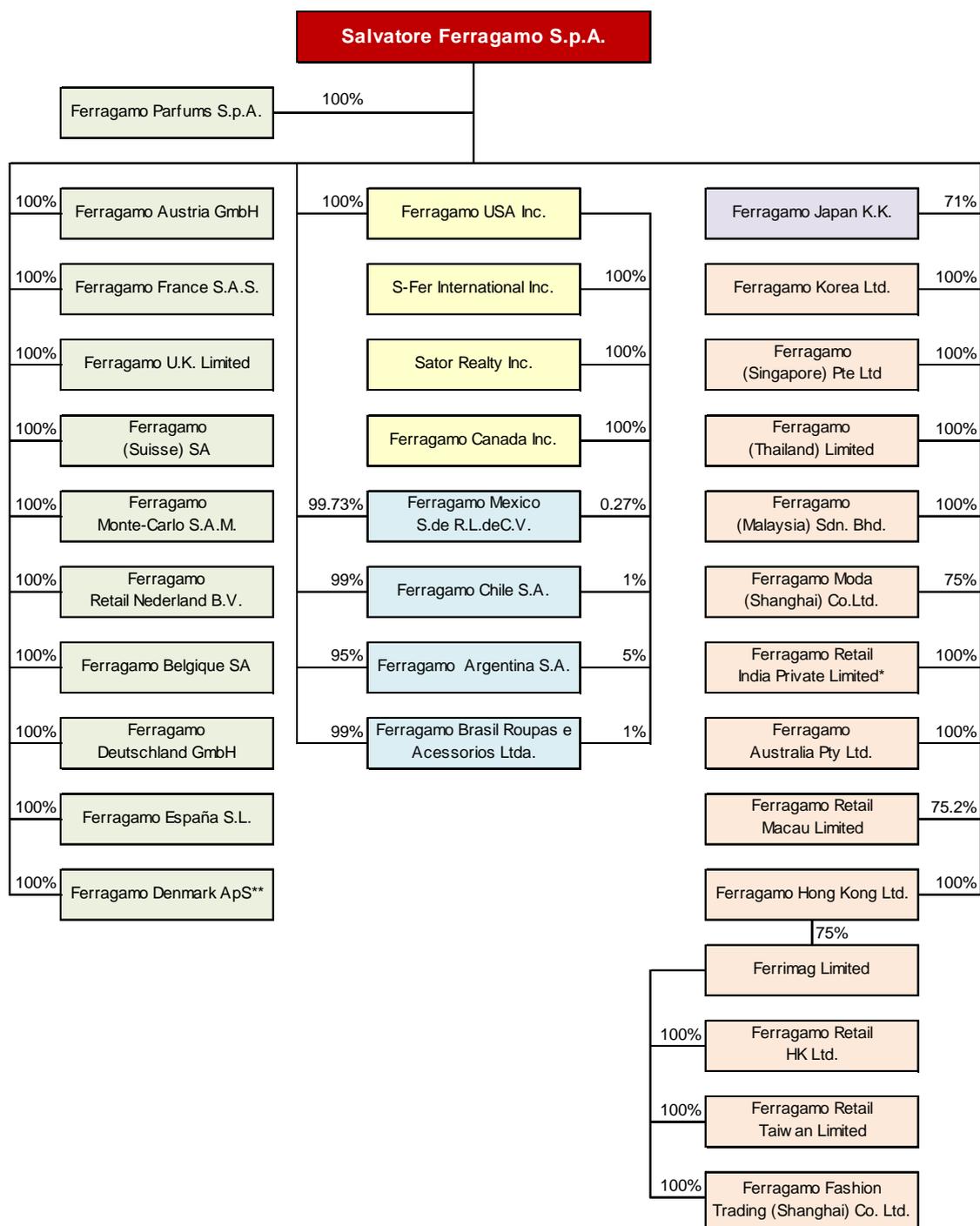
(7) Appointed by the Board of Directors on 13 December 2018 effective as from 11 January 2019.

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

(9) Appointed as Director by the Shareholders' Meeting on 18 April 2019 and appointed as Managing Director by the Board of Directors on the same date. In office until approval of the 31 December 2020 separate financial statements

(10) Appointed by the Board of Directors on 18 June 2019.

Group structure



Notes

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

* Non-operating company

**Company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019

Group description

As at 31 December 2019, the Salvatore Ferragamo Group consists of Salvatore Ferragamo S.p.A. (Parent company) and the following subsidiaries – consolidated on a line by line basis – in which the Parent company holds majority stakes, both directly or indirectly, and which it controls.

Salvatore Ferragamo S.p.A.

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

company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020

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 directly operated stores (DOS) and the wholesale channel 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

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

Ferragamo Moda (Shanghai) Co. Ltd.

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

Ferragamo Retail HK Limited

It manages directly operated stores (DOS) in Hong Kong

Ferragamo Retail Taiwan Limited

It manages directly operated stores (DOS) in Taiwan

Ferragamo Retail Macau Limited

It manages directly operated stores (DOS) in Macau

Ferragamo Retail India Private Limited

Non-operating company

Ferragamo Korea Ltd.

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

Ferragamo (Singapore) Pte Ltd.

It manages directly operated stores (DOS) in Singapore

Ferragamo (Thailand) Limited

It manages directly operated stores (DOS) in Thailand

Ferragamo (Malaysia) Sdn. Bhd.

It manages directly operated stores (DOS) in Malaysia

Japan

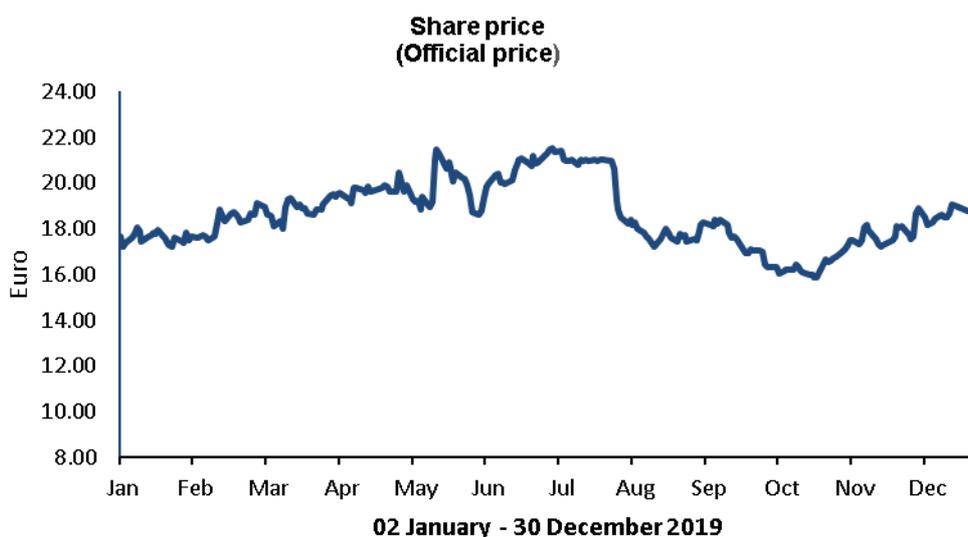
Ferragamo Japan K.K.

It manages directly operated stores (DOS) in Japan

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

Official price as at 30 December 2019 in Euro	18.75
Minimum price as at 21 October 2019 in Euro (1)	15.815
Maximum price as at 3 July 2019 in Euro (1)	21.72
Stock Market capitalization as at 31 December 2019 in Euro	3,164,812,500
Number of shares making up the share capital as at 31 December 2019	168,790,000
Number of outstanding shares (free float)	48,979,090

Here below is the trend in Salvatore Ferragamo's share price during 2019.



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 and Right-of-use assets*.

EBITDA excluding IFRS 16: it is *Operating Profit* before *Amortization and Depreciation and Write-downs of tangible/intangible assets* excluding the impact of the introduction of the new accounting standard IFRS 16.

Operating profit: it is the difference between revenues, cost of goods sold, and operating costs net of other income.

Operating Profit excluding IFRS 16: it is *Operating Profit* excluding the impact of the introduction of the new accounting standard IFRS 16.

Net profit for the period excluding IFRS 16: it is the *Net profit for the period* excluding the impact of the introduction of the new accounting standard IFRS 16 and the relevant tax consequences.

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

(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.

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

Adjusted net invested capital: it is *Net invested capital* net of *Right-of-use assets* and *Right-of-use assets* classified as *Investment property*.

Net financial debt/(surplus): it is calculated as *Current and non current interest-bearing loans & borrowings* plus *Current and non current lease liabilities* and *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).

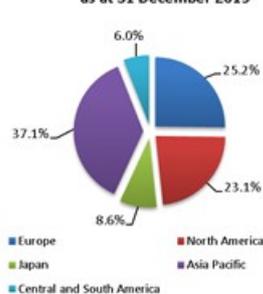
Adjusted net financial debt/ (surplus): it is *Net financial debt/(surplus)* net of *Current and non current lease liabilities*.

Adjusted cash flow generated from operating activities: it is *Net cash from (used in) operating activities* net of *Repayment of lease liabilities* (classified as *Cash flow from financing activities*).

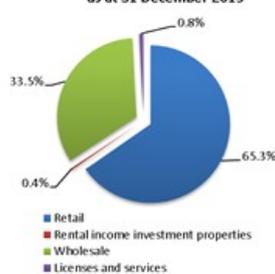
1. The Group's main income and financial results for the year 2019

(In millions of Euro)	2019	2019 excl. IFRS16	2018	2017	% change 2019 excl. IFRS16 vs 2018	% change 2018 vs 2017
Revenues	1,377.3	1,377.3	1,346.8	1,393.5	2.3%	(3.3%)
Gross profit	893.5	893.5	862.0	898.7	3.7%	(4.1%)
Gross profit %	64.9%	64.9%	64.0%	64.5%		
EBITDA	335.5	205.0	214.2	248.5	(4.3%)	(13.8%)
EBITDA %	24.4%	14.9%	15.9%	17.8%		
Operating profit	149.7	137.5	149.8	186.1	(8.2%)	(19.5%)
Operating profit %	10.9%	10.0%	11.1%	13.4%		
Net profit/(loss) for the period	87.4	91.8	90.2	114.3	1.7%	(21.1%)
Net profit/(loss) – Group	87.3	91.4	88.4	118.6	3.4%	(25.5%)
Net profit/(loss) – minority interests	0.1	0.4	1.8	(4.4)		

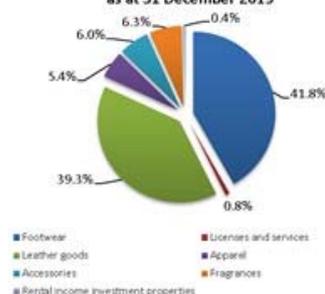
Revenues by geographic area as at 31 December 2019



Revenues by distribution channel as at 31 December 2019



Revenues by product category as at 31 December 2019



(In millions of Euro)	31 December 2019	31 December 2018	31 December 2017
Investments in tangible/intangible assets	59.6	71.0	88.4
Net working capital	334.6	293.6	270.5
Shareholders' equity	785.3	780.3	748.4
Adjusted net financial debt/(surplus)	(171.9)	(169.0)	(127.5)
Adjusted cash flow generated from operating activities	135.6	186.3	278.9

	31 December 2019	31 December 2018	31 December 2017
Staff as at the reporting date	4,277	4,228	4,183
Number of DOS	393	409	410
Number of TPOS	261	263	275

Geographical distribution of monobrand stores (31 December 2019)



654 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 2019" 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. In particular, with the introduction of the new IFRS 16 relating to the accounting treatment of leases as from 1 January 2019, in order to make the data as at 31 December 2019 comparable with prior years, some performance indicators were restated by excluding the impact of the adoption of the new accounting standard IFRS 16. These indicators were named "excluding IFRS 16" with respect to measures of financial performance (EBITDA, Operating Profit, and Net profit for the period) and "adjusted" with respect to measures of financial position and cash flows (Net invested capital, Net financial debt/(surplus), and Cash flow from operating activities), as detailed in the paragraph "Alternative performance measures", and the comments on the changes compared to prior periods refer to such restated amounts.

3. The Salvatore Ferragamo Group's activities

The Group is active in the creation, production and sale of luxury goods for men and women: footwear, leather goods, apparel, silk goods, jewels, other accessories and fragrances. The product range also includes eyewear and watches manufactured under license by third parties. The product range stands out for its uniqueness, which is the result of the combination of creative and innovative style with the quality and craftsmanship that are the hallmark of luxury goods made in Italy.

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

1. a network of single Salvatore Ferragamo brand stores, managed both directly (DOS) and by third parties (TPOS);
2. a significant and well-established presence in department stores and multibrand specialty stores.

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

Distinctive features of the Parent company and the Group

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

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

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

Global brand awareness

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

Ongoing search for quality applied to the whole product range

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

Consolidated, extended distribution network that is diversified across different channels

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

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

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

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

Strategy

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

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

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

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

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

- further expansion of its commercial presence in emerging countries, above all in Asia Pacific;
- improvement in the performance of the retail channel, which is to be achieved through more effective management of product categories in stores, the renovation of stores improving their layout, the opening of stores dedicated exclusively to men or women’s products as well as, above all in historic luxury markets, renewal of the stores’ image;

- constant control of the wholesale channel, consolidating its presence in the most prestigious department stores in historic luxury markets and continuing to exploit this channel to penetrate emerging countries; particular importance is also attached to the travel retail segment;
- development of the e-commerce channel.

Optimization of the product range and the collection structure

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

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

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

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

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

Specifically, please note that in 2018 the "New Logistics Hub" at Osmannoro - Sesto Fiorentino became operational, featuring innovative systems and a high level of automation. The main benefits the Group expects from this major investment are: bringing the reception/storing/shipping of the Parent's products together into a single logistics site; being able to handle much larger product volumes than currently possible; boosting the productivity, quality, and efficiency of the logistics process, so as to meet market demands in a more flexible and faster manner; improving overall working conditions by installing ergonomic workstations.

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 2019 numbered 393 (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 2019 numbered 261, 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 2019 was 654.

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 2019, the composition of the Salvatore Ferragamo Group saw the following change: Ferragamo Denmark ApS, placed into liquidation effective 1 July 2019, ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020. For further details, please refer to the paragraph "Significant events occurred during the year" in this Directors' report on operations.

Effect of exchange rate changes on operations

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

2019 saw more limited fluctuations in the foreign exchange market compared to previous years: the variables that influenced exchange rates the most were in line with the past (data on macroeconomic fundamentals, the monetary policy measures taken by central banks, specific political developments, and global trade tensions associated with the introduction of tariffs, especially between the US and China). The normalization of monetary policy measures across the world's major economies that began in 2018 came to a sudden stop in 2019 as economic indicators still failed to meet expectations, especially in the Eurozone.

Largely because of the new measures taken by the European Central Bank, the Euro continued its downward slide that began in 2018 relative to the USD and the main currencies pegged to it, although this was less pronounced than last year. The single currency then regained ground in December and closed at around 1.12, compared to an average exchange rate of 1.18 in 2018. The Japanese Yen fared similarly: although the monetary policy of the Japanese central bank remained strongly accommodating, the currency (alongside other safe havens such as the Swiss Franc) benefited from the significant risk aversion fueled by continued global uncertainty. EUR/JPY thus fell from 128 at the end of 2018 to a low of 117 in August 2019 and eventually settled at 122 at the end of the year. The on-and-off progress in Brexit negotiations and the uncertainty associated with them affected the pound in a year that saw significant volatility. The EUR/GBP pair fluctuated widely, with a peak of 0.93 in August and a floor of nearly 0.84 in December—eventually stabilizing around this level after the most recent local elections.

The CNY/USD exchange rate depreciated steadily in the first half of the year, shifting from 6.70 in January to 7.16 in August, and partially recovered in the second half, ending at approximately 6.94; negotiations over the import tariffs introduced by the US administration put pressure on the yuan—which is increasingly driven by the market, albeit within a controlled floating-rate system. EUR/CNY meanwhile fluctuated between a low of around 7.53 in March and a high of approximately 7.87 in August before ending the year at 7.70. The South Korean Won performed similarly against the dollar, shifting from 1,112 at the start of the year to 1,210 in August before ending at around 1,195. Similarly, EUR/KRW shifted from 1,270 to 1,325. The Mexican Peso remained essentially stable in the first half of the year and appreciated against both the euro and the dollar in the final quarter, boosted by the positive developments in trade negotiations. In Asia, the Indian Rupee, the Indonesian Rupee, the Thai Baht, and the Singaporean Dollar on average held steady against the US dollar, as they depreciated in the first six months of 2019 due to concerns over the international market outlook and subsequently appreciated in the second half of the year. In Latin America, the Argentine Peso (which once again in 2019 fell by over 80% relative to the US dollar) and, to a lesser extent, the Brazilian Real depreciated sharply because of high inflation and capital outflows.

4. The Group's operating performance

The 2019 results confirmed the year-on-year improvement in revenues and gross profit already observed in the first three quarters of the year. Compared to 2018, revenues were up 2.3% at current exchange rates (+1.3% at constant exchange rates) and gross profit rose 3.7% despite the weaker performance in the second half of the year: this was attributable directly to the political tensions in Hong Kong (a crucial geography for retail sales) and, indirectly, the instability caused by the US-China trade war, which raged on throughout the entire year.

EBITDA, excluding the impact of IFRS 16, fell by 4.3% compared to 2018 and amounted to 14.9% as a percentage of revenues, down from 15.9% in the prior year. Operating profit excluding the impact of IFRS 16, which was affected by the increase in operating costs – partly also due to the negative impact from exchange rates – was down 8.2% and accounted for 10.0% of revenues, compared to 11.1% in the prior year.

Net profit for the period, excluding the impact of IFRS 16, totaled 91.8 million Euro, up 1.7% from 90.2 million Euro in 2018. Group net profit for the period, excluding the impact of IFRS 16, climbed 3.4% from 88.4 million Euro to 91.4 million Euro.

The financial position was essentially unchanged year-on-year, as the adjusted net financial position was a 171.9 million Euro surplus as at 31 December 2019 compared to a 169.0 million Euro surplus as at 31 December 2018. The increase was largely attributable to 135.6 million Euro in adjusted cash flows from operating activities.

The following table shows the main income statement data.

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change 2019 excl. IFRS16 vs 2018
Revenues	1,377,261	100.0%	-	1,377,261	100.0%	1,346,842	100.0%	2.3%
Gross profit	893,494	64.9%	-	893,494	64.9%	861,980	64.0%	3.7%
Style, product development and logistics costs	(50,292)	(3.7%)	-	(50,292)	(3.7%)	(48,376)	(3.6%)	4.0%
Sales & distribution costs	(482,315)	(35.0%)	(9,418)	(491,733)	(35.7%)	(456,803)	(33.9%)	7.6%
Marketing & communication costs	(79,676)	(5.8%)	(2)	(79,678)	(5.8%)	(73,326)	(5.4%)	8.7%
General and administrative costs	(127,837)	(9.3%)	(2,763)	(130,600)	(9.5%)	(124,565)	(9.2%)	4.8%
Other operating costs	(24,467)	(1.8%)	-	(24,467)	(1.8%)	(19,341)	(1.4%)	26.5%
Other income	20,791	1.5%	-	20,791	1.5%	10,200	0.8%	103.8%
Total operating costs (net of other income)	(743,796)	(54.0%)	(12,183)	(755,979)	(54.9%)	(712,211)	(52.9%)	6.1%
Operating profit	149,698	10.9%	(12,183)	137,515	10.0%	149,769	11.1%	(8.2%)
Net financial income and charges	(32,564)	(2.4%)	17,752	(14,812)	(1.1%)	(13,857)	(1.0%)	6.9%
of which Net interest expense on lease liabilities	(17,752)	(1.3%)	17,752	-	-	-	-	na
Profit before taxes	117,134	8.5%	5,569	122,703	8.9%	135,912	10.1%	(9.7%)
Income Taxes	(29,769)	(2.2%)	(1,183)	(30,952)	(2.2%)	(45,725)	(3.4%)	(32.3%)
Net profit/(loss) for the period	87,365	6.3%	4,386	91,751	6.7%	90,187	6.7%	1.7%
Net profit/(loss) – Group	87,281	6.3%	4,105	91,386	6.6%	88,361	6.6%	3.4%
Net profit/(loss) – minority interests	84	0.0%	281	365	0.0%	1,826	0.1%	(80.0%)
Amortization, depreciation and write-downs	185,832		(118,334)	67,498		64,452		
EBITDA	335,530	24.4%	(130,517)	205,013	14.9%	214,221	15.9%	(4.3%)

As mentioned in the introduction, the main income and financial indicators were strongly impacted by the application of IFRS 16 starting from 1 January 2019 and are not comparable to the data from previous years. With reference to the economic data, the recognition of depreciation of Right-of-use assets and Right-of-use assets recognized under Investment property together with Interest expense on lease liabilities, in place of rental costs (for leases falling under this new standard), caused an increase in Operating profit and EBITDA compared to 2018. In particular, compared to IAS 17, the combination of straight-line depreciation of “Right-of-use assets” and the use of an Incremental Borrowing Rate - IBR to determine lease liabilities (discounting of future lease payments) leads to higher financial charges recognized through profit or loss in the first years of the lease and decreasing financial charges subsequently. Therefore, as said in the introduction, in order to make these indicators comparable in the year of transition (2019), maintaining a consistent basis for comparison with the prior-year period, the income statement as at 31 December 2019 was restated by excluding the impact of the introduction of the new accounting standard IFRS 16, as the above tables show, and the relevant comments refer to such restated amounts.

In 2019, **revenues** reached 1,377,261 thousand Euro, compared to 1,346,842 thousand Euro in 2018, up 2.3%. 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 2019 compared to the previous year: the US dollar appreciated by 5.2%⁽²⁾, the Chinese Renminbi appreciated by 0.9%⁽³⁾ and the Japanese Yen appreciated by 6.4%⁽⁴⁾ against the Euro, the currency in which the figures in the consolidated financial statements are expressed. Revenues climbed 1.3% at constant exchange rates (applying the 2019 average exchange rate to the revenues for 2018 – net of the hedging impact). With reference to the fourth quarter of 2019 only, revenues amounted to 382,897 thousand Euro, up 2.1% compared to the prior-year period (-0.1% at constant exchange rates). Currency hedges of revenues resulted in a negative 8,894 thousand Euro adjustment to revenues in 2019, compared to a positive 16,063 thousand Euro adjustment in 2018.

In 2019, **gross profit** totaled 893,494 thousand Euro, up 3.7% from 861,980 thousand Euro in the prior year. Gross profit as a percentage of sales stood at 64.9%, compared to 64.0% in 2018, as it was positively affected by increased sales in the primary retail channel. In the fourth quarter of 2019 alone, the Group generated 249,330 thousand Euro in gross profit, up 2.2% from 243,992 thousand Euro in the prior-year period and unchanged as a percentage of revenues (65.1%).

Total **operating costs** (net of other income) amounted to 743,796 thousand Euro in 2019, climbing 4.4% from 2018 (712,211 thousand Euro), and amounted to 54.0% as a percentage of revenues. This was partially because of the negative impact of the appreciation in the major currencies other than the Euro in which the Salvatore Ferragamo Group incurs part of its operating costs. Total operating costs (net of other income), excluding the impact of IFRS16, amounted to 755,979 thousand Euro, up 6.1% year-on-year, and 54.9% as a percentage of revenues, up from 52.9% in 2018. In the fourth quarter of 2019, total net operating costs, excluding the impact of IFRS16, increased from 196,292 thousand Euro to 208,099 thousand Euro, up 6.0% compared to the prior-year period; as a percentage of revenues, they rose from 52.3% in 2018 to 54.3% in 2019.

As a result of the increase in gross profit and rising operating costs, **EBITDA**, excluding the impact of IFRS16, declined from 214,221 thousand Euro in 2018 to 205,013 thousand Euro in 2019 (-4.3%), and from 15.9% to 14.9% as a percentage of revenues. In the fourth quarter of 2019, EBITDA, excluding the impact of IFRS16, totaled 58,243 thousand Euro, compared to 65,191 thousand Euro in the prior-year period, and accounted for 15.2% of revenues, compared to 17.4% in the fourth quarter of 2018.

In 2019 **operating profit**, excluding the impact of IFRS16, totaled 137,515 thousand Euro compared to 149,769 thousand Euro in 2018, down by 8.2%. Operating profit as a percentage of revenues decreased from 11.1% in 2018 to 10.0% in 2019. In the fourth quarter of 2019, operating profit, excluding the impact of IFRS16, totaled 41,231 thousand Euro, compared to 47,700 thousand Euro in the fourth quarter of 2018, (-13.6%), accounting for 10.8% of revenues compared to 12.7% in the same period last year.

Net financial income and charges shifted from 13,857 thousand Euro in charges in 2018 to 32,564 thousand Euro in charges in 2019, largely because of the impact of interest expense on lease liabilities (amounting to 17,752 thousand Euro) recognized as of 1 January 2019 under the new accounting standard IFRS16. In the fourth quarter of 2019 alone, the Group reported 5,795 thousand Euro in net financial charges, excluding the impact of IFRS16, compared to 3,172 thousand Euro in net financial charges in the prior-year period, partially because it recognized 1,169 thousand Euro in interest expense following the conclusion of Salvatore Ferragamo S.p.A.'s tax assessment with acceptance on 29 November 2019 for the fiscal years 2014 and 2015 (deeds finalized on 21 November 2019). For more details, please refer to the paragraph "Tax and customs disputes and audits" in the section "Significant events occurred during the year".

The **income tax** rate, excluding the impact of IFRS 16, for the year 2019 was 25.2%, compared to 33.6% in the prior year. On the one hand, the direct tax expense of the Parent company Salvatore Ferragamo S.p.A. declined thanks to the benefit known as "Patent box", resulting in a 10,218 thousand Euro positive impact in 2019 (4,043 thousand Euro in 2018) – and the ruling will remain in effect until 2019. On the other hand, taxes from previous years had a 2,593 thousand Euro impact in 2019, as the Group's two Italian entities settled their tax disputes during the year, compared to 6,821 thousand Euro in 2018 as a result of the amount allocated to the provision for risks of Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A.. For more details, please refer to the paragraph "Tax and customs disputes and audits" in the section "Significant events occurred during the year" in this Annual Report as at 31 December 2019 as well as note 37 in the Explanatory Notes to the Consolidated Financial Statements as at 31 December 2019. Excluding the above impacts (Patent Box and the increased tax expense resulting from the tax audits of previous years), the 2019 tax rate would have amounted to 31.4%, compared to 31.6% in 2018.

² With reference to the average Euro/Usd exchange rate in 2019 1.119; 2018 1.181

³ With reference to the average Euro/Cny exchange rate in 2019 7,735; 2018 7,808

⁴ With reference to the average Euro/Yen exchange rate in 2019 122,01; 2018 130,396

In 2019, the Group posted 91,751 thousand Euro in consolidated **net profit**, excluding the impact of IFRS16, up 1.7% from 90,187 thousand Euro in 2018. The Group's share of consolidated net profit, excluding the impact of IFRS16, amounted to 91,386 thousand Euro, up 3.4% from 88,361 thousand Euro in the prior year. In the fourth quarter of 2019, net profit, excluding the impact of IFRS16, totaled 26,925 thousand Euro, compared to 25,043 thousand Euro in the fourth quarter of 2018; Group net profit, excluding the impact of IFRS16, amounted to 28,248 thousand Euro, compared to 24,264 thousand Euro in the fourth quarter of 2018.

The Group ended 2019 with an adjusted **positive net financial position** (surplus) of 171,896 thousand Euro, up from the 168,996 thousand Euro surplus as at 31 December 2018. In the fourth quarter of 2019, the adjusted net financial position increased from a 150,367 thousand Euro surplus as at 30 September 2019 to 171,896 thousand Euro at the end of the year, up 21,529 thousand Euro thanks to 38.1 million Euro in adjusted cash flows from operating activities for the period net of 19.4 million Euro in cash flows used for investments in the fourth quarter.

Revenues

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

(In thousands of Euro)	2019	% of Revenues	2018	% of Revenues	% change	at constant exchange rates % change
Europe	347,243	25.2%	329,743	24.5%	5.3%	5.1%
North America	317,880	23.1%	315,640	23.4%	0.7%	(0.6%)
Japan	118,453	8.6%	119,032	8.8%	(0.5%)	(2.8%)
Asia Pacific	511,313	37.1%	505,549	37.6%	1.1%	0.7%
Central and South America	82,372	6.0%	76,878	5.7%	7.1%	4.6%
Total	1,377,261	100.0%	1,346,842	100.0%	2.3%	1.3%

Europe saw revenues increase by 5.3% at current exchange rates and 5.1% at constant exchange rates, mainly due to the strong performance of the retail channel.

In North America, revenues were slightly up by 0.7% at current exchange rates (-0.6% at constant exchange rates): revenues from rental income investment properties declined, but this was partly offset by the robust performance of both the wholesale and retail channels.

Japan saw revenues fall by 0.5% at current exchange rates and 2.8% at constant exchange rates, with the consumption tax hike negatively affecting the final quarter.

The Asia-Pacific region made once again the largest contribution to the Group's revenues, accounting for 37.1% of the total. It grew by 1.1% at current exchange rates (+0.7% at constant exchange rates) on the back of the wholesale channel's strong performance, although the tough geopolitical situation in Hong Kong had a strong negative impact.

The Central and South American market was up 7.1% at current exchange rates and 4.6% at constant exchange rates. The revenues generated in 2019 and 2018 by Ferragamo Argentina S.A. (which operates in a country classified as a hyperinflationary economy since 1 July 2018) were adjusted in accordance with the relevant international accounting standards (see note 2 "Basis of presentation" in the Explanatory notes to the consolidated financial statements), resulting in a positive impact of 294 thousand Euro in 2019 and 270 thousand Euro in 2018.

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

(In thousands of Euro)	2019	% of Revenues	2018	% of Revenues	% change	at constant exchange rates % change
<i>Retail</i>	899,485	65.3%	878,216	65.2%	2.4%	1.1%
<i>Wholesale</i>	461,372	33.5%	447,535	33.2%	3.1%	3.0%
Licenses and services	11,592	0.8%	9,518	0.7%	21.8%	21.8%
Rental income investment properties	4,812	0.4%	11,573	0.9%	(58.4%)	(60.6%)
Total	1,377,261	100.0%	1,346,842	100.0%	2.3%	1.3%

In 2019, retail sales were up 2.4% at current exchange rates and 1.1% at constant exchange rates, thanks to the robust performance in Europe (+8.2% at current exchange rates and +7.9% at constant exchange rates) and North America (+3.0% at current exchange rates and +0.5% at constant exchange rates). The retail channel accounted for 65.2% of total revenues in 2018 and 65.3% in 2019.

Compared to the situation as at 31 December 2018, the number of directly operated stores (DOS) declined by 16 units from 409 to 393.

The wholesale channel saw sales climb 3.1% at current exchange rates and 3.0% at constant exchange rates across all reference markets, except for Japan (down 2.1% at current exchange rates): the Asian-Pacific market was up 3.7% at current exchange rates, the North American market rose by 2.7% at current exchange rates, and the Central and South American market grew by 12.2% at current exchange rates.

In 2019, revenues from licenses and services were up 21.8% (at both current and constant exchange rates), driven largely by the eyewear segment; this item mainly consists of royalties for the licensing of the Salvatore Ferragamo brand to the Marchon group in the eyewear industry and the Timex group in the watch industry.

Revenues from rental income investment properties refer solely to property located in the United States and leased/sub-leased to third parties; they declined by 58.4% at current exchange rates and 60.6% at constant exchange rates following the end of a major lease contract for a real estate asset in New York in February 2019.

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

(In thousands of Euro)	2019	% of Revenues	2018	% of Revenues	% change	at constant exchange rates % change
Footwear	575,571	41.8%	554,728	41.2%	3.8%	3.0%
Leather goods	540,818	39.3%	521,443	38.7%	3.7%	2.8%
Apparel	74,232	5.4%	76,472	5.6%	(2.9%)	(3.9%)
Accessories	82,472	6.0%	78,999	5.9%	4.4%	3.2%
Fragrances	87,764	6.3%	94,109	7.0%	(6.7%)	(7.9%)
Licenses and services	11,592	0.8%	9,518	0.7%	21.8%	21.8%
Rental income investment properties	4,812	0.4%	11,573	0.9%	(58.4%)	(60.6%)
Total	1,377,261	100.0%	1,346,842	100.0%	2.3%	1.3%

Footwear (+3.8% at current exchange rates), leather goods (+3.7% at current exchange rates) and accessories (+4.4% at current exchange rates) delivered a strong performance at both current and constant exchange rates.

Cost of goods sold and gross profit

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Consumables	(250,283)	(18.2%)	-	(250,283)	(18.2%)	(267,003)	(19.8%)	(6.3%)
Services	(224,450)	(16.3%)	(22)	(224,472)	(16.3%)	(208,985)	(15.5%)	7.4%
Personnel	(8,023)	(0.6%)	-	(8,023)	(0.6%)	(7,965)	(0.6%)	0.7%
Depreciation and amortization	(1,011)	(0.1%)	22	(989)	(0.1%)	(909)	(0.1%)	8.8%
Cost of goods sold	(483,767)	(35.1%)	-	(483,767)	(35.1%)	(484,862)	(36.0%)	(0.2%)
Gross profit	893,494	64.9%	-	893,494	64.9%	861,980	64.0%	3.7%

In 2018, the **cost of goods sold** amounted to 483,767 thousand Euro, essentially in line with 2018 (-0.2%). **Gross profit** as a percentage of sales stood at 64.9%, compared to 64.0% in 2018.

Style, product development and logistics costs

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Purchases	(5,558)	(0.4%)	-	(5,558)	(0.4%)	(5,301)	(0.4%)	4.8%
Services	(19,289)	(1.4%)	(12)	(19,301)	(1.4%)	(21,693)	(1.6%)	(11.0%)
Personnel	(23,800)	(1.7%)	-	(23,800)	(1.7%)	(20,851)	(1.5%)	14.1%
Depreciation and amortization	(1,645)	(0.1%)	12	(1,633)	(0.1%)	(531)	(0.0%)	207.5%
Total	(50,292)	(3.7%)	-	(50,292)	(3.7%)	(48,376)	(3.6%)	4.0%

These costs, which include the expenses of the creative departments and for the freight to deliver the products to their sales markets, were up 4.0% compared to 2018. Depreciation and amortization, excluding the impact of IFRS16, increased by 1,102 thousand Euro compared to 31 December 2018, largely because of the depreciation

of the new storage and distribution plants at Salvatore Ferragamo S.p.A.'s logistics hub within the Osmannoro site, which became operational in the fourth quarter of 2018.

Sales & distribution costs

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Retail	(431,529)	(31.3%)	(9,402)	(440,931)	(32.0%)	(407,080)	(30.2%)	8.3%
Wholesale	(41,631)	(3.0%)	(15)	(41,646)	(3.0%)	(40,516)	(3.0%)	2.8%
Distribution logistics	(9,155)	(0.7%)	(1)	(9,156)	(0.7%)	(9,207)	(0.7%)	(0.6%)
Total	(482,315)	(35.0%)	(9,418)	(491,733)	(35.7%)	(456,803)	(33.9%)	7.6%

The costs relating to the network of directly operated stores (DOS), excluding the impact of IFRS16, were up 8.3% from 407,080 thousand Euro to 440,931 thousand Euro, mainly due to the increased store lease costs and partially because of the appreciation in the average annual exchange rate of the major currencies other than the Euro in which the Group incurs its operating costs, rising from 30.2% to 32.0% as a percentage of revenues. As a percentage of total sales & distribution costs, these expenses, excluding the impact of IFRS16, increased from 89.1% in 2018 to 89.7% in 2019.

Below is a breakdown by nature of sales and distribution costs:

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Purchases	(6,344)	(0.5%)	-	(6,344)	(0.5%)	(5,248)	(0.4%)	20.9%
Services	(178,575)	(13.0%)	(116,459)	(295,034)	(21.4%)	(271,486)	(20.2%)	8.7%
Personnel	(150,214)	(10.9%)	-	(150,214)	(10.9%)	(138,380)	(10.3%)	8.6%
Depreciation and amortization	(146,963)	(10.7%)	107,041	(39,922)	(2.9%)	(41,685)	(3.1%)	(4.2%)
Write-downs of tangible/intangible assets	(219)	(0.0%)	-	(219)	(0.0%)	(4)	(0.0%)	5375.0%
Total	(482,315)	(35.0%)	(9,418)	(491,733)	(35.7%)	(456,803)	(33.9%)	7.6%

Marketing & communication costs

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Purchases	(2,365)	(0.2%)	-	(2,365)	(0.2%)	(2,920)	(0.2%)	(19.0%)
Services	(64,772)	(4.7%)	(77)	(64,849)	(4.7%)	(59,763)	(4.4%)	8.5%
Personnel	(12,277)	(0.9%)	-	(12,277)	(0.9%)	(10,504)	(0.8%)	16.9%
Depreciation and amortization	(262)	(0.0%)	75	(187)	(0.0%)	(139)	(0.0%)	34.5%
Total	(79,676)	(5.8%)	(2)	(79,678)	(5.8%)	(73,326)	(5.4%)	8.7%

Total marketing & communication costs, excluding the impact of IFRS16, rose by 8.7% year-on-year, from 73,326 thousand Euro to 79,678 thousand Euro, and from 5.4% to 5.8% as a proportion of revenues.

General and administrative costs

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Purchases	(2,120)	(0.2%)	-	(2,120)	(0.2%)	(2,000)	(0.1%)	6.0%
Services	(49,868)	(3.6%)	(13,947)	(63,815)	(4.6%)	(62,371)	(4.6%)	2.3%
Personnel	(40,117)	(2.9%)	-	(40,117)	(2.9%)	(39,010)	(2.9%)	2.8%
Depreciation and amortization	(35,731)	(2.6%)	11,184	(24,547)	(1.8%)	(21,163)	(1.6%)	16.0%
Write-downs of tangible/intangible assets	(1)	(0.0%)	-	(1)	(0.0%)	(21)	(0.0%)	(95.2%)
Total	(127,837)	(9.3%)	(2,763)	(130,600)	(9.5%)	(124,565)	(9.2%)	4.8%

General and administrative costs, excluding the impact of IFRS16, rose by 4.8%, and their ratio to revenues increased from 9.2% in 2018 to 9.5% in 2019. Costs for services include, among others, the fees paid to the Board of Directors as well as other amounts accrued by the Managing Director and Chairman.

Other operating costs

(In thousands of Euro)	2019	% of Revenues	2018	% of Revenues	% change
Losses on disposal of tangible and intangible assets	(2,305)	(0.2%)	(1,163)	(0.1%)	98.2%
Windfall losses	(890)	(0.1%)	(919)	(0.1%)	(3.2%)
Provisions for risks and charges	(647)	(0.0%)	(88)	(0.0%)	635.2%
Write-down of current assets	(921)	(0.1%)	(975)	(0.1%)	(5.5%)
Other operating costs	(19,704)	(1.4%)	(16,196)	(1.2%)	21.7%
Total	(24,467)	(1.8%)	(19,341)	(1.4%)	26.5%

Other operating costs were up 26.5% and rose to 1.8% as a proportion of revenues. Other operating costs included 15,552 thousand Euro in Other non-income taxes (13,206 thousand Euro in 2018), largely related to the real estate tax on the Ferragamo Usa Group's properties. The write-down of current assets was essentially in line with the prior year (-5.5%). Provisions for risks and charges increased by 559 thousand Euro year-on-year. They mainly refer to labor and legal disputes related to ongoing legal proceedings as well as the estimated potential outflows from the Group companies required to reach a pre-litigation settlement.

Other income

(In thousands of Euro)	2019	% of Revenues	2018	% of Revenues	% change
Other income and revenues	17,509	1.3%	8,683	0.6%	101.6%
Gains on disposal of tangible/intangible assets	83	0.0%	53	0.0%	56.6%
Windfall profit	3,199	0.2%	1,464	0.1%	118.5%
Total	20,791	1.5%	10,200	0.8%	103.8%

Other income and revenues rose steadily by 10,591 thousand Euro compared to 2018, with the ratio to total revenues climbing from 0.8% to 1.5%. "Other income and revenues" included the Research and Development Tax Credit (art. 3 of Italian Law Decree no. 145 of 23 December 2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014 – 2015 Budget Law) and the "Art Bonus" tax credit to promote donations in support of cultural activities (Italian Law no. 106 of 29 July 2014) in favor of the Parent company; in addition, this line item largely comprised the recovery and reimbursement of expenses, advertising contributions, and insurance claims payments. The increase compared to 2018 was largely attributable to the greater amount of grants received by the Group's companies and, in part, to the inclusion in this line item of the grants received from the lessor for leasehold improvements, which are recognized on a straight-line basis over the lease term and, prior to the introduction of IFRS16, were offset against the lease expense for the period.

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)	2019	IFRS 16 impact	2019 excl. IFRS16	2018	% change 2019 excl. IFRS16 vs 2018
Net interest	(764)	-	(764)	(940)	(18.7%)
Other net income/(charges)	(1,438)	-	(1,438)	(1,446)	(0.6%)
Net interest expense on lease liabilities	(17,752)	17,752	-	-	na
Net gains/(losses) on exchange rate differences	5,459	-	5,459	954	472.2%
Net financial income/(charges) for fair value adjustment of derivatives	(18,069)	-	(18,069)	(12,425)	45.4%
Total	(32,564)	17,752	(14,812)	(13,857)	6.9%

Net financial income and charges amounted to 32,564 thousand Euro in charges, down 18,707 thousand Euro compared to 2018, especially because of the impact of net interest expense on lease liabilities (amounting to 17,752 thousand Euro) recognized as of 1 January 2019 as the new accounting standard IFRS16 became effective on 1 January 2019. Net interest was affected by the recognition of 1,185 thousand Euro in interest expense following the settlement of the tax dispute over the years 2014 and 2015 between the Italian entities of the Group, Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A., and Italian taxation authorities. For more details, please refer to the paragraph “Tax and customs disputes and audits” in the section “Significant events occurred during the year”. 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. Net interest was down year-on-year as the Group took out even more intercompany loans on arm's length terms in 2019 to reduce its average net bank borrowings—a policy it began implementing in 2017.

Income Taxes

The change in income taxes was as follows:

(In thousands of Euro)	2019	IFRS 16 impact	2019 excl. IFRS16	2018	% change 2019 excl. IFRS16 vs 2018
Profit before taxes	117,134	5,569	122,703	135,912	(9.7%)
Current and deferred taxes*	(27,176)	(1,183)	(28,359)	(36,506)	(22.3%)
Use of/(Allocation) to the provision for risks for taxes from previous years	6,704	-	6,704	(6,821)	(198.3%)
Taxes from previous years*	(9,297)	-	(9,297)	(2,398)	287.7%
Tax rate	25.4%		25.2%	33.6%	

To provide a better presentation, the line item Taxes from previous years, classified within Current and deferred taxes in 2018, has been disclosed separately.

The tax rate for 2019, excluding the impact of IFRS16, was 25.2%, compared to 33.6% in the prior period. The Group's income tax expense was influenced by several factors: on the one hand, it benefited from the so-called “Patent Box” (Art. 1 Italian Law no. 190 of 23 December 2014 – 2015 Budget Law and Decree of the Ministry of Economic Development dated 30 July 2015) in favor of the Parent (10.2 million Euro in 2019 and 4.0 million Euro in 2018); on the other hand, in 2019, following the settlement of the tax dispute over the years 2014 and 2015 between the Italian entities of the Group, Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A., and Italian taxation authorities, taxes from previous years rose by 2,593 thousand Euro, net of the reversal of the provision for risks and charges set aside for this purpose in 2018, amounting to 6,821 thousand Euro. For more details, please refer to the paragraph “Tax and customs disputes and audits” in the section “Significant events occurred during the year”.

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

(In thousands of Euro)	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change
Net profit/(loss) for the period	87,365	6.3%	4,386	91,751	6.7%	90,187	6.7%	1.7%
Net profit/(loss) – Group	87,281	6.3%	4,105	91,386	6.6%	88,361	6.6%	3.4%
Net profit/(loss) – minority interests	84	0.0%	281	365	0.0%	1,826	0.1%	(80.0%)

Net profit for the period, excluding the impact of IFRS16, was up 1.7%, i.e. 1,564 thousand Euro, and the Group reported 91,386 thousand Euro in net profit, excluding the impact of IFRS16, compared to 88.361 thousand Euro in 2018.

Statement of financial position and Investments

Below is the statement of financial position as at 31 December 2019 reclassified by sources and uses, compared to the position as at 31 December 2018.

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Property, plant and equipment, investment property, intangible assets with a finite useful life	333,380	308,794	8.0%
Right-of-use assets	576,455	-	na
Net working capital	334,552	293,559	14.0%
Other non current assets/(liabilities), net	73,032	2,758	2548.0%
Other current assets/(liabilities), net	(27,721)	6,231	(544.9%)
Net invested capital	1,289,698	611,342	
Group shareholders' equity	763,647	753,691	1.3%
Minority interests	21,618	26,647	(18.9%)
Shareholders' equity (A)	785,265	780,338	0.6%
Net financial debt/(surplus) (B)	504,433	(168,996)	
Total sources of financing (A+B)	1,289,698	611,342	111.0%
Net financial debt/(surplus) (B)	504,433	(168,996)	
Lease liabilities (C)	676,329	-	na
Adjusted net financial debt/(surplus) (B-C)	(171,896)	(168,996)	1.7%
Adjusted net financial debt/(surplus)/ Shareholders' equity	(21.9%)	(21.7%)	

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Net invested capital (a)	1,289,698	611,342	
Right-of-use assets recognized under Investment property (b)	33,222	-	
Right-of-use assets (c)	576,455	-	
Adjusted net invested capital (a-b-c)	680,021	611,342	11.2%

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

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Property, plant and equipment	251,805	259,821	(3.1%)
Investment property	39,091	6,094	541.5%
Intangible assets with a finite useful life	42,484	42,879	(0.9%)
Total	333,380	308,794	8.0%

The item "Property, plant and equipment" as at 31 December 2019 consists of:

- the Sesto Fiorentino industrial complex, as well as adjacent plots of land and the new logistics hub that was completed and became operational in 2018, the portions of the American properties used in operating activities, and the property owned in Seoul, for a total net value of 91,454 thousand Euro;

- furnishings and renovation work for the chain of directly operated stores as well as the molds for the fragrances product category, for 114,914 thousand Euro;
- other assets, mainly for IT equipment, plant and equipment and tangible assets in progress for a total net value of 45,437 thousand Euro.

Investment property represents the part of the American properties which is not used for operations and producing income through rental. As at 31 December 2019, following the introduction of the new accounting standard IFRS16, this item includes also Right-of-use assets relating to lease contracts for property leased in the United States, amounting to 33,222 thousand Euro.

Intangible assets with a finite useful life largely consist of capitalized costs for the development of business software applications (SAP, ERP, reporting systems, shipping system, e-commerce platform, and the so-called “*Old Replacement*”, aimed at introducing a new SAP-based distribution system integrated with the logistic shipping and billing system), and the costs incurred to acquire the right to enter into shop rental contracts (the so-called “key money”, for a net residual value of 3,351 thousand Euro as at 31 December 2019). The remainder refers to registration expenses for trademarks, industrial patents and intellectual property rights (software licenses) and intangible assets with a finite useful life in progress.

Investments in fixed assets

During 2019, the Group made investments in tangible and intangible assets for a total amount of 59,563 thousand Euro, of which 46,872 thousand Euro in tangible assets and 12,691 thousand Euro in intangible assets, compared to a total of 71,048 thousand Euro in the previous year.

The most important investments in tangible assets were made in the opening and refurbishment of stores (24.2 million Euro, accounting for 51.6% of total investments in tangible assets), in addition to the works carried out at the Osmannoro facility – which are part of the broader project undertaken by the Parent company to expand and renovate the whole industrial complex in Osmannoro – including the construction of a new women's footwear production plant (manovia), and the renovation/refurbishment of the showrooms at the Parent company's registered offices, which was completed in 2019.

The main investments in intangible assets refer to the so-called “Marlin Project”, aimed at standardizing the Group's information systems – during 2019 Ferragamo Japan K.K. implemented the SAP system (accounting/logistics) and POS systems (retail) – developing the e-commerce platform, and purchasing software licenses (for a total amount of 6.4 million Euro, i.e. around 50.4% of investments in intangible assets made during 2019).

Investments in tangible assets under construction, amounting to 4.1 million Euro, mainly concerned the investments made for the refurbishment and opening of new stores which were not yet operational as at the reporting date. Investments in intangible assets under development totaled 6.6 million Euro and largely consisted of investments in the development of software to support business processes, chief among them the “Project Life Cycle Management-PLM” (for the integrated management of the product's life cycle, which involves all production categories: as part of this initiative, product development – a high value-added process within the luxury industry – is optimized in terms of time and synergies with the Merchandising and Production functions, integrating and enhancing all in-house activities such as design, research, costing, and industrialization), released in early 2020; the Enterprise Business Intelligence project, aimed at rationalizing corporate reporting and analytics systems by establishing a single shared “Data Warehouse”; a new distribution model; and the continued development of the e-commerce project of the Parent Company Salvatore Ferragamo S.p.A..

During 2019, the Group did not make any investments in financial assets.

Amortization and depreciation (excluding depreciation of the Right-of-use assets) totaled 67,278 thousand Euro as at 31 December 2019, up 4.4% from 64,427 thousand Euro as at 31 December 2018.

Right-of-use assets

The item, totaling 576,455 thousand Euro as at 31 December 2019, refers to the recognition of “Right-of-use assets” against “Lease liabilities” following the application of the new accounting standard IFRS16 as from 1 January 2019.

Right-of-use assets relating to lease contracts for property leased in the United States are included under Investment property.

Net working capital

Below is the breakdown and change in net working capital as at 31 December 2019 compared with the figure as at 31 December 2018.

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Inventories and Right of return assets	395,004	365,779	8.0%
Trade receivables	147,202	142,905	3.0%
Trade payables and Refund Liabilities	(207,654)	(215,125)	(3.5%)
Total	334,552	293,559	14.0%

Net working capital was up 14.0% from 31 December 2018, largely because of the rise in Inventories and Right of return assets (+8.0%) as well as Trade Receivables (+3.0%) and the decline in Trade Payables and Refund Liabilities (-3.5%). Specifically, inventories of finished products were up 32,109 thousand Euro compared to 31 December 2018 (+10.6%), partly because of the expanded stock program portfolio and the increased average unit cost of inventories. Raw materials for production were down 9.3% or 5,526 thousand Euro compared to 31 December 2018, and depend on production volumes for the period.

Trade receivables climbed 4,297 thousand Euro from 31 December 2018 (+3.0%) and essentially referred to sales in the wholesale channel.

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

Other non current assets/(liabilities), net

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Other non current assets	2,642	3,331	(20.7%)
Other non current financial assets	16,939	16,646	1.8%
Deferred tax assets	96,736	76,869	25.8%
Total other non current assets	116,317	96,846	20.1%
Provisions for risks and charges	(13,921)	(19,491)	(28.6%)
Employee benefit liabilities	(11,901)	(11,392)	4.5%
Other non current liabilities	(11,893)	(57,681)	(79.4%)
Deferred tax liabilities	(5,570)	(5,524)	0.8%
Total other non current liabilities	(43,285)	(94,088)	(54.0%)
Other non current assets/(liabilities), net	73,032	2,758	2548.0%

“Other non current assets” mainly consist of:

- the straight lining of rental income from the American real estate business for 1,156 thousand Euro (1,417 thousand Euro in 2018);
- the portion of receivables due after more than 12 months relating to the advance on fees for Ungaro fragrances, amounting to 1,150 thousand Euro and paid at the time of the sale of the Ungaro brand and the partial renewal of the license contract in July 2017.

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

“Deferred tax assets” mainly consist of taxes calculated on the reversal of the unrealized profit in inventories—the change in these was largely responsible for the increase—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” fell by 45,788 thousand Euro from 31 December 2018 due to the decline in Payables for deferred liabilities (Payables for deferred rents in 2018) caused by the initial application of the new accounting standard IFRS16 (46,270 thousand Euro).

Other current assets/(liabilities), net

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Tax receivables	20,107	21,851	(8.0%)
Other current assets	32,980	42,166	(21.8%)
Total other current assets	53,087	64,017	(17.1%)
Tax payables	(26,491)	(19,507)	35.8%
Other current liabilities	(54,317)	(38,279)	41.9%
Total other current liabilities	(80,808)	(57,786)	39.8%
Other current assets/(liabilities), net	(27,721)	6,231	(544.9%)

“Other current assets” mainly consist of:

- receivables due from credit card management companies for retail sales (9,234 thousand Euro), accrued income and prepaid expenses (14,824 thousand Euro), and advances to suppliers (3,404 thousand Euro);
- the 2,599 thousand Euro receivable due from the Holding company Ferragamo Finanziaria S.p.A. of Salvatore Ferragamo S.p.A and Ferragamo Parfums S.p.A., including:
 - (i) 574 thousand Euro resulting from the domestic fiscal unity for the current period. This amount referred to excess payments on account made during the previous year for the liability accrued in the period;
 - (ii) 2,025 thousand Euro associated with the refund of the corporate income tax claimed by the Italian companies participating in the domestic fiscal unity for the failure to deduct the regional manufacturing tax in relation to personnel costs from 2007 to 2011 as per Italian Law Decree no. 201 of 6 December 2011;
- the fair value assessment of hedge derivative contracts for 1,466 thousand Euro (1,263 thousand Euro in 2018) 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 measurement of hedge derivative contracts for 5,554 thousand Euro (2,063 thousand Euro in 2018) 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;
- the 8,489 thousand Euro payable due to the Holding company Ferragamo Finanziaria S.p.A. of Salvatore Ferragamo S.p.A and Ferragamo Parfums S.p.A. under the domestic fiscal unity.

Shareholders' equity

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Group shareholders' equity	763,647	753,691	1.3%
Minority interests	21,618	26,647	(18.9%)
Total	785,265	780,338	0.6%

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

- the 87,281 thousand Euro increase in the profit for the period;
- the 6,988 thousand Euro decrease attributable to the translation into Euro of the subsidiaries' financial statements denominated in other currencies;
- the 57,372 thousand Euro decrease as a result of the dividends paid by the Parent Company;
- the 2,525 thousand Euro decline resulting from the purchases of Salvatore Ferragamo S.p.A shares made by the Parent during 2019;
- the 11,761 thousand Euro decrease following the recognition of the IFRS16 reserve as a result of the initial application of the new accounting standard IFRS16, net of the relevant 4,493 thousand Euro tax impact;
- the 991 thousand Euro decrease arising from changes in the fair value of the put options assigned to pre-existing minority shareholders;
- the 2,550 thousand Euro increase resulting from the measurement of hedging derivatives net of the relevant tax effect;
- the 343 thousand Euro decrease in the 2016-2020 Stock Grant Reserve;
- minor positive effects totaling 105 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 2019 and 31 December 2018 was as follows:

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Cash and cash equivalents (A)	222,332	207,710	7.0%
Other current financial assets (B)	101	1,080	(90.6%)
Interest-bearing loans and borrowings (C)	48,060	36,831	30.5%
Other financial liabilities (D)	2,477	2,963	(16.4%)
Lease liabilities (E)	676,329	-	na
Net financial debt/(surplus) (C + D + E – A – B)	504,433	(168,996)	(398.5%)

Net financial debt as at 31 December 2019, including lease liabilities, amounted to 504,433 thousand Euro, of which 676,329 thousand Euro in current and non-current lease liabilities.

The main income and financial indicators were strongly impacted by the application of IFRS16 starting from 1 January 2019 and are not comparable to the data from previous periods. With reference to the financial data, the recognition of Right-of-use assets mainly against lease liabilities caused a sharp increase in net financial debt. Therefore, in order to make the financial figures in the year of transition (2019) comparable to the data of the previous years, net financial debt as at 31 December 2019 was restated as follows:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Net financial debt/(surplus) (a)	504,433	(168,996)	673,429
Non current lease liabilities	559,267	-	559,267
Current lease liabilities	117,062	-	117,062
Lease liabilities (b)	676,329	-	676,329
Adjusted net financial debt/(surplus) (a-b)	(171,896)	(168,996)	(2,900)

The Group ended 2019 with a positive adjusted net financial position of 171,896 thousand Euro, up from 2,900 thousand Euro in the prior year. This was largely due to 135,599 thousand Euro in adjusted cash flows from operating activities, net of 63,393 thousand Euro in total dividends paid during 2019 as resolved by the Parent and other companies of the Group, and 63,540 thousand Euro in cash flows used for the purposes of investing in tangible and intangible assets during 2019.

Income and financial indicators

The tables below set out the trend in the main income and financial indicators for the years ended 31 December 2019 and 2018.

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 financial statements prepared in accordance with the relevant accounting standards (IFRS) described in this document.

Profitability ratios	2019	2019 adjusted*	2018
ROE*	11.5%	12.0%	12.0%
(Group net profit for the period/average Group shareholders' equity)			
ROI*	15.7%	21.3%	24.3%
(Operating profit / Net average invested capital)			
ROS*	10.9%	10.0%	11.1%
(Operating profit / Revenues)			

Financial ratios	2019	2019 adjusted*	2018
Coverage of shareholders' equity ratio* (Shareholders' equity / Non current assets)	76.5%	188.6%	192.4%
Liquidity ratio (Current assets excluding inventories/Current liabilities)	93.9%	126.3%	141.0%

Turnover ratios expressed in days	2019	2019 adjusted*	2018
Turnover of trade receivables (Average value of Trade receivables in the period / Revenues x days)	38		39
Turnover of Trade payables* (Average value of Trade payables in the period / Purchases of goods and services x days)	93	80	83
Inventory turnover (Average value of Inventories in the period / Cost of goods sold x days)	284		259
Turnover of Average invested capital* (Average value of Net invested capital / Revenues x days)	252	171	167

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

*In light of the impact of the new accounting standard IFRS 16, please note that the ratios listed in the column "2019 adjusted" are calculated on the basis of restated "excluding IFRS16" and "adjusted" amounts (see "Alternative performance measures" in this report) in order to make them comparable with the prior year. The "adjusted" amount has not been reported in those cases where the items used to calculate the ratio have not been impacted by the introduction of the new accounting standard IFRS 16.

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 2019, 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)	2019	% of revenues	IFRS 16 impact	2019 excl. IFRS16	% of revenues	2018	% of revenues	% change 2019 excl. IFRS16 vs 2018
Revenues from sales (wholesale, retail, e-commerce)	807,556	96.5%	-	807,556	96.5%	720,055	96.6%	12.2%
Revenues from royalties	9,637	1.2%	-	9,637	1.2%	8,468	1.1%	13.8%
Other income and services	19,754	2.4%	-	19,754	2.4%	16,580	2.2%	19.1%
Revenues from contracts with customers	836,947	100.0%		836,947	100.0%	745,103	100.0%	12.3%
Change in inventories of finished products	5,996	0.7%	-	5,996	0.7%	18,027	2.4%	(66.7%)
Costs for raw materials, goods and consumables	(237,462)	(28.4%)	-	(237,462)	(28.4%)	(228,948)	(30.7%)	3.7%
Costs for services	(305,678)	(36.5%)	(18,854)	(324,532)	(38.8%)	(307,113)	(41.2%)	5.7%
Personnel costs	(72,412)	(8.7%)	-	(72,412)	(8.7%)	(67,588)	(9.1%)	7.1%
Amortization, depreciation and write-downs	(40,573)	(4.8%)	16,977	(23,596)	(2.8%)	(20,115)	(2.7%)	17.3%
Other operating costs	(52,964)	(6.3%)	-	(52,964)	(6.3%)	(53,034)	(7.1%)	(0.1%)
Other income	14,266	1.7%	-	14,266	1.7%	7,383	1.0%	93.2%
Total costs (net of other income)	(688,827)	(82.3%)	(1,877)	(690,704)	(82.5%)	(651,388)	(87.4%)	6.0%
Operating profit	148,120	17.7%	(1,877)	146,243	17.5%	93,715	12.6%	56.1%
Net financial (charges)/income	5,096	0.6%	3,296	8,392	1.0%	15,079	2.0%	(44.3%)
<i>of which Net interest expense on lease liabilities</i>	(3,296)		3,296	-				
Profit before taxes	153,216	18.3%	1,419	154,635	18.5%	108,794	14.6%	42.1%
Income Taxes	(29,005)	(3.5%)	(341)	(29,346)	(3.5%)	(25,481)	(3.4%)	15.2%
<i>Tax rate</i>	<i>18.9%</i>			<i>19.0%</i>		<i>23.4%</i>		
Net profit/(loss) for the period	124,211	14.8%	1,078	125,289	15.0%	83,313	11.2%	50.4%
EBITDA	188,693	22.5%	(18,854)	169,839	20.3%	113,830	15.3%	49.2%

As mentioned in the introduction, the main income and financial indicators were strongly impacted by the application of IFRS 16 starting from 1 January 2019 and are not comparable to the data from previous years. With reference to the economic data, the recognition of the depreciation of Right-of-use assets together with Interest expense on lease liabilities, in place of rental costs (for leases falling under this new standard), caused an increase in Operating profit and EBITDA compared to 2018. In particular, compared to IAS 17, the combination of straight-line depreciation of "Right-of-use assets" and the use of an Incremental Borrowing Rate - IBR to determine lease liabilities (discounting of future lease payments) leads to higher financial charges recognized through profit or loss in the first years of the lease and decreasing financial charges subsequently. Therefore, as said in the introduction, in order to make these indicators comparable in the year of transition (2019), maintaining a consistent basis for comparison with the prior-year period, the income statement as at 31 December 2019 was restated by excluding the impact of the introduction of the new accounting standard IFRS16, as the above table shows, and the relevant comments refer to such restated amounts.

In 2019, the Company generated 836,947 thousand Euro in **revenues**, up 12.3% from the prior year (745,103 thousand Euro). The increase in revenues was specifically attributable to the growth of the wholesale channel (+13.1%) as well as the robust performance of the retail channel, and especially the primary one, in spite of adverse foreign exchange movements (appreciation in the US dollar, Chinese Renminbi, and Japanese Yen relative to the Euro).

Operating profit (excluding the impact of IFRS16) rose from 93,715 thousand Euro to 146,243 thousand Euro (+56.1%) and was positively affected by the increase in revenues as well as the decline in total costs (net of other income) as a percentage of revenues (down from 87.4% to 82.5%).

EBITDA (excluding the impact of IFRS16) was up 49.2% from 113,830 thousand Euro to 169,839 thousand Euro and from 15.3% in 2018 to 20.3% in 2019 as a percentage of revenues.

Total **Net financial income (charges)** shifted from 15,079 thousand Euro to 5,096 thousand Euro because of the impact of interest expense on lease liabilities (amounting to 3,296 thousand Euro) recognized as of 1 January 2019 under the new accounting standard IFRS16 as well as the net negative impact of financial income/(charges) resulting from the fair value adjustment of derivatives. In addition, during 2019 the Group recognized 1,169 thousand Euro in interest expense resulting from the settlement of tax audits.

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)	2019	IFRS 16 impact	2019 excl. IFRS16	2018	% change 2019 excl. IFRS16 vs 2018
Dividends from investments	32,523	-	32,523	32,240	0.9%
Net financial income/(charges) for fair value adjustment of derivatives	(17,732)	-	(17,732)	(11,346)	56.3%
Restatement value/(write-downs) of	(11,668)	-	(11,668)	(9,419)	23.9%
Net gains/(losses) on exchange rate differences	5,808	-	5,808	3,609	60.9%
Net interest expense on lease liabilities	(3,296)	3,296	-	-	-
Other net income/(charges)	(593)	-	(593)	(582)	1.9%
Net interest	54	-	54	577	(90.6%)
Total	5,096	3,296	8,392	15,079	(44.3%)

Net profit for the period (excluding the impact of IFRS 16) totaled 125,289 thousand Euro, compared to 83,313 thousand Euro in 2018.

The tax rate for 2019, excluding the impact of IFRS16, was 19.0%, compared to 23.4% in the prior period. The tax rate declined largely as a result of the greater positive impact of the so-called Patent Box, totaling 10.2 million Euro compared to 4.0 million Euro in the prior year. In addition, the settlement of the tax audits relating to the years 2014 and 2015 entered into between the Inland Revenue Office and the Parent Company on 21 November 2019 caused the Group to recognize 2.6 million Euro in IRES and IRAP taxes relating to previous years in 2019 on top of the 6.3 million Euro already allocated to the provision for risks and charges in 2018 and 1.2 million Euro in interest. For more details, please refer to the paragraph "Tax and customs disputes and audits" in the section "Significant events occurred during the year".

Revenues

The following table shows revenues by **distribution channel** and the change over the previous year:

(In thousands of Euro)	2019	% of revenues	2018	% of revenues	% change
<i>Wholesale</i>	737,793	88.2%	652,054	87.5%	13.1%
Retail+E-commerce	69,763	8.3%	68,001	9.1%	2.6%
Revenues from sales	807,556	96.5%	720,055	96.6%	12.2%
Revenues from royalties	9,637	1.1%	8,468	1.1%	13.8%
Other income and services	19,754	2.4%	16,580	2.3%	19.1%
Revenues	836,947	100.0%	745,103	100.0%	12.3%

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

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

(In thousands of Euro)	2019	% of revenues from sales	2018	% of revenues from sales	% change
Italy	122,700	15.2%	129,220	17.9%	(5.0%)
Europe (excluding Italy)	121,191	15.0%	109,488	15.2%	10.7%
North America	201,409	24.9%	153,694	21.3%	31.0%
Asia Pacific	263,839	32.7%	243,781	33.9%	8.2%
Japan	48,564	6.0%	43,784	6.1%	10.9%
Central and South America	49,853	6.2%	40,088	5.6%	24.4%
Revenues from sales	807,556	100.0%	720,055	100.0%	12.2%

In 2019, the Italian market saw revenues from sales fall by 5.0%, whereas Europe registered a 10.7% increase, with the retail and E-commerce channel up 2.6% year-on-year and the wholesale business growing by 2.0%.

In North America revenues rose by 31.0%.

The Asia-Pacific area made once again the largest contribution to the Company's revenues, accounting for 32.7% of the total and increasing its revenues by 8.2%.

Japan saw revenues climb 10.9%.

The Central and South American market put in a strong performance, with revenues jumping by 24.4%.

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

(In thousands of Euro)	2019	% of revenues from sales	2018	% of revenues from sales	% change
Footwear	369,076	45.7%	316,666	44.0%	16.6%
Leather goods	338,819	42.0%	315,093	43.7%	7.5%
Apparel	53,043	6.5%	46,081	6.4%	15.1%
Accessories and other products	46,618	5.8%	42,215	5.9%	10.4%
Revenues from sales	807,556	100.0%	720,055	100.0%	12.2%

All product categories were up year-on-year; footwear remained the largest one, accounting for 45.7% of revenues from sales.

Statement of financial position and Investments

Below is the statement of financial position as at 31 December 2019 reclassified by sources and uses, compared to the position as at 31 December 2018.

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Property, plant and equipment and intangible assets with a finite useful life	151,143	146,933	2.9%
Right-of-use assets	110,878	-	na
Net working capital	162,018	138,429	17.0%
Other non current assets/(liabilities), net	179,607	181,270	(0.9%)
Other current assets/(liabilities), net	(23,118)	9,407	(345.8%)
Net invested capital	580,528	476,039	21.9%
Shareholders' equity (A)	686,684	621,328	10.5%
Net financial debt/(surplus) (B)	(106,156)	(145,289)	(26.9%)
Total sources of financing (A+B)	580,528	476,039	21.9%
Net financial debt/(surplus) (B)	(106,156)	(145,289)	(26.9%)
Lease liabilities (C)	113,636	-	na
Adjusted net financial debt/(surplus) (B-C)	(219,792)	(145,289)	51.3%
Adjusted net financial debt/Shareholders' equity	(32.0%)	(23.4%)	

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Net Invested Capital (a)	580,528	476,039	21.9%
Right-of-use assets (b)	110,878	-	na
Adjusted Net Invested Capital (a-b)	469,650	476,039	(1.3%)

Investments in fixed assets

During 2019, the Company made investments in tangible and intangible assets for a total amount of 28,139 thousand Euro, of which 16,620 thousand Euro in tangible assets and 11,519 thousand Euro in intangible assets, compared to a total of 32,169 thousand Euro in the previous year.

The most important investments in tangible assets concerned the works carried out at the Osmannoro facility to build a new women's footwear production plant (manovia), in addition to construction work on the new show room at the registered office in Florence (6.1 million Euro overall).

The main investments in intangible assets refer to the investment in the development of software to support business processes—represented mainly by the so-called “Marlin Project”, which is aimed at standardizing the Group’s information systems, developing the e-commerce platform, and purchasing software licenses (for a total amount of 6.2 million Euro, i.e. around 54% of investments in intangible assets incurred in 2019).

Investments in tangible assets under construction amounted to 0.5 million Euro and mainly concerned the works carried out at the Osmannoro facility.

Investments in intangible assets under development totaled approximately 6.1 million Euro and largely consisted of investments in the development of software to support business processes, chief among them the “Project Life Cycle Management-PLM” (for the integrated management of the product's life cycle, which involves all production categories: as part of this initiative, product development –a high value-added process within the luxury industry – is optimized in terms of time and synergies with the Merchandising and Production functions, integrating and enhancing all in-house activities such as design, research, costing, and industrialization), released in early 2020; the Enterprise Business Intelligence project, aimed at rationalizing corporate reporting and analytics systems by establishing a single shared “Data Warehouse ”; a new distribution model; and the Company's e-commerce project.

Amortization and depreciation (excluding depreciation of the Right-of-use assets) totaled 23,510 thousand Euro as at 31 December 2019, compared to 20,115 thousand Euro as at 31 December 2018.

During 2019, the Company did not make any investments in financial assets.

Net working capital

Below is the breakdown and change in **net working capital** as at 31 December 2019 compared with the figure as at 31 December 2018.

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Inventories and Right of return assets	133,938	132,706	0.9%
Trade receivables	194,186	171,150	13.5%
Trade payables and Refund Liabilities	(166,106)	(165,427)	0.4%
Total	162,018	138,429	17.0%

Net working capital rose by 17.0%. Inventories and right of return assets were up 1,232 thousand Euro overall, i.e. 0.9%: the inventories of raw materials for production declined by 4,764 thousand Euro, while the inventories of finished products and right of return assets climbed 5,996 thousand Euro (including 3,220 thousand Euro referring to the change in right of return assets, totaling 13,487 thousand Euro as at 31 December 2019).

In 2019, trade receivables totaled 194,186 thousand Euro (up 13.5%) and concerned receivables from subsidiaries (161,370 thousand Euro, +16.9% compared to 2018) and receivables from third parties (32,816 thousand Euro, -1.0% compared to 2018).

Trade payables and Refund Liabilities amounted to 166,106 thousand Euro (including 20,873 thousand Euro in refund liabilities), up 0.4% from 2019. They largely referred to purchases of production materials, outsourcing costs, and purchases of finished goods.

Net financial debt/(surplus)

Net financial debt/(surplus) (calculated in accordance with CONSOB Communication no. DEM/6064293 and presented here in condensed form) as at 31 December 2019 and 31 December 2018 was as follows:

(In thousands of Euro)	31 December 2019	31 December 2018	% change
Cash and cash equivalents (A)	120,088	95,919	25.2%
Other current financial assets (B)	99,875	49,631	101.2%
Other current financial liabilities (C)	171	261	(34.5%)
Lease liabilities (D)	113,636	-	na
Net financial debt/(surplus) (C + D – A – B)	(106,156)	(145,289)	(26.9%)

As at 31 December 2019, the net financial surplus amounted to 106,156 thousand Euro, including 113,636 thousand Euro in current and non-current lease liabilities.

The main income and financial indicators were strongly impacted by the application of IFRS 16 starting from 1 January 2019 and are not comparable to the data from previous periods. With reference to the financial data, the recognition of Right-of-use assets against lease liabilities caused a sharp increase in net financial debt. Therefore, in order to make the financial figures in the year of transition (2019) comparable to the data of the previous years, net financial debt as at 31 December 2019 was restated as follows:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Net financial debt/(surplus) (a)	(106,156)	(145,289)	39,133
Non current lease liabilities	96,181	-	96,181
Current lease liabilities	17,455	-	17,455
Lease liabilities (b)	113,636	-	113,636
Adjusted net financial debt/(surplus) (a-b)	(219,792)	(145,289)	(74,503)

2019 ended with a positive adjusted net financial position of 219,792 thousand Euro, up from 145,289 thousand Euro as at 31 December 2018. The Company's net financial position remains largely positive thanks to 166,841 thousand Euro in adjusted cash flows from operating activities, net of 57,372 thousand Euro in total dividends paid during 2019 and 32,593 thousand Euro in cash flows used for the purposes of investing in tangible and intangible assets during 2019.

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 2019 and 2018.

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 financial statements prepared in accordance with the relevant accounting standards (IFRS) described in this document.

Profitability ratios	2019	2019 adjusted*	2018
ROE* (Net profit for the period / Average shareholders' equity)	19.0%	19.2%	13.5%
ROI* (Operating profit / Net average invested capital)	28.0%	27.7%	20.2%
ROS* (Operating profit / Revenues from sales and services)	17.7%	17.5%	12.6%

Financial ratios	2019	2019 adjusted*	2018
Coverage of shareholders' equity ratio* (Shareholders' equity / Non current assets)	147.0%	192.8%	175.5%
Liquidity ratio* (Current assets excluding inventories/Current liabilities)	197.6%	215.5%	193.5%

Turnover ratios expressed in days	2019	2019 adjusted*	2018
Turnover of trade receivables <i>Average value of Trade receivables in the period / Revenues from sales and services x days</i>	80		80
Turnover of Trade payables* <i>Average value of Trade payables in the period / Costs for raw materials, goods and consumables and Costs for services x days</i>	99	96	102
Inventory turnover <i>Average value of Inventories in the period / cost of goods sold x days</i>	102		100
Turnover of average invested capital* <i>Average value of invested capital / Revenues from sales and services x days</i>	230	206	228

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

*In light of the impact of the new accounting standard IFRS 16, please note that the ratios listed in the column "2019 adjusted" are calculated on the basis of restated "excluding IFRS16" and "adjusted" amounts (see "Alternative performance measures" in this report) in order to make them comparable with the prior year. The "adjusted" amount has not been reported in those cases where the items used to calculate the ratio have not been impacted by the introduction of the new accounting standard IFRS 16.

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 2019	
	Shareholders' equity	Net profit/(loss) for the period
Salvatore Ferragamo S.p.A. data	686,684	124,211
Elimination of consolidated investments	250,839	35,252
Dividends distributed among Group companies	-	(54,415)
Elimination of write-downs / (restatement value) on consolidated investments	-	11,714
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(162,147)	(29,583)
Effect of IAS 39 – cash flow hedge reserve, net of the deferred tax effect	-	(872)
Other consolidation adjustments	9,889	1,058
Total shareholders' equity and net profit/(loss)	785,265	87,365
Minority interests – shareholders' equity and net profit/(loss)	21,618	84
Group – shareholders' equity and net profit/(loss)	763,647	87,281

7. Results of Group companies

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

(In thousands)		2019			2018		
Company	Currency	Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	30,741	376	22,093	32,660	597	21,717
Ferragamo Japan K.K.	JPY	13,450,746	(387,520)	84,290	13,805,442	(338,686)	464,666
Ferragamo Korea Ltd.	KRW	150,303,572	8,214,365	78,558,176	141,760,185	13,283,551	88,343,811
Ferragamo Espana S.L.	EURO	12,932	43	3,827	9,993	141	3,784
Ferrimag Limited	HKD	-	115,326	124,786	-	55,780	124,961
Ferragamo Retail HK Limited	HKD	388,030	(93,298)	104,657	536,370	28,028	197,956
Ferragamo Retail Taiwan Limited	TWD	596,271	17,784	264,649	583,002	6,505	326,545
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,277,966	76,397	626,041	1,239,936	89,694	550,365
Ferragamo Retail Nederland B.V.	EURO	5,602	(728)	1,323	5,662	(450)	2,051
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	1,185,003	105,972	423,767	1,099,397	52,712	413,255
Ferragamo (Singapore) Pte. Ltd.	SGD	29,701	(7,576)	(18,474)	31,061	(5,479)	(10,898)
Ferragamo (Thailand) Limited	THB	170,988	(43,981)	(32,784)	179,698	(20,656)	11,383
Ferragamo (Malaysia) Sdn Bhd	MYR	44,232	(34)	24,247	45,276	1,940	24,281
Ferragamo Hong Kong Ltd.	USD	233,190	19,410	178,882	223,408	8,428	180,107
Ferragamo USA Group	USD	352,163	(366)	81,579	352,657	6,421	93,809
Ferragamo Deutschland GmbH	EURO	13,540	211	6,052	10,131	(3,827)	5,841
Ferragamo Belgique SA	EURO	1,540	(212)	672	1,366	(261)	885
Ferragamo Monte-Carlo S.A.M.	EURO	905	(196)	285	779	(270)	482
Ferragamo (Suisse) SA	CHF	8,246	91	1,500	9,060	(1,500)	1,409
Ferragamo U.K. Limited	GBP	24,288	(201)	8,845	22,561	241	9,046
Ferragamo France S.A.S.	EURO	23,114	521	9,121	20,251	86	10,097
Ferragamo Parfums S.p.A.	EURO	85,281	1,363	25,546	91,472	994	24,336
Ferragamo Chile S.A.	CLP	518,082	(325,389)	(466,311)	922,158	(159,390)	(140,922)
Ferragamo Austria GmbH	EURO	3,824	148	3,907	3,697	25	3,759
Ferragamo Retail India Private Limited	INR	-	(44,605)	(433,333)	101,741	(118,733)	(388,655)
Ferragamo Retail Macau Limited	MOP	138,047	(1,153)	84,176	159,364	7,324	89,723
Ferragamo Moda (Shanghai) Co.Ltd.	CNY	303,977	15,694	(38,720)	253,871	1,975	(54,414)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	28,970	1,014	21,055	22,044	658	20,040
Ferragamo Argentina S.A.	ARS	98,830	(43,133)	36,611	54,222	(37,478)	16,085
Ferragamo Denmark ApS*	DKK	2,348	(1,198)	-	4,932	(3,170)	1,504

*company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020.

8. Significant events occurred during the year

Ordinary Shareholders' Meeting

Approval of the 2018 Separate Financial Statements

On 18 April 2019, the Shareholders' Meeting of the Parent company Salvatore Ferragamo S.p.A. approved the financial statements for the year ended 31 December 2018 and the distribution of a dividend of 0.34 Euro per ordinary share, as detailed in note 39 "Dividends" of the Explanatory notes to the Consolidated Financial Statements.

- Appointment of a Director pursuant to article 2386 of the Italian Civil Code

The Shareholders' Meeting confirmed the number of members of the Board of Directors at 13 pursuant to the resolution of the Ordinary Shareholders' Meeting dated 20 April 2018 and appointed as Director Micaela le Divelec Lemmi, who had been co-opted pursuant to art. 2386 of the Italian Civil Code by the Board of Directors on 31 July 2018 to replace Raffaella Pedani. The term of office of Ms. Micaela le Divelec Lemmi will expire together with the entire Board of Directors on the date of the Meeting convened to approve the separate financial statements as at 31 December 2020. The Shareholders' Meeting also confirmed that her fixed fee will be included in the overall amount determined by the Company's Ordinary Shareholders' Meeting of 20 April 2018.

- Appointment of the independent auditors for the years 2020-2028

The Ordinary Shareholders' Meeting: (i) having noted that with the approval of the financial statements as at 31 December 2019, the non-renewable appointment conferred on 30 March 2011 for the period 2011-2019 to EY S.p.A. as independent auditors of Salvatore Ferragamo S.p.A. will expire; (ii) having examined the Board of Directors' proposal based on the recommendation and motivated preference expressed by the Board of Statutory Auditors in its capacity as "Internal Control and Audit Committee", passed a resolution to appoint KPMG S.p.A. as independent auditors of Salvatore Ferragamo S.p.A. for the 2020-2028 period, also approving the related fee within the terms and conditions of the offer made by the aforementioned audit firm.

- Remuneration Policy for the directors and managers with strategic responsibilities

The Shareholders' Meeting voted in favor of the Company's policy concerning the remuneration of the members of the governing bodies, general managers, and managers with strategic responsibilities for 2019 as well as the procedures used to adopt and implement said policy, as described in Section I of the Remuneration Report prepared in accordance with article 123-ter of the Consolidated Law on Finance (TUF) and article 84-quater as well as Annex 3A, Scheme 7-bis of CONSOB Regulation no. 11971/1999 as subsequently amended (the "Issuers' Regulation").

Board of Directors

During the meeting held on 12 March 2019, the Company's Board of Directors approved, (i) the draft separate financial statements for 2018, the Directors' report on operation for 2018 and the consolidated financial statements as at 31 December 2018, (ii) the Report on corporate governance and ownership structure, (iii) the Remuneration Report, (iv) the consolidated Non-financial statement for 2018, containing non-financial information pursuant to Legislative Decree no. 254 of 30 December 2016, as separate document from the Directors' report on operations, and (v) convened the ordinary Shareholders' Meeting for 18 April 2019.

On 18 April 2019, the Board of Directors of Salvatore Ferragamo S.p.A., which met after the Shareholders' Meeting, confirmed the appointment of Micaela le Divelec Lemmi as Managing Director of the Company. At this meeting, Ms le Divelec Lemmi was confirmed to have the powers to represent and sign on behalf of the Company, as well as all the powers of ordinary administration, except for those expressly reserved to the exclusive competence of the Board of Directors.

At the meeting held on 18 June 2019, Salvatore Ferragamo S.p.A.'s Board set the number of members of the Nomination and Remuneration Committee as well as the Control and Risk Committee at 4. It also appointed Director Chiara Ambrosetti to the Nomination and Remuneration Committee and Director Lidia Fiori to the Control and Risk Committee effective immediately.

Long Term Incentive Plan

During the same meeting, the Board also approved the 2019-2021 Long-Term Incentive Plan for the Group's Management and the relevant Rules. The main goals of this incentive scheme are to support the implementation of the Group's plans in the medium term, align management remuneration with the creation of shareholder value, and retain the Group's key personnel. The Plan consists of a single cycle and features a broad group of recipients, providing a stronger incentive to achieve the company's goals. The plan was executed, having identified the recipients, on 1 October 2019 and its estimated overall cost from 2019 through 2021 was revised to 5.2 million Euro.

Treasury share repurchase

As at 31 December 2019, Salvatore Ferragamo S.p.A. held 150,000 treasury shares, equal to 0.09% of the share capital, comprising 36,000 shares bought on 2 January 2019 for a total outlay of around 638 thousand Euro, including banking fees and other tax charges, as well as 100,000 shares purchased on 1 August 2019 for a total outlay of approximately 1,887 thousand Euro, including banking fees and other tax charges.

Voluntary liquidation and discontinuance of the operations of Ferragamo Denmark ApS in liquidation (update)

On 1 July 2019, the Extraordinary Shareholders' Meeting of Ferragamo Denmark ApS: i) approved the voluntary liquidation of the company, ii) appointed the liquidator, and iii) authorized said liquidator to take all steps necessary to liquidate the company as proposed by the Danish firm's Board of Directors in the resolution dated 26 June 2019. The Company ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020.

The company Ferragamo Denmark ApS in liquidation, 100%-owned by Salvatore Ferragamo S.p.A., had been set up in January 2015 to manage a Ferragamo monobrand retail store (DOS) in Copenhagen inside the Illum Department Store (owned by Central Group). As Illum recently rearranged the layout of the Department Store and the Group revised its business strategies in this market, effective 30 June 2019 the monobrand retail space (DOS) was closed and the Parent Company Salvatore Ferragamo S.p.A. entered into a wholesale business relationship, under which two Ferragamo corners (TPOS) will be established inside the same Department Store.

Domestic fiscal unity

On 25 March 2019, the Parent Company Salvatore Ferragamo S.p.A. entered into the new agreement for the exercise of the option for the domestic 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 2019-2020-2021 period, following the expiry of the option exercised for the 2016-2017-2018 period.

Tax and customs disputes and audits

Tax disputes settled during the year

- On 20 March 2018, the Regional Unit of the Tuscany Inland Revenue Office – Large Taxpayers Department started a tax audit of Salvatore Ferragamo S.p.A. (the Company) concerning direct income taxes, VAT, IRAP, and withholding taxes for the tax year 2015. The audit was then extended to the tax year 2014 exclusively as far as the transfer pricing the company applied to the sales of finished products to its foreign associates is concerned. The audit ended on 18 December 2018 with a tax assessment report served on the same date: the auditors retroactively applied the content of the Advance Pricing Agreement entered into with the Inland Revenue Office and effective since 2017 (so-called Roll Back) to the years 2014 and 2015. Specifically, the Regional Unit of the Tuscany Inland Revenue Office assessed an additional IRES taxable income totaling approximately 9.4 million Euro and nearly 22 million Euro in additional IRAP taxable income for the year 2014, as well as approximately 20.2 million Euro in additional taxable income for both IRES and IRAP purposes for the year 2015. As mentioned in the 2018 Annual Report, the Company has set aside 6.3 million Euro overall for IRES and IRAP within the line item income taxes, recognizing a corresponding amount in the provision for risks and charges. In addition, the tax assessment report includes a mention (which is not an objection) of the fact that the pass-through mechanism of taxation for Ferragamo Hong Kong Ltd. was not applied for the year 2015. Over the course of the dispute, Salvatore Ferragamo S.p.A. provided all documents and evidence showing that it has acted lawfully and that the Office's warning is baseless. As a result, the Office withdrew its claim.

On 14 October 2019, Salvatore Ferragamo S.p.A. filed a request for assessment with acceptance to reach a settlement with the Inland Revenue Office upholding the Company's observations on the roll back, which were presented in a brief on 30 September 2019. The settlement was finalized on 29 November 2019 (deeds signed on 21 November 2019), as the Company and the Regional Unit of the Tuscany Inland Revenue Office agreed upon an amount of 8,855 thousand Euro in additional taxes and 1,169 thousand Euro in interest, following the application of the roll back to the fiscal years 2014 and 2015. No penalties were applied thanks to the so-called "penalty protection" as per the Transfer Pricing documentation that the Company prepares every year.

Updates on ongoing audits

- With reference to the tax audit carried out on Salvatore Ferragamo S.p.A. (Company) relating to the pass-through mechanism for CFCs for the years 2012, 2013, and 2014, we report the following. As for the year 2012, Florence's Provincial Tax Commission upheld in full the Company's appeal in a ruling filed on 24 January 2019. On 22 July 2019, the Office filed an appeal against said ruling that the Company challenged in

accordance with the law. As for 2013, on 17 May 2019 the Company appealed against the notice assessing an additional 65 thousand Euro corporate income tax liability plus nearly 30 thousand Euro in interest and penalties. Florence's Provincial Tax Commission rejected the Company's appeal and reimbursed the legal fees in a ruling filed on 14 January 2020, which the Company will not challenge as this would be uneconomic. As for 2014, the Company settled the dispute with the Regional Unit of the Tuscany Inland Revenue Office on 29 November 2019 alongside the dispute over the roll back mentioned in the previous paragraph, paying 17 thousand Euro in additional taxes as well as 8 thousand Euro in penalties and interest.

- With reference to the tax audit carried out on Ferragamo France S.A.S., relating to the tax years 2008-2010 and that was started in 2011, as already disclosed in previous years, the audit ended with an objection to the transfer pricing policy applied by the Parent company Salvatore Ferragamo S.p.A.. On 12 December 2012, after declining to change their position in order to reach a settlement, French tax authorities issued to the company two assessment notices, confirming their claims as redetermined during the proceeding. For Ferragamo France S.A.S. these claims would entail the payment of around 900 thousand Euro due to higher taxes on the company, penalties and interest for 2009 and 2010, as well as the redetermination of the taxable income for the years from 2011 to 2014 as a consequence of the cancellation of previous tax losses (amounting to around 8,925 thousand Euro), with a higher tax of 2,135 thousand Euro. After the administrative appeal was rejected, Ferragamo France S.A.S. filed an appeal with the administrative tax court. The ruling issued on 28 March 2017 dismissed all claims by French tax authorities, canceling the assessment notices for the years 2009 and 2010 and ordering them to pay 1,500 Euro in legal costs. On 26 July 2017, French tax authorities appealed against the decision to the Paris Administrative Court of Appeal, which on 13 September 2018 upheld the first-instance ruling. French tax authorities filed a final appeal against the ruling with the Council of State. That appeal is still pending. On 27 September 2018, French tax authorities launched a new audit into Ferragamo France SaS concerning the income tax and VAT for the fiscal years from 2015 to 2017. The audit ended in November 2019 with the issue of a final audit report that challenged the Parent Salvatore Ferragamo S.p.A.'s transfer pricing policy for 2016 and assessed an additional 688 thousand Euro in taxable income. Should the Council of State uphold the appeal decision with respect to the ongoing proceedings about the years 2008-2010, French tax authorities will have to concede that approximately 2.4 million Euro in past losses can be carried forward and, as a result, the audit should end with a payment of nearly 10 thousand Euro in indirect taxes due on the assessed amount.
- As for the ongoing tax audit involving Ferragamo Deutschland GmbH, relating to the tax years 2011-2014, that was started in 2016, on 7 March 2019 the German tax authorities notified the final audit report, confirming the approach communicated during the meeting on 28 November 2018. In particular, the German tax authorities assessed, on a provisional basis, additional taxes against the companies and interest for the years 2011-2014 for a total amount of 2,523 thousand Euro, resulting in the elimination of previous tax losses. These amounts were confirmed by the payment orders which were notified to Ferragamo Deutschland GmbH on 31 May 2019 and against which the Company, firmly convinced that its actions were lawful (in compliance with the official communication issued by the German tax authorities), appealed and requested suspension of payment to the competent authorities. This request was approved.
- On 23 March 2017, the Regional Unit of the Tuscany Inland Revenue Office requested Salvatore Ferragamo S.p.A. to file documents concerning 4 separate export transactions that were canceled, and the company replied on 12 April 2017. The Regional Unit of the Tuscany Inland Revenue Office issued to Salvatore Ferragamo S.p.A. an assessment notice concerning one of the transactions, assessing an additional 67 thousand Euro VAT liability for the year 2013 plus interest and penalties. The Company previously received another assessment notice from the Regional Unit of the Tuscany Inland Revenue Office for a similar case dating back to 2006 and appealed against it. The first- and second-instance courts have sided with Salvatore Ferragamo S.p.A., and the case is currently pending with the Court of Cassation. Therefore, on 21 March 2018, the company also appealed against this assessment notice, making reference to the outcome of the previous dispute. The first-instance ruling issued on 29 January 2019 upheld the company's appeal and ordered the reimbursement of legal fees. To date, the Office has not yet filed an appeal, as there is still time to do so in accordance with the law.
- On 14 March 2018, the Florence Economic-Financial Department of the Italian Tax Police started a tax audit of Ferragamo Parfums S.p.A., concerning direct income taxes, VAT and other taxes for the 2015 tax year and costs incurred with entities resident in blacklisted countries in 2013 and 2014. The audit was then expanded to include the years 2013, 2014, 2016, and 2017 as far as the assessment of the intellectual property rights over the "Salvatore Ferragamo" brand and the relevant tax implications are concerned, and, eventually, the years 2013, 2014, 2016, and 2017 concerning the assessment of the line item "Other intercompany consulting services" in the income statement. The Italian tax police served the Company with a Tax assessment report on 30 July 2018, raising several objections. Ferragamo Parfums S.p.A. considers such objections to be completely baseless in fact and in law. However, on 29 November 2018, exclusively for the purposes of

settling the dispute, Ferragamo Parfums S.p.A. reached a settlement over the years 2013 and 2014 with the Regional Unit of the Tuscany Inland Revenue Office (which has jurisdiction over the years concerned), paying 207 thousand Euro's worth of additional taxes as well as 91 thousand Euro in interest and penalties; these amounts are significantly lower than those claimed in the tax assessment report. In September 2019, the Inland Revenue Office's Florence Provincial Unit (which has jurisdiction over the tax years 2015, 2016, and 2017) formally initiated the dispute over the years 2015, 2016, and 2017, during which the outcome of the dispute with the Regional Unit was reviewed and the company reiterated its stance on the objection concerning the year 2015 (compensation for the Mexican distributor). The dispute ended with a settlement under which the Provincial Unit i) acknowledged the same arguments accepted by the Regional Unit of the Tuscany Inland Revenue Office and ii) accepted the arguments presented by Ferragamo Parfums S.p.A. about the objection concerning the compensation for the Mexican distributor. As for the objections concerning IRES (years 2015, 2016, and 2017) and IRAP taxes for the year 2015, a settlement was finalized on 22 November 2019, resulting in approximately 420 thousand Euro in additional taxes, interest and penalties. With respect to the objections over the 2016 and 2017 IRAP taxes, on 28 February 2020 the Company entered into a settlement under which it will pay 35 thousand Euro in IRAP, interest and penalties. Finally, in the upcoming weeks the company will request a refund of 21 thousand Euro's worth of excess taxes from the Inland Revenue Office as agreed under the settlement.

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

Patent Box and Research and Development Tax Credit

As for the tax benefits (Patent Box and R&D Tax Credit), there were no new developments during 2019. With respect to the Patent Box, on 25 September 2019 the Company applied for an extension of the advance agreement entered into with the Italian Inland Revenue Office for Advance Agreements on 29 December 2016 to determine the economic contribution in case of direct use of intangible assets. With this application, the Company has asked to extend the Agreement to the fiscal years from 2020 through 2024. The Office has agreed to extend it only for eligible intangible assets, which will result in a considerably smaller reduction in IRES and IRAP taxes compared to the years from 2015 through 2019. Please note that the extension of the agreement will allow Salvatore Ferragamo S.p.A. to benefit from the Patent Box only with respect to designs and models, as this option can no longer be renewed for trademarks in accordance with Italian Law Decree 50/2017, which made trademarks not eligible for this benefit.

International standard ruling on transfer pricing

As for the international standard ruling between Salvatore Ferragamo S.p.A. and the Inland Revenue Office – Central Assessment Department – International Ruling Office, concerning the determination of the transfer pricing policy Salvatore Ferragamo S.p.A. applies to its foreign subsidiaries that perform distribution operations, there were no new developments during 2019.

9. Information on corporate governance and ownership structure

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

On 12 March 2019, 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. (“**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 20 April 2018. The Bylaws establish the essential features of the Company and set the main rules for its management and operation, as well as 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 model 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 Board of Directors currently consists of Ferruccio Ferragamo (Chairman), Giacomo Ferragamo (Deputy Chairman), Micaela le Divelec Lemmi (Managing Director), Giovanna Ferragamo, Angelica Visconti, Leonardo Ferragamo, Francesco Caretti, Diego Paternò Castello di San Giuliano, Peter K.C. Woo, Chiara Ambrosetti (Independent Director), Lidia Fiori (Independent Director), Umberto Tombari (Independent Director), and Marzio Alessandro Alberto Saà (Independent Director). The current Board was elected by the Shareholders' Meeting on 20 April 2018 according to the single list submitted by the majority shareholder Ferragamo Finanziaria S.p.A., except for the Director Micaela le Divelec Lemmi. The latter had been co-opted on 31 July 2018 pursuant to art. 2386 of the Italian Civil Code by the Board of Directors and was appointed as member of the Board of Directors by the Shareholders' Meeting of 18 April 2019, having confirmed the number of members of the Board decided by the Ordinary Shareholders' Meeting on 20 April 2018. The Shareholders' Meeting also confirmed that her fee will be included in the overall amount determined by the Shareholders' Meeting of 20 April 2018. The term of office of Ms. Micaela le Divelec Lemmi will expire together with the entire Board of Directors on the date of the Shareholders' Meeting convened to approve the 2020 separate financial statements.

At the meeting held on 18 April 2019 after the Shareholders' Meeting, the Board appointed the Director Micaela le Divelec Lemmi as the Company's Managing Director, granting her the powers to represent and sign on behalf of the Company, as well as all the powers of ordinary administration, except for those expressly reserved to the exclusive competence of the Board of Directors pursuant to the law, the Bylaws, or the resolutions of the Board. On the same date, the Board also confirmed:

- the appointment of the Managing Director Micaela le Divelec Lemmi to the Brand and Product Strategy Committee;
- the appointment of the Managing Director Micaela le Divelec Lemmi as Head of the internal control and risk management system. The relevant duties and responsibilities are detailed in the Corporate Governance Code.

On 20 April 2018, at the first meeting held after Ms. Lemmi's appointment, the current Board of Directors passed the following resolutions concerning corporate governance:

- it combined the functions of the Remuneration Committee and the Nomination Committee into a single committee, to be called the Nomination and Remuneration Committee, and appointed as members the Independent Directors Umberto Tombari (Chairman), Lidia Fiori, and Marzio Alessandro Alberto Saà;
- it confirmed the appointment of a Risk and Control Committee, appointing as members the Independent Directors Marzio Alessandro Alberto Saà (Chairman), Umberto Tombari, and Chiara Ambrosetti; the committee is also responsible for transactions with related parties as well as, following the amendments to the Corporate Governance Code for listed companies, supervising the sustainability of the Company's operations and the relationships with all stakeholders;
- it confirmed the appointment of the director Marzio Alessandro Alberto Saà as Lead Independent Director;
- it confirmed the establishment of a Product and Brand Strategy Committee, which provides advisory services and makes proposals to the Board of Directors; this Committee is also responsible for overseeing and

monitoring the adoption of, and compliance with, the Ferragamo brand's codes as well as steering the Group's creative process – verifying the consistency between the identity, the mission, and strategic goals. At said date, the Committee consisted of Directors Ferruccio Ferragamo (Chairman of the Committee), Giacomo Ferragamo, Angelica Visconti, and Diego Paternò Castello di San Giuliano.

On 18 June 2019, the Company's Board of Directors set the number of members of the Nomination and Remuneration Committee as well as the Control and Risk Committee at 4. It also appointed Director Chiara Ambrosetti to the Nomination and Remuneration Committee in addition to the Directors Umberto Tombari, Lidia Fiori, and Marzio Alessandro Alberto Saà, and Director Lidia Fiori to the Control and Risk Committee in addition to the Directors Marzio Alessandro Alberto Saà, Umberto Tombari, and Chiara Ambrosetti effective immediately.

Moreover, please note that on 20 April 2018 the Shareholders' Meeting appointed Paola Caramella as Acting Statutory Auditor and Antonella Donato as Substitute Statutory Auditor by majority vote, pursuant to applicable law. The term of office of Ms. Caramella ends with the approval of the financial statements as at 31 December 2019; the same applies to the term of office of the current members of the Board of Statutory Auditors.

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

Finally, please note that at the meeting held on 13 December 2018 the Board appointed Alessandro Corsi as the Company's new CFO effective 11 January 2019 and designated him as a Manager with Strategic Responsibilities alongside Giacomo Ferragamo. At the same meeting, the Board of Directors appointed the Group's Administrative Director Marco Fortini as "Manager charged with preparing Company's Financial Reports" pursuant to art. 154-Bis of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance) effective 11 January 2019.

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 compliance with the laws and regulations in force.

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

- the Code of Ethics, intended to promote and maintain an appropriate level of fairness, transparency, and ethical conduct in the performance of the Group's operations;
- the risk management system in relation to the financial disclosure process adopted in compliance with the provisions of art. 154-bis of the Consolidated Law on Finance;
- the organization, management and control model adopted for the purposes of preventing the crimes as set out in Leg. Decree 231/2001;
- the Anticorruption Policy;
- the Supplier Code of Conduct, which sets out ethical standards and rules of conduct in addition to legal, regulatory and procedural requirements that govern the business relationships of Salvatore Ferragamo S.p.A. with its supply chain;
- the process for managing, and the activities implemented to prepare, the Non-Financial Statement (NFS) with the aim of collecting the information required by Italian Legislative Decree 254/2016 as well as on the basis and methods of reporting.

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

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

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

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

- Director responsible for the internal control and risk management system

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

- Control and Risk Committee

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

- ERM (Enterprise Risk management) Guidance Committee

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

- Chief Risk Officer and Sustainability Coordinator

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. The Group's head of compliance reports to the Chief Risk Officer and Sustainability Coordinator. The latter also manages insurance policies at the Group level and coordinates Group Corporate Social Responsibility activities, reporting to the Chairman.

- 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 whose occurrence or absence may hinder, in part or in whole, the achievement of the goals of trustworthiness, accuracy, reliability, and timeliness of financial reporting.

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

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

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

Disclosure pursuant to art. 15 of the Markets Regulation

Salvatore Ferragamo S.p.A. adopted measures to comply with the provisions set out in article 15 of the Markets Regulation (CONSOB resolution no. 20249 of 28 December 2017); 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 2019, 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 a constant dialogue with its Shareholders, potential investors and financial analysts, and in compliance with the recommendation of Consob, has set up the Investor Relator function, which ensures a continuous exchange of information between the 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 2019, Ferragamo Finanziaria S.p.A. held a majority stake in the share capital of Salvatore Ferragamo S.p.A., i.e. 54.276% as per the disclosure of Ferragamo Finanziaria S.p.A. pursuant to form 120/A in Attachment 4 to the Consob Issuers' Regulation.

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 16 of the Markets Regulation for the listing of subsidiaries which are subject to management and coordination. In particular, it should be noted that Salvatore Ferragamo S.p.A.:

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

Domestic fiscal unity

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

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

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

Treasury shares and shares or stakes in parent companies

On 20 April 2018, the Shareholders' Meeting of Salvatore Ferragamo S.p.A. had 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 Companies or its subsidiaries, shall not exceed 1% (i.e. 1,687,900 ordinary shares) of the Company's share capital in accordance with article 2357, paragraph 3 of the Italian Civil Code.

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

The Company had authorization to buy back ordinary shares in one or multiple installments until 20 October 2019, and therefore for a period of 18 months from 20 April 2018, i.e. the date of the resolution of the Shareholders' Meeting, whereas there was no time limit for selling ordinary shares.

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

As at 31 December 2019, Salvatore Ferragamo S.p.A. held 150,000 treasury shares, equal to 0.09% of the share capital, comprising 36,000 shares bought on 2 January 2019 for a total outlay of around 638 thousand Euro, including banking fees and other tax charges, as well as 100,000 shares purchased on 1 August 2019 for a total outlay of approximately 1,887 thousand Euro, including banking fees and other tax charges. On the same date, its subsidiaries did not hold any of its shares. The Group does not hold directly or indirectly shares in parent companies, and during the period it did not buy or sell shares in parent companies.

Transactions arising from atypical and/or unusual transactions

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

Non-Financial Statement

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

The non-financial statement can be either a separate report or included in the Director's Report on Operations. The Salvatore Ferragamo Group decided to publish a separate report named "Consolidated Non-Financial Statement pursuant to Italian Legislative Decree no. 254 of 30 December 2016"; on 10 March 2020, Salvatore Ferragamo S.p.A.'s Board of Directors approved the "2019 Consolidated Non-Financial Statement" related to the consolidated information of the Salvatore Ferragamo S.p.A. Group, which is published on the Company's website www.ferragamo.com, in the section Investor Relations.

11. Human resources management and development

The combination of Respect for the Brand and People with Passion, the source of creativity and innovation, is considered key to the success of the Salvatore Ferragamo Group; therefore, we strive to attract talent who believe in these principles as well as build an environment conducive to promoting them. Among other engagement initiatives, 2019 saw the adoption of the Inclusion policy at the global level, greater engagement at leading universities, and international master's programs, leading to the recruitment of a greater number of resources from different nationalities.

In order to implement specific internal engagement initiatives to improve the well-being of employees, the Parent company Salvatore Ferragamo S.p.A. has launched a project to renovate the Osmannoro site and continued entering into agreements with local entities (banks, insurance companies, and others). In addition, the Parent company launched initiatives to promote a sustainable lifestyle with a special emphasis on mobility, such as "carpooling", "bike to work", and discounts on the purchase of alternative fuel vehicles. It also activated a shuttle bus service for Osmannoro's employees. The Company confirmed the Flexible benefits plan; the recipients of performance bonuses will be able to convert the amount of their bonuses into Flexible benefits. In addition, the

“medical expenses” insurance coverage has been extended to the household members of blue-collar and white-collar staff. Also the parents of middle managers are covered under the plan.

In order to foster teamwork and a sense of belonging, the Company held contests for employees designed to promote collaboration and the exchange of ideas, information, and projects among all the Group's staff.

The Parent company is also pursuing a digitization process that has led it to design and implement a new e-learning platform intended to expand the availability of training materials.

In addition, the Company improved the Induction Programs for new hires, so as to disseminate the “brand heritage” and facilitate the onboarding process, as well as the Talent Management Program, with individual coaching plans for both managers and high-potential employees. The Company also worked on knowledge sharing initiatives across the various business functions.

The Salvatore Ferragamo Group considers safeguarding the occupational health and safety of its employees as well as collaborators, suppliers, and consultants a core value. The commitment to improving occupational healthiness is based on training, controls, and the promotion of a safety culture at all levels of the company. The goal is to ensure all employees achieve a good understanding of their role and responsibilities. The initiatives to constantly improve health and safety led the Parent Company to achieve the BS OHSAS 18001 certification in 2017 and currently maintain it for all Italian offices and stores. In further evidence of its commitment to safety and corporate social responsibility, in July 2019 the Company obtained the social accountability certification SA 8000 for all industrial sites and sales offices in Italy.

Staff

Here below is the Group's staff divided by category as at 31 December 2019 and 31 December 2018.

Staff	31 December 2019	31 December 2018
Top managers, middle managers and store managers	771	729
White collars	3,207	3,197
Blue collars	299	302
Total	4,277	4,228

The Parent company's staff as at 31 December 2019 totaled 1,015 staff members, up 41 units compared to 31 December 2018.

12. Environmental protection

The Group's business gives rise to limited environmental impact, but it has nonetheless always put environmental eco-sustainability at the heart of its development policies by promoting awareness-raising aimed at reducing consumption and encouraging energy saving with in-house initiatives.

In 2018, the Company obtained the ISO 50001 certification for the Osmannoro site, continuing the virtuous process of boosting energy efficiency and investing in renewable energy sources.

Specifically, over the years the Parent company Salvatore Ferragamo S.p.A. has installed photovoltaic systems and solar panels at its Osmannoro-Sesto Fiorentino site to produce electricity and hot water for the various buildings respectively, as it believes that the consequent environmental benefit is positive in terms of reduced CO2 emissions and reduced water consumption. In addition, the Company implemented a geothermal heat pump for the Q multi-story building completed in 2015, which received the LEED PLATINUM certification – a goal it pursued also for the new logistics hub, which is also LEED PLATINUM certified. The M building is also in the process of obtaining the LEED certification after it was renovated in 2019 to host footwear manufacturing spaces (ground floor) and the archive of the Salvatore Ferragamo Museum (first floor).

In order to protect the environment, the Group decided to obtain the certification for the Environmental Management System, pursuant to the ISO14001:2015 standard, which monitors compliance with environmental legislation and has strengthened the relevant management activities (internal procedures, monitoring and control systems, containment systems, choice of contractors, etc.). The certification was obtained for all industrial sites and sales offices in Italy as at December 2019.

In 2017, the Company also extended the ISO 14064 certification already received in 2016 for the Salvatore Ferragamo Museum to the entire Palazzo Feroni premises. The Osmannoro facility also obtained the same certification in 2018. In 2019 this certification was obtained for all industrial sites and sales offices in Italy. This certification requires accounting for the greenhouse gas emissions generated as part of the operations performed at the site concerned in order to monitor and reduce them.

Reference should be made to the 2019 Non-Financial as per Italian Legislative Decree 254/2016 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 2019, these costs totaled 30,557 thousand Euro (of which 29,066 thousand Euro incurred by the Parent company), compared to 29,901 thousand Euro in 2018 (of which 28,485 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 as amended and supplemented, the Company Salvatore Ferragamo S.p.A. adopted a Related Party Transaction Procedure ("Related Party Procedure") which was revised and updated by the Company's Board of Directors on 31 July 2018 and is available on the website <https://group.ferragamo.com/it> in the section Investor Relations/Governance/Corporate Governance/Procedures.

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

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

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

During 2019, in line with the recommendations issued by the European Commission (Guidelines on reporting climate-related information) as part of the Action Plan on Sustainable Finance, the Salvatore Ferragamo Group began incorporating climate-related risk factors into its own risk map.

This involved analyzing the organization's impact on the climate as well as the climate's impact on the organization in order to confirm whether or not the risk factors mapped to date actually exist and incorporate them if required. This process allowed to raise awareness as well as improve the understanding and monitoring of climate-related risks and opportunities within the Group.

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.

Finally, the failure to transition to a "lower carbon economy" could pose significant potential risks, as this would magnify the company's impact on the climate and, in turn, the climate's impact on the company.

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—also with respect to the growing focus on product sustainability and transparent sourcing, including in terms of environmental and social impacts—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—including with respect to product transparency and sustainability—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 group of users, the failure to adopt more innovative technologies with a low environmental impact, the dissemination of information or news, and potential crimes connected to the production chain (e.g. handling of greenhouse gas) which, 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.

Italian and European regulations that are now applicable to the Parent company following the listing of Salvatore Ferragamo S.p.A.'s shares on the Mercato Telematico Azionario (an electronic stock market) organized and operated by Borsa Italiana S.p.A. since 29 June 2011 are especially relevant to this risk. There are also specific regulations that are particularly relevant to this risk, such as Regulation EU no. 56/2014 (MAR), the laws that protect consumers, intellectual and industrial property rights, competition, employee health and safety, the environment, privacy, the administrative responsibility of public entities as per Italian Legislative Decree 231/01, the responsibility under Law 262/05, industrial compliance concerning the conformity of distributed finished products and raw materials used in relation to the standards provided for by law, and the implementations associated with the handling of greenhouse gases.

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 2019

At the end of 2019, a new coronavirus, known as Covid-19, was found in Wuhan, China. As at the date of preparation of the 2019 Annual Report, the virus is infecting thousands of individuals in several countries around the world. The levels of contagion seen in recent weeks vary widely from one country to another. The Covid-19 Coronavirus has spread from China into South Korea, Iran, and Italy, where the outbreak is currently more severe than in all the other countries that have confirmed cases in both Europe and the Americas.

In order to contain the epidemic and protect public health, in January 2020 the Chinese government quarantined Wuhan and other major cities around the country. As part of its containment measures, the Government also

extended the closure of schools, government offices, and production plants for the Lunar New Year and asked people to refrain from visiting public places and/or leisure venues. Several flights to and from China have also been canceled.

Other countries are currently taking similar precautions. Italy has adopted rules and measures that have significantly disrupted the social and economic life of individuals—at first in the areas where the outbreak appears to be more severe (the Lombardy, Veneto, and Emilia Romagna regions), and then throughout the country.

These events are significantly affecting traffic and sales, especially in China's retail channel, as well as Chinese tourist flows around the globe, with clear repercussions on the Group's sales also in other geographies and across the various channels.

Given, among other things, the above considerations about the Covid-19 Coronavirus outbreak, it is currently impossible to reliably estimate how these events will actually affect other macroeconomic variables (e.g. employment, interest rates, government subsidies, etc.). For instance, China is apparently past the peak of the outbreak and has touted a significant reduction in new infections.

As at the date of preparation of this Report, given the fast-moving situation and contagion as well as the uncertainty about the scale of the economic and social impacts of the Covid-19 Coronavirus, it is impossible to reliably estimate the length and scope of the outbreak and, therefore, how this could potentially impact the Group's financial performance, financial position, and cash flows.

On 10 March 2020, Salvatore Ferragamo S.p.A. entered into an agreement to acquire 100% of Arts S.r.l. for 11.3 million Euro, payable at the closing, in addition to the acquiree's net cash on hand as at 31 March 2020 (estimated at around 3.5 - 4.0 million Euro), to be paid at a later date before 28 February 2021. The transaction is expected to close by April 2020. Arts S.r.l. has been collaborating with Salvatore Ferragamo S.p.A. since its inception in 1984, helping with the prototyping, industrialization, and quality control of products as well as the monitoring of the Group's network of suppliers with respect to men's footwear. With this deal, the Group seeks to strengthen its control over its supply chain and acquire strategic capabilities in one of its key product categories.

17. Macroeconomic situation and outlook

The contraction in manufacturing activity continued into 2019, driven by global factors (standstill in global trade) and sectoral ones (automotive and electronics). Even though services and construction continued expanding, allowing GDP growth to remain positive in the largest advanced economies, global economic growth has slowed down dramatically, with no clear signs of an inversion.

Central banks in advanced countries have acknowledged the loss of momentum, adjusting their monetary policies accordingly and reacting to the deceleration by announcing new stimulus measures that will continue into 2020.

In the United States, economic data remains positive and is consistent with a moderate slowdown over the next few quarters while the risk of a recession remains low; GDP growth will receive a bigger-than-expected boost from fiscal policy (thanks to the deal on government spending) as well as monetary policy, while employment and wage gains support household spending. However, geopolitical shocks—chief among them trade wars—cast uncertainty over the outlook for 2020, and the prospects for business investments and exports are not encouraging. In the face of increased uncertainty, the Federal Reserve has decided to pre-emptively ease monetary policy: markets firmly expect new interest rate cuts in 2020.

Eurozone economic data has disappointed during the year and the weakness in economic growth is turning out to be more persistent and deeper than expected. The worst-affected countries are the ones in which manufacturing plays an especially important role, such as Germany and Italy, where growth has all but ground to a halt. Economic surveys are not yet offering reliable indications about the timing of a potential recovery.

GDP growth in the euro area remains positive, although it is below potential and downside risks are mounting. There are still several sources of uncertainty: the most immediate ones include Brexit and the threat of US import tariffs, which have repercussions also on business investments.

The European Central Bank has reacted to the deterioration in the economic cycle by lowering its deposit rate to -0.50%, announcing new long-term refinancing operations, and resuming its asset purchase program. New measures are on the cards should economic data not show GDP growth picking up in early 2020.

In Japan, the economy is slowing down because of domestic factors (VAT hike) as well as external ones (international trade tensions negatively affecting exports): considering the limited room for additional monetary policy measures, in late 2019 the government launched a major fiscal stimulus package to support the economy, including the private sector.

Trade tensions with the United States and weak domestic demand have weighed on the Chinese economy, which grew by 6.1% in 2019—the slowest pace in 30 years. Beijing has announced expansionary monetary as well as fiscal measures in the face of an uncertain 2020 outlook.

As for the other geographies, the focus is on the implementation of Brexit, confirmed for 31 January 2020 with a transition period until the end of the year, and the redefinition of the relationship between the United Kingdom and the European Union.

As at the date of preparation of this Report, given the fast-moving Covid-19 Coronavirus outbreak in several countries, the uncertainty as to its spread elsewhere as well as the efficiency of rules, measures, and capabilities of the various countries in addressing it, early signs of inverse reactions in China, where the epidemic began, and the uncertainty about the scale of the economic and social impacts of the Covid-19 Coronavirus, it is impossible to reliably estimate the length and scope of the outbreak and, therefore, how this could potentially impact the Group's financial performance, financial position, and cash flows.

While confirming the medium/long-term strategy aimed at enhancing the Salvatore Ferragamo Group's competitive position among the leaders in the global luxury market, by leveraging its creativity, glamour, Italian craftsmanship, and heritage in the footwear and accessories sector, in order to create value for shareholders, Management has started taking concrete steps to protect the Group and mitigate the negative impact of the crisis triggered by the global spread of the Covid-19 Coronavirus on the results for the next year.

These steps mainly consist in relentlessly and thoroughly rationalizing all costs, constantly and carefully monitoring whether to continue incurring certain expenses, and investing exclusively in projects considered to be essential or top priority in the current scenario.

18. Separate Financial Statements as at 31 December 2019 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 2019, we:

- 1) submit the 2019 Separate Financial Statements to your approval;
- 2) propose to allocate the profit for 2019 of 124,211,203 Euro as follows:
 - a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro.
 - b) the remaining 66,873,603.00 Euro to the Extraordinary Reserve.

Florence, 10 March 2020

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

DISCLOSURE OF INFORMATION ON THE PROPOSED CHANGE TO THE ALLOCATION OF THE PROFIT FOR THE YEAR 2019 AND THE DISTRIBUTION OF DIVIDENDS

On 6 April 2020, the Board of Directors of Salvatore Ferragamo S.p.A. (or the “**Company**”), in order to support the financial soundness of the Group and mitigate future economic-financial impacts, resolved to withdraw the proposal for the distribution of dividends out of the Company's profits for the year 2019, already approved on 10 March 2020 and disclosed to the market on the same date, and to propose that the Shareholders’ Meeting allocate Salvatore Ferragamo S.p.A.'s 124,211,203 Euro profit for the year 2019 to the extraordinary reserve.

To provide a better understanding of the effects of the resolution passed by the Board of Directors on 6 April 2020, below are excerpts from the Annual Report approved by the Board of Directors on 10 March 2020 that highlight the parts affected by said resolution.

<p>Board of Directors’ report on operations 18. Separate Financial Statements as at 31 December 2019 of Salvatore Ferragamo S.p.A. – Proposal for approval</p>	<p>Board of Directors’ report on operations 18. Separate Financial Statements as at 31 December 2019 of Salvatore Ferragamo S.p.A. – Proposal for approval Post-resolution of the Board of Directors of 6 April 2020</p>
<p>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 2019, we:</p> <p>1) submit the 2019 Separate Financial Statements to your approval;</p> <p>2) propose to allocate the profit for 2019 of 124,211,203 Euro as follows:</p> <p style="padding-left: 40px;">a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro.</p> <p style="padding-left: 40px;">b) the remaining 66,873,603.00 Euro to the Extraordinary Reserve.</p>	<p>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 2019, we:</p> <p>1) submit the 2019 Separate Financial Statements to your approval;</p> <p>2) propose to allocate the profit for 2019 of 124,211,203 Euro to the Extraordinary Reserve.as follows:</p> <p style="padding-left: 40px;">a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro.</p> <p style="padding-left: 40px;">b) the remaining 66,873,603.00 Euro to the Extraordinary Reserve.</p>

Florence, 6 April 2020

On behalf of the Board of Directors
The Chairman
Ferruccio Ferragamo

Salvatore Ferragamo Group

Consolidated Financial Statements as at 31 December 2019

Financial Statements	53
Consolidated Statement of Financial Position – Assets	53
Consolidated Statement of Financial Position – Liabilities and Shareholders' Equity	54
Consolidated Income Statement	55
Consolidated Statement of Comprehensive Income	56
Consolidated Statement of Cash Flows	57
Statement of changes in consolidated shareholders' equity	58
Explanatory notes to the consolidated financial statements	59
Comments on the main statement of financial position items (assets, shareholders' equity and liabilities)	95
Comments on the main income statement items	112
Other information	117
Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation	131
Statement pursuant to article 154 bis of Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance)	132
Independent Auditor's Report	133

Financial Statements

Consolidated Statement of Financial Position – Assets

(In thousands of Euro)	Notes	31 December 2019	<i>of which with related parties</i>	31 December 2018	<i>of which with related parties</i>
NON CURRENT ASSETS					
Property, plant and equipment	5	251,805		259,821	
Investment property	6	39,091		6,094	
Right-of-use assets	7	576,455	117,789	-	
Intangible assets with a finite useful life	8	42,484		42,879	
Other non current assets	9	2,642		3,331	
Other non current financial assets	10	16,939	5,193	16,646	5,106
Deferred tax assets	37	96,736		76,869	
TOTAL NON CURRENT ASSETS		1,026,152	122,982	405,640	5,106
CURRENT ASSETS					
Inventories	11	389,531		362,948	
Right of return assets	12	5,473		2,831	
Trade receivables	13	147,202	92	142,905	143
Tax receivables	14	20,107		21,851	
Other current assets	15	32,980	2,599	42,166	10,389
Other current financial assets	16	101		1,080	
Cash and cash equivalents	17	222,332		207,710	
TOTAL CURRENT ASSETS		817,726	2,691	781,491	10,532
TOTAL ASSETS		1,843,878	125,673	1,187,131	15,638

Consolidated Statement of Financial Position – Liabilities and Shareholders' Equity

(In thousands of Euro)	Notes	31 December 2019	of which with related parties	31 December 2018	of which with related parties
SHAREHOLDERS' EQUITY					
GROUP SHAREHOLDERS' EQUITY					
Share capital	18	16,879		16,879	
Reserves	18	659,487		648,451	
Net profit/(loss) – Group		87,281		88,361	
TOTAL GROUP SHAREHOLDERS' EQUITY		763,647		753,691	
MINORITY INTERESTS					
Share capital and reserves – minority interests		21,534		24,821	
Net profit/(loss) – minority interests		84		1,826	
TOTAL MINORITY INTERESTS		21,618		26,647	
TOTAL SHAREHOLDERS' EQUITY		785,265		780,338	
NON CURRENT LIABILITIES					
Non current interest-bearing loans & borrowings	26	-		15,892	
Provisions for risks and charges	19	13,921		19,491	
Employee benefit liabilities	20	11,901		11,392	
Other non current liabilities	21	11,893	49	57,681	
Non current lease liabilities	22	559,267	99,261	-	
Other non current financial liabilities	23	-		4	
Deferred tax liabilities	37	5,570		5,524	
TOTAL NON CURRENT LIABILITIES		602,552	99,310	109,984	-
CURRENT LIABILITIES					
Trade payables	24	198,934	423	210,293	342
Refund liabilities	25	8,720		4,832	
Interest-bearing loans & borrowings	26	48,060		20,939	
Tax payables	27	26,491		19,507	
Other current liabilities	28	54,317	10,753	38,279	1,084
Current lease liabilities	22	117,062	21,910	-	
Other current financial liabilities	29	2,477		2,959	
TOTAL CURRENT LIABILITIES		456,061	33,086	296,809	1,426
TOTAL LIABILITIES		1,058,613	132,396	406,793	1,426
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,843,878	132,396	1,187,131	1,426

Consolidated Income Statement

(In thousands of Euro)	Notes	2019	<i>of which with related parties</i>	2018	<i>of which with related parties</i>
Revenues from contracts with customers	31	1,372,449	426	1,335,269	540
Rental income investment properties	32	4,812		11,573	
Revenues		1,377,261		1,346,842	
Cost of goods sold	33 - 34	(483,767)		(484,862)	
Gross profit		893,494		861,980	
Style, product development and logistics costs	33 - 34	(50,292)	(527)	(48,376)	(657)
Sales & distribution costs	33 - 34	(482,315)	(24,538)	(456,803)	(23,844)
Marketing & communication costs	33 - 34	(79,676)	(95)	(73,326)	(63)
General and administrative costs	33 - 34	(127,837)	(7,796)	(124,565)	(9,321)
Other operating costs	33 - 34	(24,467)	(163)	(19,341)	(126)
Other income	35	20,791	20	10,200	98
Operating profit		149,698		149,769	
Financial charges	36	(64,441)	(3,433)	(53,432)	
Financial income	36	31,877	1	39,575	
Profit before taxes		117,134		135,912	
Income Taxes	37	(29,769)		(45,725)	
Net profit/(loss) for the period		87,365		90,187	
Net profit/(loss) – Group		87,281		88,361	
Net profit/(loss) – minority interests		84		1,826	
(In Euro)	Notes	2019		2018	
Basic earnings per share – ordinary shares	38	0.517		0.523	
Diluted earnings per share – ordinary shares	38	0.517		0.523	

Consolidated Statement of Comprehensive Income

(In thousands of Euro)	Notes	2019	2018
Net profit/(loss) for the period (A)		87,365	90,187
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>			
- Currency translation differences of foreign operations	18	(6,300)	26,180
- Net gain/(loss) from cash flow hedge	3	3,354	(22,617)
- Income taxes		(804)	5,428
		<u>2,550</u>	<u>(17,189)</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		(3,750)	8,991
<i>Other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period</i>			
- Net gain/(loss) from recognition of defined-benefit plans for employees	20	(696)	220
- Income taxes		100	(46)
		<u>(596)</u>	<u>174</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		(596)	174
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		(4,346)	9,165
Total comprehensive income for the period, net of taxes (A+B)		83,019	99,352
Group		82,948	96,830
Minority interests		71	2,522

Consolidated Statement of Cash Flows

(In thousands of Euro)	Notes	2019	of which with related parties	2018	of which with related parties
NET PROFIT/(LOSS) FOR THE PERIOD		87,365		90,187	
Adjustments to reconcile net profit (loss) to net cash from/(used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets, investment property and right-of-use assets	5-6-7-8	185,832	23,032	64,452	
Income taxes*	37	29,769		45,725	
Provision for employee benefit plans	20	863		773	
Allocation to/(use of) the provision for obsolete inventory	11	5,028		2,531	
Losses and provision for bad debt	13	921		975	
Losses/(gains) on disposal of tangible/intangible assets		2,222		1,110	
Interest expense and interest expense on lease liabilities*	17	19,468	3,433	1,672	
Interest income*		(874)	(1)	(732)	
Other non-monetary items*		1,319		476	
Changes in operating assets and liabilities:					
Trade receivables	13	2,741	51	(2,146)	(27)
Inventories	11	(36,923)		(17,362)	
Trade payables	24	(7,410)	81	12,898	(98)
Other receivables and tax payables*	14 -27	(3,565)		(3,985)	
Employee benefits payments	20	(1,117)		(813)	
Other assets and liabilities*		5,168	1,142	3,804	(834)
Other – net		(637)		(732)	
Income taxes paid*		(24,511)	16,279	(11,618)	11,188
Interest expense and interest expense on lease liabilities paid*	17	(16,546)	(2,675)	(1,672)	
Interest income received*		874	1	732	
NET CASH FROM (USED IN) OPERATING ACTIVITIES		249,987	41,343	186,275	10,229
Cash flow from investing activities:					
Purchase of tangible assets	5 -6	(50,764)		(62,878)	
Purchase of intangible assets	8	(12,776)		(12,987)	
Proceeds from the sale of tangible and intangible assets		164		99	
NET CASH FROM (USED IN) INVESTING ACTIVITIES		(63,376)	-	(75,766)	-
Cash flow from financing activities:					
Net change in financial receivables	17	971		(944)	
Net change in financial payables	17	10,009		(46,439)	
Repayment of lease liabilities	17 -22	(114,388)	(21,581)	-	
Dividends paid to shareholders of the Parent company	39	(57,372)	(40,685)	(64,140)	(47,716)
Dividends paid to minority shareholders	39	(6,021)	(6,021)	(2,809)	(2,809)
Purchase of minority interests in companies consolidated on a line-by-line basis		-		(1,452)	
Treasury share repurchase	18	(2,525)		(251)	
NET CASH FROM (USED IN) FINANCING ACTIVITIES		(169,326)	(68,287)	(116,035)	(50,525)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		17,285		(5,526)	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		207,707		212,088	
Increase/(decrease) in cash and cash equivalents		17,285		(5,526)	
Effect of exchange rate translation differences		(2,660)		1,145	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	17	222,332		207,707	

*To provide a better presentation, the additional information (interest paid, income taxes paid, interest received, and dividends received) previously disclosed in a dedicated table following the statement of cash flows has been included in the line item net cash from/(used in) operating activities, restating the comparative information from 2018.

Statement of changes in consolidated shareholders' equity

(In thousands of Euro) Note 18	Share capital	Treasury share reserve	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 01.01.2019	16,879	(251)	2,995	4,188	478,378	(3,049)	(9,014)	161,752	16,268	(2,816)	88,361	753,691	26,647	780,338
Allocation of results	-	-	-	-	25,941	-	-	62,420	-	-	(88,361)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	87,281	87,281	84	87,365
Other comprehensive income/(loss)	-	-	-	-	-	2,550	(6,988)	701	-	(596)	-	(4,333)	(13)	(4,346)
Total comprehensive income (loss)	-	-	-	-	-	2,550	(6,988)	701	-	(596)	87,281	82,948	71	83,019
Distribution of dividends	-	-	-	-	-	-	-	(57,372)	-	-	-	(57,372)	(6,021)	(63,393)
Purchase of min. interests in companies consolidated on a line-by-line basis and accounting of options on min. interests	-	-	-	-	-	-	-	(991)	-	-	-	(991)	921	(70)
Treasury share repurchase	-	(2,525)	-	-	-	-	-	-	-	-	-	(2,525)	-	(2,525)
Effect of the first-time adoption of IFRS16	-	-	-	-	-	-	-	-	(11,761)	-	-	(11,761)	-	(11,761)
Stock Grant Reserve	-	-	-	-	-	-	-	-	(343)	-	-	(343)	-	(343)
As at 31.12.2019	16,879	(2,776)	2,995	4,188	504,319	(499)	(16,002)	166,510	4,164	(3,412)	87,281	763,647	21,618	785,265

(In thousands of Euro) Note 18	Share capital	Treasury share reserve	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Net profit/(loss) for the period	Group shareholders' equity	Minority interests	Total shareholders' equity
As at 01.01.2018	16,879	-	2,995	4,188	429,505	14,140	(33,129)	155,626	16,395	(2,990)	118,641	722,250	26,181	748,431
Allocation of results	-	-	-	-	48,873	-	-	69,768	-	-	(118,641)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	-	88,361	88,361	1,826	90,187
Other comprehensive income/(loss)	-	-	-	-	-	(17,189)	24,092	1,392	-	174	-	8,469	696	9,165
Total comprehensive income (loss)	-	-	-	-	-	(17,189)	24,092	1,392	-	174	88,361	96,830	2,522	99,352
Distribution of dividends	-	-	-	-	-	-	-	(64,140)	-	-	-	(64,140)	(2,809)	(66,949)
Purchase of min. interests in companies consolidated on a line-by-line basis and accounting of options on min. interests	-	-	-	-	-	-	23	(894)	-	-	-	(871)	753	(118)
Treasury share repurchase	-	(251)	-	-	-	-	-	-	-	-	-	(251)	-	(251)
Stock Grant Reserve	-	-	-	-	-	-	-	-	(127)	-	-	(127)	-	(127)
As at 31.12.2018	16,879	(251)	2,995	4,188	478,378	(3,049)	(9,014)	161,752	16,268	(2,816)	88,361	753,691	26,647	780,338

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 operated 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 2019 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 10 March 2020.

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 2018 and 2017 is given below.

Ferragamo Finanziaria S.p.A. (In Euro)	31 December 2018	31 December 2017
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	166,312,869	202,876,967
C) Current assets	142,466,156	40,805,581
D) Accruals and Deferrals	702	230
TOTAL ASSETS	308,779,727	243,682,778
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	115,713,388	115,515,072
- Profit (loss) for the year	131,233,249	40,380,796
B) Provisions for risks and charges	376,194	518,387
D) Payables	11,631,585	37,441,450
E) Accruals and Deferrals	75,351	77,113
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	308,779,727	243,682,778
Guarantees, commitments and other risks	-	-
INCOME STATEMENT		
A) Value of production	100,283,774	88,072
B) Costs of production	(3,492,160)	(2,534,315)
Difference between value and costs of production	96,791,614	(2,446,243)
C) Financial income and charges	35,240,555	42,550,657
Profit before taxes	132,032,169	40,104,414
Income taxes for the year, current and deferred	(798,920)	276,382
Profit (loss) for the year	131,233,249	40,380,796

2. Basis of presentation

Statement of compliance with IFRS

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

Contents and structure of the consolidated financial statements

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

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

- non current assets refer to positive balances to be realized after more than 12 months and include intangible, tangible and financial assets and deferred tax assets;
- current assets refer to positive balances to be realized within 12 months;
- non current liabilities refer to liabilities 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 liabilities 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 34). 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. To provide a better presentation, the additional information (interest paid, income taxes paid, interest received, and dividends received) previously disclosed in a dedicated table following the statement of cash flows has been included in the line item net cash from/(used in) operating activities, restating the comparative information from 2018.

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 2019 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2019.

Discretionary valuations and significant accounting estimates

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

The main estimated data refer to:

- provisions for obsolete inventory of raw materials, accessories and finished products; since the Group’s products are subject to market trends and changes in fashion trends, product inventories at the end of the season or, in the case of fragrances, at the end of the life cycle of the individual item, are subject to impairment. Specifically, the provision for obsolete inventory of finished products reflects management’s estimate of the expected impairment losses on the products of the collections of previous

seasons, considering the ability to sell them through the Group's various distribution channels. This assumption may vary across the different geographic areas in which the Group operates based on the knowledge of the individual market's characteristics concerning the local ability to absorb sales of products from previous seasons. Generally, impairment assumptions involve percentages of impairment that become greater the older the collections are, so as to reflect the decline in selling prices in secondary channels (mainly outlets) on the one hand, and on the other hand, the decrease in the probability of selling them as time goes by. This percentage is based on both a statistical analysis of the change in inventory age and an assessment of the consistency in the use of percentages over time. In case of changes in available information, the percentages are reassessed and adjusted as needed. The provision for obsolete raw materials reflects management's estimates of the decline in the probability they will be used based on the calculation of slow-moving raw materials;

- provision for bad debt relating to wholesale sales, which is linked to the solvency and standing of customers with whom the company has well-established and consolidated relations. The Groups uses a matrix to calculate Expected Credit Losses (ECLs) on trade receivables. The provisioning rates are based on the days past due for each customer category grouped in the different segments that present similar historical loss experiences (for instance, by geographic area, product type, customer type, rating, and guarantees). The matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (for example, country risk) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the country concerned, the historical default rates are adjusted accordingly. At every reporting date, the Group updates historical observed default rates and analyzes changes in forward-looking estimates. The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and in forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. For more details on the analysis of credit risks, please refer to notes 3 and 13;
- provisions for risks and charges, specifically the costs for the contractual commitment to renovate in the future leased properties and costs for ongoing or foreseeable disputes;
- rights of return to adjust revenue from contracts with customers. Some contracts to sell goods include a right of return. The Group has concluded that the expected value method is the most appropriate to estimate the amount of variable consideration on sales of goods with rights of return, considering the large number of contracts with similar characteristics;
- useful life of property, plant and equipment, intangible assets with a finite useful life and investment property, as well as ensuring that development costs meet the recognition and measurement requirements for intangible assets;
- employee benefits, which are measured using actuarial assumptions; for the main actuarial assumptions, reference should be made to note 20;
- deferred tax assets, which are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences or any tax losses can be utilized. In this regard, the Group's management estimates the likely timing and amount of future taxable profit;
- fair value of financial instruments, chief among them derivative instruments, which the Groups uses extensively to hedge exchange rate risk; for details about the assumptions underlying the measurement of fair value, reference should be made to notes 3 and 30;
- 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 40.
- risk of defeat in the disputes involving the Group; the Group recognizes a liability when facing legal disputes and lawsuits if it believes it is probable that they will require an outflow of financial resources and a reliable estimate can be made of the amount of the potential losses. Given the uncertainty surrounding the outcome of these proceedings, it is hard to reliably estimate the outflow of resources that will be required to settle them, therefore the amount of the provisions for legal disputes may change as a result of future developments in the outstanding proceedings. The Group monitors the status of ongoing lawsuit and proceedings and consults with its legal advisors as well as legal experts. Moreover, the Group assesses uncertain tax positions and, if required, recognizes a liability

In addition, as of 1 January 2019, following the adoption of IFRS 16, the Group made the significant accounting estimates reported below in its capacity as lessee:

- Lease term: the identification of the lease term is a very significant issue, as the form, regulations, and business practices related to property lease agreements vary significantly from one jurisdiction to another, and assessing

the impact on the estimated lease term of the options to renew the lease at the end of the non-cancellable period requires using assumptions. In defining the lease term, the Group considered whether either the lessee or lessor, or both, have renewal and termination options, respectively. When renewal options exercisable by both parties to the agreement exist, the Group considered whether there are significant economic incentives to refuse the renewal request, in accordance with paragraph B34 of IFRS 16. When there are options exercisable by only one of the two parties, the Group considered paragraph B35 of IFRS 16.

Applying the above, considering the specific facts and circumstances as well as the estimate of whether it will be reasonably certain that the option will be exercised, resulted in the following:

- for annual leases that are automatically renewed except in the event of termination, the Group considered an average term of five years based on historical evidence;
- in the other cases, if only the Group can exercise the option, we considered a lease term until the end of the second renewal term, based on historical evidence and the fact that a renewal beyond the second term could not be considered reasonably certain.

After the lease commencement date, the Group reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the Group and affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

In June 2019, the IFRS Interpretation Committee began discussing the topic of the lease term (project: Lease Term and Useful Life of Leasehold Improvements). In November 2019, the Committee published a decision that clarifies how to read and relate the concepts of non-cancellable period, lease term (considered for the purposes of recognizing the liability), and enforceable period (allowing to identify the moment in which the contract does no longer generate enforceable rights and obligations) to each other for the purposes of applying IFRS 16.

The decision clarified that, for the purposes of identifying the enforceable period, a lessee shall consider the contractual moment when both parties may exercise their right to terminate the contract without incurring penalties that are not immaterial; the concept of penalty is not to be interpreted in a strictly contractual sense, but shall rather be viewed considering all the economics of the contract. After identifying the enforceable period, when renewal or termination options exist, the lessor shall assess for which period it is reasonably certain to control the right to use the asset, and thus determines the lease term.

The Group considered such discussions and conclusions at the reporting date and will continue monitoring how they evolve over time.

- Definition of the discount rate: as most leases entered into by the Group do not contain an implicit interest rate, the Group calculated an Incremental Borrowing Rate (IBR). To determine the IBR it should use to discount future lease payments, the Group identified each country as a portfolio of leases with similar characteristics and determined the relevant IBR as the interest rate of a risk-free instrument in the country in which the lease was entered into, based on the different lease terms, increased by the Group's Credit spread.

With respect to 2018 – before the adoption of IFRS 16 and in relation to commercial lease contracts entered into – the Group had 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 remained with the lessor; therefore, these contracts were 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, if necessary, the impact of each change in the income statement in the period in which these estimates and assumptions should differ from actual circumstances.

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

The book value of Property, plant and equipment, Investment property, Intangible assets with a finite useful life, Right-of-use assets, and Investments is subject to impairment testing (events or changed situations suggesting that the book value cannot be recovered) when there are indicators of impairment which require an immediate assessment of impairment, or when events have occurred which require the procedure to be repeated. Impairment exists when the book value of an asset or cash flow generating unit exceeds its recoverable value, which is the higher of its fair value less the costs of sale and its value in use. The calculation of the fair value less the costs of sale is based on the data available from transactions between free and independent parties involving similar assets or observable market prices, less the extra costs relating to the disposal of the asset. The value in use is calculated based on discounted cash flow models using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset.

The cash flows are taken from the business plans prepared by management, which represent the best estimate made by the Company on the economic conditions set for the plan period. The plan forecasts refer to a time period of three years, 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, 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. The carrying amount of an item of property, plant and equipment and each initially recognized significant component is derecognized on disposal (i.e. on the date the buyer obtains control over it) or when no future economic benefits are expected from its use or disposal. The gain/loss arising from the derecognition of the asset (calculated as the difference between the net carrying amount of the asset and the consideration received) is included in profit or loss when the item is derecognized.

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.

Investment property is derecognized on disposal (i.e. on the date the buyer obtains control over it) or when the investment is permanently unusable and no future economic benefits are expected from its disposal. The amount of consideration to be considered to calculate the gain or loss on the derecognition of an investment property is determined in accordance with transaction pricing requirements in IFRS 15.

Leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. The contract is, or contains, a lease if it provides the right to control the use of a specific asset for a period of time in exchange for consideration.

The Group uses the exemption under IFRS16 for intangible assets.

The Group as lessee

The Group applies a single accounting model for all leases to which it is lessee, except for short-term leases and leases of low-value assets. The Group recognizes a financial lease liability and a right-of-use asset.

Right-of-use assets:

The Groups recognizes a Right-of-use asset at the lease commencement date (that is the date on which the underlying asset is available for use by the lessee). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses determined as described below, and adjusted for any remeasurement of lease liabilities. The cost of Right-of-use assets includes the amount of the recognized lease liability, initial direct costs incurred, lease payments made at or before the commencement less any lease incentives received, and the estimate of costs to be incurred by the Group in restoring the underlying asset to its original condition, if required by the lease.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, depreciation is calculated on a straight-line basis over the shorter of the lease term and the useful life of the asset as follows:

	Useful life
Buildings	33 years
Equipment and other assets	3-5 years
Vehicles	3-4 years

Right of-use assets are tested for impairment should events or changes in circumstances 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 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.

Lease liabilities:

At the commencement date of the lease, the Group recognizes a lease liability measured at the present value of future lease payments to be made over the lease term. Future payments include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments that do not depend on an index or a rate, but that in the case of the Group mainly depend on sales volumes, continue to be recognized as costs for services in profit or loss. In calculating the present value of future payments, the Group uses the Incremental Borrowing rate (IBR) at the lease commencement date. Subsequently, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the lease liability is remeasured to account for any change in the terms of the lease.

Short-term leases and leases of low-value assets:

the Group has elected not to apply IFRS 16 to short-term leases (leases with a lease term of 12 months or less) and leases for which the underlying asset is of low value (less than 5,000 Euro). Payments on these leases are recognized as expense on a straight-line basis in accordance with the terms and conditions of the lease.

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. The Group capitalizes the initial direct costs incurred in obtaining an operating lease and recognizes those costs as an expense over the lease term on the same basis as the lease income

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 IFRS 9 will be recognized in accordance with the provisions of IFRS 9, 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 IFRS 9, it must nonetheless be measured at fair value through profit or loss.

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

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

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

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

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

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

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

Intangible assets

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

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

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

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

Key money

An intangible asset is derecognized on disposal (i.e. on the date the buyer obtains control over it) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

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

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The general rule in IFRS 9 is that an entity shall recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Financial assets

On initial recognition, financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The assessment of the contractual cash flow characteristics is known as the SPPI ('solely payments of principal and interest-SPPI') test and is conducted for each instrument. However, identical financial instruments may be analyzed in groups, since the outcome of the test would not be different than under an individual or separate assessment.

The Group's business model for managing financial assets refers to how the Group manages financial assets in order to generate cash flows. The business model determines whether the cash flows will result from the collection of contractual cash flows, sales proceeds, or both. Based on these characteristics, financial assets are classified into four categories:

- Financial assets at amortized cost (debt instruments);

- Financial assets at fair value through other comprehensive income with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reclassification of cumulative gains or losses on disposal (equity instruments);
- Financial assets at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

After initial recognition, the Group measures financial assets at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

The Group measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include trade receivables and guarantee deposits.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, gains and losses are recognized through other comprehensive income except for changes resulting from exchange differences and impairment losses, as well as reversals, which are recognized in the statement of profit or loss. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss; the amounts recognized through profit or loss are the same that would have been recognized if the financial assets had always been measured at amortized cost. The Group currently does not have this type of instruments.

Financial assets at fair value through profit or loss

In general, IFRS 9 defines the classification at fair value through profit or loss as a residual category to be applied to all those financial assets that, because of their contractual characteristics, are not measured at amortized cost or at fair value through other comprehensive income. However, the Group may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise from recognizing the gains and losses on the asset on different bases. Although this may be considered an accounting policy choice, the standard does not require applying it consistently to all similar transactions.

Financial instruments at fair value through profit or loss are carried in the statement of financial position at fair value, with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments. Derivatives are classified as financial instruments held for trading, unless they are designated as effective hedging instruments.

A derivative embedded in a non-derivative hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss

Reclassification

A financial asset is reclassified only if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be expected or the Group changes its business model for managing financial assets. The reclassification shall be applied prospectively from the date of reclassification, without restating any previously recognized gains, losses, and interest.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Group has transferred the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party and (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, whereby it retains the contractual rights to receive cash flows from the asset, but assumes a contractual obligation to pay the cash flows to one or more recipients, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When all the risks and rewards of ownership of the financial assets are substantially transferred, the Group derecognizes the financial asset and recognizes any rights and obligations created or retained as separate assets or liabilities; otherwise, the financial asset continues to be recognized. When it has neither transferred nor retained substantially all of the risks and rewards, nor lost control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement; when control over the financial assets is not retained, the Group derecognizes the financial asset and recognizes any rights and obligations created or retained as separate assets or liabilities. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. Specifically, the impairment model applies to all financial assets measured at amortized cost and at fair value through other comprehensive income, but not to financial assets at fair value through profit or loss. In addition, the following types of instruments also fall within the scope of the model:

- Loan Commitments not measured at FVTPL;
- Financial guarantees within the scope of IFRS 9;
- Lease receivables within the scope of IFRS 16;
- Contract Assets within the scope of IFRS 15.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The cash flows that the Group expects to receive depend on the probability of a default by the counterparty and the amount it expects to be able to recover; the expected cash flows will therefore include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Under the general approach of the Standard, the impairment of financial assets is determined based on the monitoring of the counterparties' credit standing. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. More specifically, for the above financial assets, the Group adopts the practical expedient of the provision matrix to calculate impairment, i.e. has established a matrix system based on historical collection information, adjusted for forward-looking factors specific to the debtors and the economic environment, as a means to determine expected credit losses.

Financial liabilities

Financial liabilities are classified and measured at amortized cost using the effective interest rate method, except for those financial liabilities that are classified at fair value through profit or loss because they do not meet the conditions for the measurement at amortized cost. This is the case of financial liabilities held for trading. In addition, the Group may, at initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so would result in more relevant information, as:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases;

- a group of financial assets or liabilities is managed and measured at fair value in accordance with a risk management policy or based on an investment strategy, and information about the group is provided internally on that basis to key management personnel.

Derivatives with negative fair values are also classified and measured at fair value through profit or loss, except for those held as effective hedging instruments. All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings as well as payables, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss and financial liabilities at amortized cost (loans and borrowings).

Financial liabilities at fair value through profit or loss: financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of settling or transferring them in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities are designated at fair value through profit or loss upon initial recognition, only if the criteria in IFRS 9 are satisfied. Upon initial recognition, the Group has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings): after initial recognition, loans are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

It is not possible to reclassify financial liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as: foreign exchange forward contracts, to hedge financial risks relating to exchange rate fluctuations affecting commercial transactions in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. As allowed under IFRS 9 paragraph 7.2.21, the Group elected to apply IAS 39 for the purpose of hedge accounting.

In keeping with the provisions of IAS 39.88 and IFRS 9.6.4.1, hedging derivatives are eligible for hedge accounting only when:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedge is likely to be highly effective;
- for cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to the measurement of cash flows that could affect profit or loss;
- 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 as well as a firm commitment 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. In the case of a firm commitment, the fair value of the component related to the hedged risk is recognized as an asset or liability, adjusting the line item in the statement of financial position that will be affected by the firm commitment upon its realization.

- 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 or a firm commitment 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.

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.

Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale or cancellation of treasury shares. Any difference between the purchase value and the consideration, in the event of a sale and/or grant, is recognized in a reserve in equity.

Inventories

Inventories are measured 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.

Assets 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.

Pension Funds and other long-term employee benefits

In Italy, the Group has a "Defined-benefit plan" for employee severance indemnities. With respect to Salvatore Ferragamo S.p.A., the plan concerns only the amounts recognized up to 31 December 2006. In addition, the Group has "Defined-contribution plans" for employee severance indemnities accrued after said date. This distinction derives from the 2007 Budget Law and the relevant enabling legislation, which require allocating employee severance indemnities to either supplementary pensions schemes or the Treasury Fund of the Italian Social Security Institute (INPS).

The Group also has other "Defined-benefit plans" in the United States, Mexico, Thailand, France, Belgium, Principality of Monaco, Taiwan, Japan, and India.

Moreover, the Group has defined-contribution plans for its employees.

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. The cost of the benefits provided under the defined-benefit plan is determined using the actuarial technique of the projected unit credit method. Actuarial gains and losses are recorded directly in the statement of comprehensive income, as provided for by IAS 19. Net interest on the net defined-benefit liability shall be determined by multiplying the net liability by the discount rate.

The actuarial assessment of liabilities has been entrusted to independent actuaries.

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.

The methods for determining fair value in reference to 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.

Costs

Costs are recognized when related to goods or services sold or consumed during the period or systematically allocated, or when it is not possible to identify their future usefulness.

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.

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

Revenues from contracts with customers

Revenues from contracts with customers are recognized when control of goods or services transfers to the customer in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenues from the sale of goods are recognized when control of the good passes to the customer, generally upon shipment depending on the terms applied.

The Group considers whether the contract includes other promises representing performance obligations to which part of the consideration for the transaction must be allocated (for example guarantees). When determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, significant financing components, non-cash consideration, and consideration payable to the customer (if any).

- Right of return:

Some contracts allow customers to return goods within a specified period of time. The Group uses the expected value method to estimate the goods that will not be returned, as this method better predicts the amount of variable

consideration to which the Group will be entitled. The guidance in IFRS 15 regarding the constraints on the recognition of variable consideration applies to the determination of the amount of variable consideration that can be included in the transaction price. The Group adjusts revenues for the goods expected to be returned, and recognizes a liability for the refunds. The right of return of an asset (and the corresponding adjustment to the cost of sales) is recognized also for the right to recover goods from customers.

Royalties

Revenues from royalties derive from sales-based royalties arrangements with customers, and are therefore recognized based on the stage of completion of the licensee's sales in accordance with the terms of the agreement.

Right of return assets

A right of return asset represents the Group's right to recover goods expected to be returned from customers. The asset is measured at the previous carrying amount of inventories less any costs for its recovery, including any impairment of the returned products. The Group regularly updates the estimated amount of returns from customers as well as any additional impairment of the returned products.

Refund liabilities

The refund liability represents the obligations to refund some or all of the consideration received (or to be received) from the customer and is measured based on the amount the Group expects to be refunded to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payment plans

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

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

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

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

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

Cash-settled transactions

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

Financial income and charges

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

Dividends

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

Income Taxes

Current taxes

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

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

Deferred taxes

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

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

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

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

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

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

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

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

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

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

Value added tax

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

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

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

Earnings per share

Basic earnings per share is calculated by dividing the profit and/or loss for the period attributable to the Shareholders of the Parent company by the weighted average number of outstanding shares during the year. For the purposes of calculating the diluted earnings per share, the weighted average number of the outstanding shares is modified by assuming the conversion of all potential shares with a diluting effect. The net result is also adjusted to take account of the impact, net of taxes, of the conversion.

Put and call agreements on minority interests

In the case of put options granted to minority shareholders, the Group recognizes a financial liability corresponding to the present value of the exercise price of the option. On initial recognition, this liability is reclassified from equity as a deduction from the minority interests if the terms and conditions of the put option already give the Group access to the economic benefits associated with the interest concerned by the option, therefore the Group accounts for this interest as if it was already acquired. The liability is subsequently remeasured at the end of each period in compliance with IFRS 9. 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.

IAS 29 Financial reporting in hyperinflationary economies

Effective 1 July 2018, Argentina's economy is considered hyperinflationary in accordance with "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). This standard requires that the financial statements of entities whose functional currency is the currency of an economy considered hyperinflationary to be restated by using a general price index that reflects changes in general purchasing power. The inflation index used in Argentina is a synthetic index with the following characteristics: (a) as of 1 January 2017, a new national consumer price index is used; and (b) for periods up to 31 December 2016, the wholesale price index is used.

Therefore, all items of the financial statements of Ferragamo Argentina S.A. have been divided into monetary and non-monetary items. Monetary items are money held and assets or liabilities to be received or paid in cash; all other items are non-monetary. Monetary items are not restated because they are already expressed in terms of current monetary unity. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power. The gain or loss on the net monetary position is included in net income. The effect of inflation on the net monetary position and non-monetary assets and liabilities of Ferragamo Argentina S.A. for the year ended 31 December 2019 resulted in a 107 thousand Euro net gain with an immaterial impact on the consolidated financial statements (36 thousand Euro in the consolidated income statement as at 31 December 2018).

After restating non-monetary assets as per IAS 29, the Group also assessed whether the restated amount of the asset exceeded its recoverable amount. In addition, the application of IAS 29 gave rise to temporary tax differences: while the carrying amount of non-monetary assets is adjusted for inflation, a similar adjustment is not made for tax purposes; the result of such temporary difference is a deferred tax liability that has been recognized in profit or loss.

Changes in international accounting standards

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaced 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 recognizes 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 are 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 generally recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Conversely, the standard does not introduce significant changes for lessors.

The Group has applied IFRS 16 starting from 1 January 2019, completing a two-stage project in early 2019: the first stage consisted in an assessment, which began in 2017 and was completed in 2018, while the second stage involved implementing the new corporate IT system dedicated to supporting accounting operations as required by the introduction of the new accounting standard.

The Group applied the standard retrospectively and elected the “modified” approach, recognizing the cumulative effect of applying the standard through equity as at 1 January 2019, in accordance with IFRS 16:C7-C13. Specifically, as for leases previously classified as operating leases, the Group recognized:

a) a financial liability, equal to the present value of future lease payments outstanding at the date of transition, discounted using the applicable incremental borrowing rate at the date of transition;

b) a right-of-use asset equal to the amount of the financial liability at the date of transition, less any accruals or deferrals referring to the lease and recognized in the statement of financial position as at 31 December 2018.

For two lease contracts, the Group decided to measure the right-of-use at its net carrying amount as if the standard had been applied since the commencement date, but discounted using the discount rate defined at the date of transition. For these leases, the right-of-use asset amounted to 77.6 million Euro, compared to a 121.2 million Euro financial liability.

As at 1 January 2019, the first-time adoption of IFRS 16 significantly impacted the Group's consolidated financial statements, as the following table shows:

(In thousands of Euro)	Impacts of the first-time adoption IFRS 16 at 01.01.2019
Investment property	36,507
Right-of-use assets	528,407
Deferred tax assets	4,493
TOTAL NON CURRENT ASSETS	569,407
Other current assets	(2,859)
TOTAL CURRENT ASSETS	(2,859)
TOTAL ASSETS	566,548
Other reserves (effect of first-time adoption of IFRS 16)	(11,761)
TOTAL GROUP SHAREHOLDERS' EQUITY	(11,761)
TOTAL MINORITY INTERESTS	-
TOTAL SHAREHOLDERS' EQUITY	(11,761)
Other non current liabilities	(46,270)
Non current lease liabilities	526,375
TOTAL NON CURRENT LIABILITIES	480,105
Other current liabilities	(827)
Current lease liabilities	99,031
TOTAL CURRENT LIABILITIES	98,204
TOTAL LIABILITIES	578,309
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	566,548

The other impacts on the Group's consolidated financial statements, detailed in the subsequent explanatory notes, can be summarized as follows:

- profit or loss: since it presents expenses by function, the Group does not expect material impacts in terms of reclassification between the various items of expense, except for financial charges. In addition, compared to IAS 17, the combination of straight-line depreciation of the “right-of-use asset” and the effective interest rate method applied to the lease liability result in higher financial charges to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term;
- classification of the repayment of lease liabilities into Net cash from financing activities and the interest expense on lease liabilities into Net cash from operating activities;
- alternative performance measures: the mentioned change in the nature, qualification, and classification of expenses affects EBITDA, operating profit, net invested capital, Net Financial Debt, Cash Flows, and the other measures of the Group's financial performance and financial position. Therefore, management has introduced certain performance indicators restated by excluding the impact of IFRS16 in the Report on operations attached to these Consolidated Financial Statements.

The impacts of the adoption of IFRS 16 all but entirely refer to property lease agreements (premises used as stores/DOS, warehouses, offices) and, to a lesser extent, leases of vehicles, equipment, and other assets.

In adopting IFRS 16, the Group used the exemptions under the standard. Specifically, it used:

- the exemption for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets (i.e. the assets underlying the lease have a value of 5,000 Euro or less when new). The leases to which the latter exemption was applied largely fall within the category of Equipment and other assets. For these leases subject to exemption, the introduction of IFRS 16 did not require recognition of a financial lease liability and the corresponding right-of-use asset, but lease payments are recognized through profit or

loss on a straight-line basis over the term of the relevant leases and the relevant liability is recognized under trade payables, as in the past.

- the exemption from applying IFRS16 to intangible assets, specifically with respect to the software used by the Group.

The Group applied the practical expedient as per IFRS 16:C3, which allows to grandfather previous conclusions reached under IFRIC 4 and IAS 17 as to whether a specific contract is, or contains, an operating lease. Such practical expedient was applied to all contracts, in accordance with IFRS 16:C4. Therefore, the Group did not apply the standard to contracts that were not previously identified as leases under IAS 17 and IFRIC 4.

The Group used the practical expedient in IFRS 16 concerning the separation of non-lease components for the Vehicles category. The non-lease component for this category was not separated and accounted for separately from lease components, but rather considered together with the latter when determining the financial lease liability and the corresponding right-of-use asset.

In addition, with respect to the transitional provisions, the Group used the following additional practical expedients:

- Classification of leases for which the lease term ends within 12 months of the date of transition as short-term leases. For these leases, lease payments were recognized through profit or loss on a straight-line basis;
- Exclusion of initial direct costs from the measurement of the right-of-use asset as at 1 January 2019;
- The Group applied a single IBR to a portfolio of leases with reasonably similar characteristics, such as leases with a similar remaining lease term in the same country;
- Use of hindsight in determining the lease term, especially concerning the exercise of options to extend or terminate the lease.

To provide a better understanding of the impacts of initially applying the standard, the following table shows the reconciliation between future commitments associated with leases, disclosed in note 44 of the Explanatory notes to the consolidated financial statements as at 31 December 2018, and the impact of adopting IFRS 16 as at 1 January 2019.

(In millions of Euro)	
Reconciliation of lease commitments	
Operating lease obligations as at 31 December 2018	672
Short-term lease payments	(9)
Low-value lease payments	(1)
Payments for leases entered into as at 31 December 2018 and effective as of 1 January 2019	(49)
Other changes*	89
Non-discounted financial lease liability as at 1 January 2019	702
Discounting effect	(77)
Discounted financial lease liability as at 1 January 2019	625

* Other changes are largely related to operating lease renewal periods considered within the financial liability as at 1 January 2019

The transition to IFRS 16 requires the exercise of professional judgment that involves defining some accounting policies as well as using assumptions. Below is a summary of the main assumptions and estimates:

- Lease term: for details on the estimates used to identify the lease term, please refer to the paragraph “Discretionary valuations and significant accounting estimates” in the Explanatory Notes to these Consolidated Financial Statements.
- Definition of the discount rate: for details on the estimates used to determine the rate for discounting future lease payments, please refer to the paragraph “Discretionary valuations and significant accounting estimates” in the Explanatory Notes to these Consolidated Financial Statements. The weighted average IBR used for the transition was 2.80%.
- Right-of-use assets: the Group recognizes right-of-use assets at the commencement date of the lease (i.e. the date on which the underlying asset is available for use). The right-of-use assets that qualify as investment property are classified in this line item. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the leased asset. Right-of-use assets are tested for impairment.
- Lease liabilities: at the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of future lease payments to be made over the lease term. Future payments include fixed

payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments that do not depend on an index or a rate, but that in the case of the Group mainly depend on sales volumes, continue to be recognized as costs for services in profit or loss. In calculating the present value of future payments, the Group uses the Incremental Borrowing rate (IBR) at the lease commencement date. Subsequently, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the lease liability is remeasured to account for any change in the terms of the lease.

The Group also acts as lessor, mainly leasing out part of its investment property. Leases in which the Group acts as lessor have been classified as operating leases and, as such, recognized as previously done under IAS 17, since IFRS 16 does not require transitional changes for these leases. In addition, the Group subleases certain properties leased as investment property. Under IAS 17, the lease in which the Group acts as lessee as well as the one in which it acts as sublessor were classified as operating leases. In the transition to IFRS 16, the lease in which the Group acts as lessee was classified and recognized as a right-of-use asset under investment property, whereas the one in which it acts as sublessor was classified as an operating lease in accordance with IFRS 16.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

The interpretation specifically addresses the following:

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group applied the interpretation starting from its effective date. Since its current accounting policy was aligned with the interpretation, there were no impacts on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment clarifies that the measurement of the payment for the early termination of the contract by a lender is irrespective of which party pays or receives it. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. This amendment did not have any impact on the Group's consolidated financial statements.

Annual improvements 2015-2017 cycle

These improvements include:

- IFRS 3 Business Combinations: the amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation;
- IFRS 11 Joint Arrangements: a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured;
- IAS 12 Income taxes: the amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
- IAS 23 Borrowing costs: the amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when all of the activities necessary to prepare

that asset for its intended use or sale are complete. An entity shall apply these amendments to borrowing costs incurred on or after the beginning of the annual period in which the entity first applies such amendments.

The amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. The Group applied the interpretation starting from its effective date.

Amendments to IAS 19: Plan amendment, curtailment or settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity must:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in net interest, is recognized in other comprehensive income. The amendments to IAS 19 must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted. These changes will apply only to the Group's potential future plan amendments, curtailments or settlements (currently there are none).

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.

Amendments to “References to the Conceptual Framework in IFRS Standards”

The IASB issued the Conceptual Framework in March 2018, setting out a comprehensive set of concepts for financial reporting, the definition of standards, the development of consistent accounting policies, and the assistance to understand and interpret standards. It introduces some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts.

Amendments to IFRS 3 – Definition of a Business

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to assist entities to determine whether an acquired set of assets and liabilities is a business. These clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business. The Board provided also new illustrative examples in addition to the amendments.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors to align the definition of “material” across the standards and to clarify certain aspects of the definition. The new definition states that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.” The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Interest Rate Benchmark Reform – Amendments to IFRS9, IAS 39, and IFRS7

In September 2019, the IASB issued amendments to IFRS 9, IAS 39, and IFRS 7 “Financial Instruments: Disclosures”, which mark the end of the Phase 1 of its project to address the effects of the Interbank Offered Rates (IBOR) reform on financial reporting. The amendments include temporary changes that make hedge accounting applicable during the period of uncertainty caused by the replacement of the pre-existing Interest Rate Benchmark with an alternative risk-free interest rate. The amendments assume that the benchmark on which the hedged cash

flows and/or the hedging instrument are based will not be altered as a result of the IBOR reform. The amendments shall be applied retroactively. The amendments are effective for annual periods beginning on or after 1 January 2020. The Group will monitor the evolution of the changes being made to the reform.

Consolidation area

The Consolidated Financial Statements as at 31 December 2019 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 2019 include the 2019 accounts of Group companies, which have been prepared by adopting the same accounting principles as the Parent company. Subsidiaries are those entities over which the Group has control, or when the Group is exposed to variable returns arising from its transactions with the entity, or can claim rights over such returns, and at the same time has the ability to influence such returns by exercising its influence over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the moment when the parent company starts to exercise control until such control ends. Should it lose such control, the Group eliminates the assets and liabilities of the subsidiary and any previous minority interests in shareholders' equity, including any other item of other comprehensive income relating to the subsidiary. Any profit or loss arising from the loss of control is recorded under net profit/(loss) for the year. Any equity investment in the former subsidiary is measured at fair value on the date of loss of control.

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

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

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

The following companies are included in consolidation as at 31 December 2019.

Company name	Location	Currency	Share capital	31 December 2019		Notes
				Controlling interest (%) Direct	Indirect	
Salvatore Ferragamo S.p.A.	Florence, Italy	Euro	16,879,000	Parent company		
Ferragamo Retail Nederland B.V.	Amsterdam, Holland	Euro	500,000	100%		
Ferragamo France S.A.S.	Paris, France	Euro	4,334,094	100%		
Ferragamo Deutschland GmbH	Munich, Germany	Euro	3,300,000	100%		
Ferragamo Austria GmbH	Vienna, Austria	Euro	1,853,158	100%		
Ferragamo U.K. Limited	London, United Kingdom	Pound Sterling	7,672,735	100%		
Ferragamo (Suisse) SA	Mendrisio, Switzerland	Swiss Franc	1,000,000	100%		
Ferragamo Belgique SA	Brussels, Belgium	Euro	750,000	100%		
Ferragamo Monte-Carlo S.A.M.	Principality of Monaco	Euro	304,000	100%		
Ferragamo Espana S.L.	Madrid, Spain	Euro	4,600,000	100%		
Ferragamo Denmark ApS	Copenhagen, Denmark	Danish Krone	550,000	100%		(6)
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	76,361,136	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%		(4)
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	300,000,000	100%		(5)
Ferragamo Korea Ltd.	Seoul, South Korea	South Korean Won	3,291,200,000	100%		
Ferragamo (Singapore) Pte Ltd.	Singapore	Singapore Dollar	4,600,000	100%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	100%		
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	100%		
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc. 2 – Through Ferragamo Hong Kong Ltd. 3 – Through Ferrimag Ltd. 4 – The investment in Ferragamo Japan K.K. refers to the legal percentage of ownership. In light of a put option attributed to the company's minority shareholders, all references to the minority interest have been removed from consolidated shareholders' equity. 5 – Non-operating company. 6 – company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020.

During 2019, the composition of the Salvatore Ferragamo Group saw the following change: Ferragamo Denmark ApS, in liquidation since 1 July 2019 (100%-owned by Salvatore Ferragamo S.p.A.), ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020. For more details, please refer to the paragraph “Events occurred during the year 2019” in the Directors’ report on operations included in this document.

In addition, please note that Ferragamo Argentina S.A. operates in a country that has been considered a hyperinflationary economy since 1 July 2018 in accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies”; therefore, this accounting standard has been applied since 2018 in the reporting of the financial position, financial performance, and cash flows of Ferragamo Argentina S.A. for consolidated purposes, as detailed in note 2 Basis of presentation. The impact of the application of the new standard in the years 2018 and 2019 is not to be considered material at the Group level.

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 2019 and 2018.

Company	Assets	Minority interest (%)	
		31 December 2019	31 December 2018
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 2018 and 2019 accounts, which were drawn up for the purposes of preparing the consolidated financial statements, gross of intercompany eliminations.

(In thousands of Euro) 31 December 2019	Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Ferragamo Retail HK Limited
Non current assets	21,256	72,517
Current assets	95,236	24,253
Non current liabilities	5,405	45,129
Current liabilities	56,900	39,676
Shareholders' equity	54,187	11,965
Minority interests	13,501	1,877
Revenues	153,190	44,238
Profit for the year	13,699	(10,637)
Net profit/(loss) – minority interests	3,425	(2,659)
Total comprehensive income for the period	13,699	(10,637)
Comprehensive income attributed to minority interests	3,425	(2,659)
Net cash provided by (used in) operating activities	13,829	7,431
Net cash provided by (used in) investing activities	(1,904)	(1,000)
Net cash provided by (used in) financing activities	(18,137)	(8,357)
Increase/(decrease) in cash and cash equivalents	(6,212)	(1,926)
Dividends paid to minority interests	-	-
(In thousands of Euro) 31 December 2018	Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Ferragamo Retail HK Limited
Non current assets	17,845	14,036
Current assets	97,323	24,932
Non current liabilities	1,562	2,265
Current liabilities	61,130	14,628
Shareholders' equity	52,476	22,075
Minority interests	15,177	4,432
Revenues	140,803	57,949
Profit for the year	6,751	3,028
Net profit/(loss) – minority interests	1,688	757
Total comprehensive income for the period	6,751	3,028
Comprehensive income attributed to minority interests	1,688	757
Net cash provided by (used in) operating activities	12,856	3,979
Net cash provided by (used in) investing activities	(5,547)	(2,219)
Net cash provided by (used in) financing activities	(8,976)	428
Increase/(decrease) in cash and cash equivalents	(1,667)	2,188
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 exchange rates		Exchange rates at the end of the reporting period	
	31 December	31 December	31 December	31 December
	2019	2018	2019	2018
US Dollar	1.1195	1.1810	1.1234	1.1450
Swiss Franc	1.11245	1.15496	1.0854	1.1269
Japanese Yen	122.006	130.396	121.94	125.85
Pound Sterling	0.8778	0.8847	0.8508	0.8945
Danish Krone	7.4661	7.4532	7.4715	7.4673
Australian Dollar	1.6109	1.5797	1.5995	1.6220
South Korean Won	1,305.31	1,299.07	1,296.28	1,277.92
Hong Kong Dollar	8.7715	9.2559	8.7473	8.9675
Mexican Peso	21.557	22.705	21.2202	22.4921
New Taiwanese Dollar	34.588	35.5751	33.5564	34.9976
Singapore Dollar	1.5273	1.5926	1.5111	1.5591
Thai Baht	34.7570	38.1644	33.4150	37.0520
Malaysian Ringgit	4.6374	4.7634	4.5953	4.7317
Indian Rupee	78.8361	80.7333	80.1870	79.7298
Macau Pataca	9.026	9.520	9.0033	9.2208
Chinese Renminbi	7.7355	7.8081	7.8205	7.8751
Chilean Peso	786.81	756.82	843.69	792.343
Argentine Peso	53.898	32.921	67.205	43.057
Brazilian Real	4.4134	4.3085	4.5157	4.4440
Canadian Dollar	1.4855	1.5294	1.4598	1.5605

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 accordance with IFRS, some derivatives have been classified as held for trading, although they have been entered into solely for hedging purposes.

Financial liabilities largely consist of trade payables, payables to banks and other financial payables, and lease liabilities following the introduction of the new accounting standard IFRS16. The management of these liabilities is largely aimed at financing the Group's operations.

Interest rate risk

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

Interest rate risk can be classified as follows:

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

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

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

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

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

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

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

Sensitivity Analysis

Sensitivity analysis of interest rate risk on floating rate items			Market risk
(In thousands of Euro)	Underlying asset	Increase/reduction in underlying interest rates	Impact on the income statement
2019			
POSITIVE CHANGE	USD	0.36%	75
	CNY	0.28%	55
	MXN	0.65%	34
	Total		164
NEGATIVE CHANGE	USD	(0.36%)	(75)
	CNY	(0.28%)	(55)
	MXN	(0.65%)	(34)
	Total		(164)
2018			
POSITIVE CHANGE	USD	0.16%	27
	CNY	0.32%	46
	MXN	0.46%	23
	Total		96
NEGATIVE CHANGE	USD	(0.16%)	(27)
	CNY	(0.32%)	(46)
	MXN	(0.46%)	(23)
	Total		(96)

The sensitivity analysis of the interest rate risk to which the Group is exposed was undertaken by considering the financial statement items which give rise to floating rate interests and by assuming parallel increases or decreases in the benchmark interest rate curves by individual currency in proportion to the respective annual volatility observed on the market. The result of the analysis undertaken on risk factors which generate significant exposure (interest rate curves in US Dollar, Chinese Renminbi, and Mexican Peso, whose effects are indicated separately in the above table) showed potential losses or profits in the income statement amounting to 164 thousand Euro for 2019 compared with potential losses or profits amounting to 96 thousand Euro for 2018.

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

Exchange rate risk

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

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

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

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

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

- income statements are translated into Euro at the average exchange rate for the period; if revenues and margins are equal in local currency, exchange rate changes may affect the value in Euro of revenues, costs and operating results;
- assets and liabilities are translated into Euro at the year-end exchange rate and therefore may have different values as a consequence of exchange rate movements. This change has an impact on shareholders' equity, where it is reclassified under 'Translation reserve', and is recorded in the statement of comprehensive income.

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

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

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

The Group has a strong presence on international markets, including through commercial companies located in countries which use currencies other than the Euro, mainly the US dollar, Japanese yen and Chinese renminbi. In the year ended 31 December 2019, around 38% of the Company's net revenues were denominated in US dollars, around 8% in Chinese renminbi, around 6% in Japanese yen, around 5% in South Korean won, and around 5% in Mexican peso. In the year ended 31 December 2018, around 35% of the Company's net revenues were denominated in US dollars, around 8% in Chinese renminbi, around 6% in Japanese yen, around 6% in South Korean won, and around 4% in Mexican peso. The currency risks originate mainly from exports of the Company in US dollars, Chinese renminbi, Japanese yen, South Korean won, and Mexican peso.

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

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

To this end, 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.

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 or 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 2019 and 31 December 2018:

Exchange rate risk (In thousands of Euro)	Cash flow hedge reserve	
	2019	2018
Opening balance	(4,012)	18,605
+ increases for recognition of new positive effectiveness	3,685	10,145
- decreases for recognition of new negative effectiveness	(9,225)	(16,699)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(5,512)	(20,956)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	14,406	4,893
Closing balance	(658)	(4,012)

Overall, the reserve, which consists of the value changes in hedges for expected transactions in foreign currency, increased by 3,354 thousand Euro overall during 2019, whereas it had declined by 22,617 thousand Euro in 2018. The changes in value reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro constantly depreciated against the US Dollar throughout 2018 (falling from 1.24 to 1.15) and 2019 (1.15 and 1.1) after appreciating sharply in 2017 (from 1.08 to 1.24). Meanwhile, over the last two years the Japanese Yen has been gradually appreciating relative to the Euro, shifting from 135 to 120, after depreciating steadily in 2017 (from 121 to 136). 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 8,894 thousand Euro in 2019, compared to a positive 16,063 thousand Euro in 2018. During 2018-2019, 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.

A hedge may become ineffective as a result of:

- Differences in the timing of cash flows of the hedged item and the hedging instrument;
- Changes in the expected amount of cash flows of the hedged item and the hedging instrument.

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 2019 and 2018. The number of foreign currencies in the table show how exchange rate risk management is all but centralized at the Parent company.

Cash flow analysis (hedged items): Financial recognition

(In thousands)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total expected flows
31 December 2019						
Foreign exchange forward contracts						
Notional amount in USD	31,000	55,000	91,000	45,000	-	222,000
Average forward exchange rate (EUR/USD)	1.142	1.150	1.144	1.005	-	
Notional amount in AUD	1,000	2,500	1,000	-	-	4,500
Average forward exchange rate (EUR/AUD)	1.629	1.621	1.614	-	-	
Notional amount in CAD	1,000	3,000	1,000	-	-	5,000
Average forward exchange rate (EUR/CAD)	1.540	1.522	1.548	-	-	
Notional amount in CHF	500	500	-	-	-	1,000
Average forward exchange rate (EUR/CHF)	1.132	1.116	-	-	-	
Notional amount in CNY	70,000	130,000	110,000	50,000	-	360,000
Average forward exchange rate (EUR/CNY)	7.915	7.900	7.973	8.039	-	
Notional amount in GBP	1,500	2,000	1,500	-	-	5,000
Average forward exchange rate (EUR/GBP)	0.881	0.866	0.881	-	-	
Notional amount in HKD	30,000	50,000	45,000	20,000	-	145,000
Average forward exchange rate (EUR/HKD)	8.930	8.918	8.900	8.842	-	
Notional amount in JPY	400,000	1,200,000	1,600,000	1,500,000	-	4,700,000
Average forward exchange rate (EUR/JPY)	125.330	124.793	120.370	118.860	-	
Notional amount in KRW	4,000,000	10,500,000	16,000,000	14,000,000	-	44,500,000
Average forward exchange rate (EUR/KRW)	1,300.084	1,312.443	1,336.612	1,333.471	-	
Notional amount in MXN	40,000	210,000	130,000	40,000	-	420,000
Average forward exchange rate (EUR/MXN)	22.168	23.016	23.335	23.206	-	
Notional amount in SGD	-	2,000	1,000	-	-	3,000
Average forward exchange rate (EUR/SGD)	-	1.564	1.561	-	-	

(In thousands)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total expected flows
31 December 2018						
Foreign exchange forward contracts						
Notional amount in USD	45,000	23,000	81,000	64,000	-	213,000
Average forward exchange rate (EUR/USD)	1.150	1.154	1.155	1.166	-	
Notional amount in AUD	1,000	1,000	2,500	2,000	-	6,500
Average forward exchange rate (EUR/AUD)	1.579	1.640	1.632	1.609	-	
Notional amount in CAD	2,500	2,500	3,000	1,000	-	9,000
Average forward exchange rate (EUR/CAD)	1.522	1.503	1.514	1.530	-	
Notional amount in CHF	1,000	1,500	1,500	-	-	4,000
Average forward exchange rate (EUR/CHF)	1.128	1.122	1.129	-	-	
Notional amount in CNY	70,000	45,000	125,000	60,000	-	300,000
Average forward exchange rate (EUR/CNY)	7.933	8.044	8.155	8.133	-	
Notional amount in GBP	500	500	2,000	3,500	-	6,500
Average forward exchange rate (EUR/GBP)	0.889	0.888	0.886	0.882	-	
Notional amount in HKD	30,000	30,000	35,000	50,000	10,000	155,000
Average forward exchange rate (EUR/HKD)	9.061	8.961	9.238	9.150	9.119	
Notional amount in JPY	600,000	600,000	1,300,000	1,100,000	-	3,600,000
Average forward exchange rate (EUR/JPY)	127.885	127.849	129.640	128.117	-	
Notional amount in KRW	3,000,000	4,000,000	11,000,000	13,000,000	-	31,000,000
Average forward exchange rate (EUR/KRW)	1,298.100	1,304.600	1,315.745	1,301.854	-	
Notional amount in MXN	100,000	210,000	220,000	40,000	-	570,000
Average forward exchange rate (EUR/MXN)	22.644	22.881	23.331	24.530	-	
Notional amount in SGD	3,000	1,000	2,000	2,000	-	8,000
Average forward exchange rate (EUR/SGD)	1.575	1.567	1.615	1.600	-	

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

(In thousands) 31 December 2019	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	239,000	79,000	90,000	65,000	5,000	-
Sales expected in JPY	5,800,000	1,500,000	1,900,000	1,200,000	1,200,000	-
Sales expected in GBP	6,500	3,000	3,500	-	-	-
Sales expected in MXN	500,000	250,000	160,000	90,000	-	-
Sales expected in CHF	1,500	1,000	500	-	-	-
Sales expected in AUD	5,500	3,500	2,000	-	-	-
Sales expected in CAD	7,000	4,000	3,000	-	-	-
Sales expected in CNY	415,000	190,000	130,000	60,000	35,000	-
Sales expected in HKD	165,000	45,000	45,000	45,000	30,000	-
Sales expected in SGD	6,000	4,000	2,000	-	-	-
Sales expected in KRW	48,500,000	12,500,000	16,000,000	16,000,000	4,000,000	-

(In thousands) 31 December 2018	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	235,000	82,000	64,000	76,000	13,000	-
Sales expected in JPY	4,900,000	1,900,000	1,000,000	1,600,000	400,000	-
Sales expected in GBP	8,700	3,300	1,100	1,800	2,500	-
Sales expected in MXN	570,000	170,000	170,000	110,000	120,000	-
Sales expected in CHF	5,000	1,500	2,000	1,500	-	-
Sales expected in AUD	9,000	3,000	3,000	3,000	-	-
Sales expected in CAD	11,000	5,000	3,000	3,000	-	-
Sales expected in CNY	345,000	135,000	110,000	100,000	-	-
Sales expected in HKD	180,000	55,000	20,000	75,000	30,000	-
Sales expected in SGD	10,000	4,000	3,000	3,000	-	-
Sales expected in KRW	38,000,000	12,000,000	9,000,000	14,000,000	3,000,000	-

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, Chinese renminbi, Japanese yen, South Korean won, Mexican peso, and Hong Kong dollar.

From a time viewpoint, hedges lasting over one year show nil values as at 31 December 2019 as well as 31 December 2018. 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 2019 and 2018.

Below is the impact of the hedged items on the statement of financial position:

(in thousands of Euro)	Expected highly probable sales			
	Notional amount	Cash flow hedge reserve / change in fair value used to measure ineffectiveness	Line item "other current assets"	Line item "other current liabilities"
31 December 2019	414,443	(658)	1,206	(3,363)
31 December 2018	396,309	(4,012)	1,105	(1,532)

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;

- short and long-term lease 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 2019		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	6.7%	Derivatives	1,745	2,976
			Non-derivatives	(86)	-
	EUR/USD	5.9%	Derivatives	(295)	11,758
			Non-derivatives	(5)	-
	EUR/KRW	7.7%	Derivatives	(221)	2,681
			Non-derivatives	(4)	-
	EUR/CNY	4.7%	Derivatives	(317)	2,394
			Non-derivatives	(17)	-
	EUR/MXN	8.6%	Derivatives	112	1,871
			Non-derivatives	(55)	-
	EUR/GBP	7.0%	Derivatives	267	496
			Non-derivatives	(72)	-
	EUR/HKD	5.9%	Derivatives	(127)	1,051
			Non-derivatives	9	-
EUR/SGD	4.7%	Derivatives	894	176	
		Non-derivatives	(13)	-	
USD/JPY	5.5%	Derivatives	-	-	
		Non-derivatives	(13)	-	
USD/CNY	4.0%	Derivatives	1,420	-	
		Non-derivatives	(4)	-	
USD/KRW	6.2%	Derivatives	-	-	
		Non-derivatives	760	-	
Total				3,978	23,403
31 December 2019		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	(6.7%)	Derivatives	(1,994)	(3,402)
			Non-derivatives	96	-
	EUR/USD	(5.9%)	Derivatives	332	(13,219)
			Non-derivatives	1	-
	EUR/KRW	(7.7%)	Derivatives	258	(3,130)
			Non-derivatives	5	-
	EUR/CNY	(4.7%)	Derivatives	349	(2,632)
			Non-derivatives	18	-
	EUR/MXN	(8.6%)	Derivatives	(133)	(2,224)
			Non-derivatives	66	-
	EUR/GBP	(7.0%)	Derivatives	(307)	(571)
			Non-derivatives	82	-
	EUR/HKD	(5.9%)	Derivatives	143	(1,183)
			Non-derivatives	(10)	-
EUR/SGD	(4.7%)	Derivatives	(981)	(194)	
		Non-derivatives	14	-	
USD/JPY	(5.5%)	Derivatives	-	-	
		Non-derivatives	15	-	
USD/CNY	(4.0%)	Derivatives	(1,774)	-	
		Non-derivatives	4	-	
USD/KRW	(6.2%)	Derivatives	-	-	
		Non-derivatives	(760)	-	
Total				(4,576)	(26,555)

31 December 2018		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	9.7%	Derivatives	352	3,452
			Non-derivatives	(99)	-
	EUR/USD	7.7%	Derivatives	(1,086)	14,585
			Non-derivatives	(449)	-
	EUR/KRW	9.1%	Derivatives	(455)	2,468
			Non-derivatives	(16)	-
	EUR/CNY	6.2%	Derivatives	(298)	2,530
			Non-derivatives	(33)	-
	EUR/MXN	14.0%	Derivatives	-	3,112
			Non-derivatives	(6)	-
	EUR/GBP	10.4%	Derivatives	84	912
			Non-derivatives	(153)	-
	EUR/HKD	7.8%	Derivatives	(202)	1,457
			Non-derivatives	(27)	-
EUR/SGD	5.6%	Derivatives	1,619	337	
		Non-derivatives	4	-	
USD/JPY	6.5%	Derivatives	1,368	-	
		Non-derivatives	(11)	-	
USD/CNY	4.9%	Derivatives	944	-	
		Non-derivatives	(5)	-	
USD/KRW	7.4%	Derivatives	-	-	
		Non-derivatives	1,187	-	
Total				2,718	28,853

31 December 2018		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	(9.7%)	Derivatives	(428)	(4,197)
			Non-derivatives	120	-
	EUR/USD	(7.7%)	Derivatives	1,266	(17,001)
			Non-derivatives	517	-
	EUR/KRW	(9.1%)	Derivatives	545	(2,959)
			Non-derivatives	19	-
	EUR/CNY	(6.2%)	Derivatives	337	(2,866)
			Non-derivatives	36	-
	EUR/MXN	(14.0%)	Derivatives	-	(4,125)
			Non-derivatives	8	-
	EUR/GBP	(10.4%)	Derivatives	(103)	(1,123)
			Non-derivatives	181	-
	EUR/HKD	(7.8%)	Derivatives	237	(1,704)
			Non-derivatives	31	-
EUR/SGD	(5.6%)	Derivatives	(1,809)	(377)	
		Non-derivatives	(5)	-	
USD/JPY	(6.5%)	Derivatives	(1,447)	-	
		Non-derivatives	12	-	
USD/CNY	(4.9%)	Derivatives	(1,041)	-	
		Non-derivatives	5	-	
USD/KRW	(7.4%)	Derivatives	-	-	
		Non-derivatives	(1,187)	-	
Total				(2,706)	(34,352)

As the above table shows, a positive change in the listed exchange rates ((EUR/JPY, EUR/USD, EUR/KRW, EUR/CNY, EUR/MXN, EUR/GBP, EUR/HKD, EUR/SGD, USD/JPY, USD/CNY and USD/KRW) would have resulted in a 3,978 thousand Euro profit and 2,718 thousand Euro profit as at 31 December 2019 and 31 December 2018, respectively; a negative change in exchange rates would have caused a 4,576 thousand Euro loss and 2,706 thousand Euro loss as at 31 December 2019 and 31 December 2018, 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 23,403 thousand Euro and 28,853 thousand Euro as at 31 December 2019 and 31 December 2018, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 26,555 thousand Euro and 34,352 thousand Euro as at 31 December 2019 and 31 December 2018, 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 Group's individual companies according to efficiency and cost-effectiveness criteria. As at 31 December 2019, committed credit lines with a number of banks were outstanding for a total of 188,703 thousand Euro, of which 172,301 thousand Euro can be used on one or more occasions (revolving credit lines) and 16,402 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 520,588 thousand Euro.

As at 31 December 2019, the Group had unused committed credit lines (as revolving credit lines or term loans) for 160,000 thousand Euro and uncommitted lines for 501,231 thousand Euro, against gross debt of 48,060 thousand Euro and an adjusted net financial position amounting to a surplus of 171,896 thousand Euro (504,433 thousand Euro debt when considering also lease liabilities in accordance with IFRS 16). As at 31 December 2019, committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of twenty 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 one year.

It has always been the Group's policy to sign and constantly maintain with various and diversified banks a total amount of committed credit lines that is considered consistent with the needs of the individual companies and suitable to ensure at any time the liquidity needed to satisfy and comply with all the Group's financial commitments, at the established economic conditions, as well as guaranteeing the availability of an adequate level of operational flexibility for any expansion programs. In 2019, the Parent company maintained an amount of committed lines consistent with 2018 and 2017 – a year in which it repaid early or did not renew a number of lines – to account for the Group's significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. As at 31 December 2019, the term loan related to Ferragamo Japan KK, which can be fully repaid at maturity, was still outstanding and had a residual maturity of 7 months. Cash surpluses are used with reference banks in short-term (usually between one day and twelve 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 2019, the Group used a significant part of its cash surplus in order to take out intercompany loans, which are regulated at current market conditions, so as to reduce average gross bank debt, limit financial charges at a consolidated level and reduce the credit risk connected with the investment of liquidity with banks.

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

Liquidity risk – Maturity analysis					31 December 2019
(In thousands of Euro)	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	191,340	7,594	-	-	198,934
Payables to banks	31,717	16,435	-	-	48,152
Payables to third parties	2,239	-	-	-	2,239
Lease liabilities	35,102	96,160	365,741	254,234	751,237
Guarantee deposits	14	53	128	58	253
Derivatives – non-hedging component	199	14	-	-	213
Derivatives – hedging component	3,985	3,917	-	-	7,902
Total	264,596	124,173	365,869	254,292	1,008,930

Liquidity risk – Maturity analysis					31 December 2018
(In thousands of Euro)	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	203,516	6,777	-	-	210,293
Payables to banks	20,986	48	15,940	-	36,974
Payables to third parties	2,169	-	-	-	2,169
Guarantee deposits	14	45	147	65	271
Derivatives – non-hedging component	747	-	-	-	747
Derivatives – hedging component	1,081	2,965	-	-	4,046
Total	228,513	9,835	16,087	65	254,500

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months, with the exception of lease liabilities. In 2019, payables to banks had a maximum residual duration below one year.

Financial assets recorded in the statement of financial position largely have a similar residual life.

Credit risk

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

Trade receivables are recorded net of write-downs, which are estimated based on the counterparty's insolvency risk, determined by considering the information available on the customer's solvency, historical data, and forecast economic conditions.

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 2019, 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 2019		31 December 2018	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Receivables from others (M/L term)	709	1,150	497	1,600
Trade receivables	147,202	-	142,905	-
Receivables due from credit cards	9,234	-	11,221	-
Cash and cash equivalents	222,332	-	207,710	-
Guarantee deposits	-	16,939	-	16,646
Other current financial assets	-	-	960	-
Derivatives	1,567	-	1,383	-
Total	381,044	18,089	364,676	18,246

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 2019 and 31 December 2018, and is almost exclusively limited to the current portion. Excluding “Guarantee deposits”, which largely include cash deposits paid by several companies under property lease agreements and are recognized at their nominal amount, the non-current portion entirely consists of receivables due from Emanuel Ungaro Italia S.r.l. to Ferragamo Parfums S.p.A. under a licensing agreement that was renegotiated in July 2017. Under the agreement, both the 709 thousand Euro current portion and 1,150 thousand Euro non current portion are to be repaid based on a repayment plan, to be calculated in accordance with future royalties. Payments are expected to be made in annual installments starting from 2019 through 2023; the fair value was calculated by discounting the nominal amount using the market IRS rates quoted for the individual annual maturities, in accordance with the discounted cash flow method. The negative market interest rates for some maturities until 2023 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 2019	%	31 December 2018	%
Italy	23,454	15.9%	25,896	18.1%
Europe	22,603	15.4%	21,170	14.8%
North America	22,728	15.4%	19,506	13.7%
Japan	11,666	7.9%	9,541	6.7%
Asia Pacific	57,202	38.9%	56,323	39.4%
Central and South America	9,549	6.5%	10,469	7.3%
Total	147,202	100.0%	142,905	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 2019	131,386	8,566	2,812	1,173	745	2,520	147,202
31 December 2018	125,877	11,141	1,889	554	456	2,988	142,905
Figures in % as at 31 December 2019	89.3%	5.8%	1.9%	0.8%	0.5%	1.7%	100.0%
Figures in % as at 31 December 2018	88.1%	7.8%	1.3%	0.4%	0.3%	2.1%	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 2019 and 31 December 2018.

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	2019	2018
Percentage of revenues with the biggest customer	1.6%	1.5%
Percentage of revenues with the 3 biggest customers	4.7%	4.3%
Percentage of revenues with the 10 biggest customers	11.0%	10.3%

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 2019 and 2018.

The Group includes under net debt, interest-bearing loans, lease liabilities, 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 41).

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 2019	31 December 2018
Interest-bearing loans	48,060	36,831
Lease liabilities	676,329	-
Other financial payables	2,239	2,169
Trade and other payables	247,697	246,509
Cash and cash equivalents	222,332	207,710
Net debt	751,993	77,799
Group shareholders' equity	764,146	756,740
Minority interests	21,618	26,647
Shareholders' equity	785,764	783,387
Shareholders' equity and net debt	1,537,757	861,186
Net debt/shareholders' equity	95.7%	9.9%

The year-on-year change in the ratio of Net Debt to Shareholders' Equity was attributable to the impact of adopting the new accounting standard IFRS16. For more details, please refer to Note 2 Basis of presentation – IFRS16 Leases.

4. Business combinations and purchases of minority interests

During 2019 there were no business combinations.

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

5. Property, plant and equipment

The breakdown of Property, plant and equipment as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019			31 December 2018		
	Historical Cost	Accumulated depreciation	Net value	Historical Cost	Accumulated depreciation	Net value
Land	29,696	-	29,696	29,740	-	29,740
Buildings	98,528	36,770	61,758	95,728	33,478	62,250
Plant and equipment	56,314	30,257	26,057	51,636	25,155	26,481
Industrial and commercial equipment	134,560	102,309	32,251	128,249	95,894	32,355
Other assets	77,484	62,184	15,300	70,277	58,144	12,133
Leasehold improvements	281,961	199,298	82,663	270,688	185,003	85,685
Fixed assets in progress and payments on account	4,080	-	4,080	11,177	-	11,177
Total	682,623	430,818	251,805	657,495	397,674	259,821

The following tables show the change in property, plant and equipment for the years ended 31 December 2019 and 31 December 2018:

(In thousands of Euro)	Value at 01.01.2019	Transl. diff.	Additions	Disposals	Depreciation	Reclass.	Impairment	Value at 31.12.2019
Land	29,740	(44)	-	-	-	-	-	29,696
Buildings	62,250	101	2,418	-	(3,011)	-	-	61,758
Plant and equipment	26,481	6	4,866	(8)	(5,290)	2	-	26,057
Industrial and commercial equipment	32,355	613	12,829	(1,093)	(11,950)	(425)	(78)	32,251
Other assets	12,133	98	9,024	(120)	(6,259)	424	-	15,300
Leasehold improvements	85,685	1,928	25,070	(970)	(27,464)	(1,445)	(141)	82,663
Fixed assets in progress and payments on account	11,177	238	3,969	(11,304)	-	-	-	4,080
Total	259,821	2,940	58,176	(13,495)	(53,974)	(1,444)	(219)	251,805

(In thousands of Euro)	Value at 01.01.2018	Transl. diff.	Additions	Disposals	Depreciation	Reclass.	Impairment	Value at 31.12.2018
Land	29,563	177	-	-	-	-	-	29,740
Buildings	33,709	272	30,841	(7)	(2,565)	-	-	62,250
Plant and equipment	6,717	17	22,881	(21)	(3,113)	-	-	26,481
Industrial and commercial equipment	32,641	643	12,242	(555)	(12,668)	54	(2)	32,355
Other assets	12,432	100	5,809	(68)	(6,113)	(4)	(23)	12,133
Leasehold improvements	94,221	2,159	17,070	(512)	(27,203)	(50)	-	85,685
Fixed assets in progress and payments on account	40,317	257	14,963	(44,360)	-	-	-	11,177
Total	249,600	3,625	103,806	(45,523)	(51,662)	-	(25)	259,821

The increase:

- in "buildings, plant and equipment" largely refers to construction work carried out by the Parent company Salvatore Ferragamo S.p.A. during 2019 on a new women's footwear production plant (manovia) at Osmannoro - Sesto Fiorentino;
- in "Industrial and commercial equipment" mainly refers to the opening and renovation of stores (11,824 thousand Euro) and the purchase of equipment and molds (1,005 thousand Euro) for the fragrances product category;

- in “other assets” primarily concerns IT equipment (3,863 thousand Euro) as well as furniture and furnishings (5,001 thousand Euro), including those for the renovation of the showroom at the Parent company's registered office and the new women footwear's production plant.
- in “Leasehold improvements” refers mainly to work carried out for the opening or refurbishment of stores;
- in “Fixed assets in progress and payments on account” refers largely to expenses incurred and payments on account made for the renovation and opening of stores not yet operational as at the reporting date.

The increase in tangible assets (Leasehold improvements), recognized against the Provision for future operating risks and charges (note 19), included the costs for the restoration of premises leased to third parties, which amounted to 561 thousand Euro in 2019 (528 thousand Euro in 2018). Disposals mainly refer to assets (not fully depreciated) 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. In particular, where necessary, an assessment was made of the recoverability of the residual value of tangible assets in order to ensure that they are not recognized at a value higher than their recoverable amount. The value used to determine the recoverable amount of the CGUs, i.e. the individual geographic areas in which the Group operates, is the value in use. This was calculated based on expected cash flows, which were discounted at an appropriate rate (DCF analysis). The cash flows are derived from plans that do not account for the potential negative effects of the new coronavirus known as Covid-19.

The 219 thousand Euro decline in “Industrial and commercial equipment” and “Leasehold improvements” represents the impairment of the tangible assets of certain stores resulting from their planned restructuring or closure and, in part, of Ferragamo Denmark ApS Ltd., as the company was non-operational and ceased operations during the year.

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

The net amount of reclassifications, totaling 1,444 thousand Euro, largely refers to the reclassification of the contributions received from certain companies of the Group to fit out and renovate stores into current assets (and specifically prepaid expenses), so as to better present them in the Statement of Financial Position.

6. Investment property

The breakdown of the item as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019			31 December 2018		
	Historical Cost	Accumulated depreciation	Net value	Historical Cost	Accumulated depreciation	Net value
Land	4,982	-	4,982	4,888	-	4,888
Buildings	11,735	10,848	887	11,513	10,307	1,206
Right-of-use assets - Buildings	99,667	66,445	33,222	-	-	-
Total	116,384	77,293	39,091	16,401	10,307	6,094

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

Please note that the right-of-use assets qualifying as investment property are classified in this line item and amounted to 33,222 thousand Euro as at 31 December 2019.

The following tables show the change in investment property for the years ended 31 December 2019 and 31 December 2018:

(In thousands of Euro)	Value at	IFRS 16	Translation	Additions	Depreciation	Value at
	01.01.2019	impact at 01.01.2019				difference
Land	4,888	-	94	-	-	4,982
Buildings	1,206	-	25	-	(344)	887
Right-of-use assets: - Buildings	-	36,507	716	-	(4,001)	33,222
Total	6,094	36,507	835	-	(4,345)	39,091

(In thousands of Euro)	Value at 01.01.2018	Translation difference	Additions	Depreciation	Value at 31.12.2018
Land	4,667	221	-	-	4,888
Buildings	1,472	60	-	(326)	1,206
Total	6,139	281	-	(326)	6,094

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. Right-of-use assets

The following statement shows the composition of Right-of-use assets as at 31 December 2019:

(In thousands of Euro)	31 December 2019		
	Historical Cost	Accumulated depreciation	Net value
Right-of-use assets:			
- Buildings	728,375	154,604	573,771
- Vehicles	3,087	1,015	2,072
- Equipment and other assets	800	188	612
Total	732,262	155,807	576,455

The following table shows the changes in right-of-use assets for the year ended 31 December 2019. The column "IFRS 16 impact at 01.01.2019" refers to the amount recognized as at 01 January 2019 following the first-time adoption of the new accounting standard IFRS 16.

(In thousands of Euro)	Value at 31.12.2018	IFRS 16 impact at 01.01.2019	Translation difference	Additions	Disposals	Depreciation	Value at 31.12.2019
Right-of-use assets:							
- Buildings	-	526,881	9,685	154,935	(4,599)	(113,131)	573,771
- Vehicles	-	1,491	5	1,590	-	(1,014)	2,072
- Equipment and other assets	-	35	1	777	(13)	(188)	612
Total	-	528,407	9,691	157,302	(4,612)	(114,333)	576,455

The line item Buildings includes Right-of-use assets largely relating to leases of stores (accounting for approximately 96% of right-of-use assets - Buildings) and, to a lesser extent, leases of offices, company lodgings, and other premises. The largest increases observed during the year refer to new leases entered into during the period—largely concerning stores—whereas the most significant declines relate to leases that were either terminated early or for which the Group negotiated a reduction in future lease payments.

The increase in Right-of-use assets - Buildings, recognized against the Provision for future operating risks and charges (note 19), included the costs for the restoration of premises leased to third parties under leases that fall within the scope of IFRS16, which amounted to 312 thousand Euro in 2019.

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 decisions about the location of stores. In particular, where necessary, an assessment was made of the recoverability of the residual value of right-of-use assets in order to ensure that they are not recognized at a value higher than their recoverable amount. The value used to determine the recoverable amount of the CGUs, i.e. the individual geographic areas in which the Group operates, is the value in use. This was calculated based on expected cash

flows, which were discounted at an appropriate rate (DCF analysis). The cash flows are derived from plans that do not account for the potential negative effects of the new coronavirus known as Covid-19.

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

8. Intangible assets with a finite useful life

The breakdown of intangible assets with a finite useful life as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019			31 December 2018		
	Historical Cost	Accumulated amortization	Net value	Historical Cost	Accumulated amortization	Net value
Industrial patents and use of intellectual property rights	30,875	27,745	3,130	28,024	24,088	3,936
Concessions, licenses and trademarks	9,619	7,902	1,717	9,239	7,549	1,690
Development costs	70,281	43,518	26,763	61,856	34,247	27,609
Others	23,882	19,623	4,259	27,357	22,155	5,202
Intangible assets with a finite useful life in progress	6,615	-	6,615	4,442	-	4,442
Total	141,272	98,788	42,484	130,918	88,039	42,879

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2019 and 31 December 2018:

(In thousands of Euro)	Value at 01.01.2019	Transl. diff.	Additions	Disposals	Amortization	Reclass.	Impair- ment	Value at 31.12.2019
Industrial patents and use of intellectual property rights	3,936	22	1,683	(195)	(2,314)	(1)	(1)	3,130
Concessions, licenses and trademarks	1,690	-	380	-	(353)	-	-	1,717
Development costs	27,609	-	8,424	-	(9,270)	-	-	26,763
Others	5,202	49	31	-	(1,023)	-	-	4,259
Intangible assets with a finite useful life in progress	4,442	-	4,857	(2,684)	-	-	-	6,615
Total	42,879	71	15,375	(2,879)	(12,960)	(1)	(1)	42,484

(In thousands of Euro)	Value at 01.01.2018	Translation difference	Additions	Disposals	Amortization	Value at 31.12.2018
Industrial patents and use of intellectual property rights	4,708	38	1,760	-	(2,570)	3,936
Concessions, licenses and trademarks	1,685	-	359	-	(354)	1,690
Development costs	19,127	-	16,805	-	(8,323)	27,609
Others	5,904	82	408	-	(1,192)	5,202
Intangible assets with a finite useful life in progress	12,169	3	3,553	(11,283)	-	4,442
Total	43,593	123	22,885	(11,283)	(12,439)	42,879

In 2019 intangible assets with a finite useful life rose mainly due to new investment in software application development costs (recognized under “Development costs”) and 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, development costs of the e-commerce platform and of a new SAP-based logistics/distribution system).

The item “Others” refers mainly to the so-called key money, i.e. the sums paid to obtain the use of leased property by taking over existing contracts or by obtaining the withdrawal of the lessees in such a way as to be able to enter into new contracts with the lessors.

The decline in “Industrial patents and use of intellectual property rights” refers primarily to the disposal of software by Ferragamo Japan K.K. following the introduction of the SAP accounting/logistics system in 2019.

The following table provides the breakdown by geographical area of the net book value of the key money item as at 31 December 2019 and 31 December 2018:

(In thousands of Euro)	31 December 2019	31 December 2018
Europe	2,561	3,034
North America	790	1,075
Central and South America	-	39
Total	3,351	4,148

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. In particular, where necessary, an assessment was made of the recoverability of the residual value of intangible assets in order to ensure that they are not recognized at a value higher than their recoverable amount. The value used to determine the recoverable amount of the CGUs, i.e. the individual geographic areas in which the Group operates, is the value in use. This was calculated based on expected cash flows, which were discounted at an appropriate rate (DCF analysis). The cash flows are derived from plans that do not account for the potential negative effects of the new coronavirus known as Covid-19.

The 1 thousand Euro decline in “Industrial patents and use of intellectual property rights” represents the impairment of “Industrial patents and use of intellectual property rights” as Ferragamo Denmark ApS stopped using licensed software after it was placed into liquidation and ceased operations during 2019.

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

9. Other non current assets

The breakdown of the item “Other non current assets” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Advances to suppliers	1,150	1,600	(450)
Other non current assets	1,492	1,731	(239)
Total	2,642	3,331	(689)

Advances to suppliers relate to the non current portion of advances of royalties paid by Ferragamo Parfums S.p.A. for the use under license of the Ungaro brand, as provided for by the new license contract which was partially renegotiated in July 2017. These advances are recovered as the royalties become due starting from 2019 through presumably 2023, and they were down 450 thousand Euro compared to 31 December 2018 because of the reclassification of the current portion.

The item “Other non current assets” mainly includes the impact relating to the straight-line charging of rental income from investment property in the USA for 1,156 thousand Euro, as provided for by the relevant standards (straight lining), and it was down 261 thousand Euro from 1,417 thousand Euro as at 31 December 2018.

10. Other non current financial assets

Other non current financial assets, totaling 16,939 thousand Euro (16,646 thousand Euro as at 31 December 2018), refer to guarantee deposits, mainly for existing rental contracts, and are accounted for at amortized cost.

11. Inventories

Inventories include the following categories:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Gross value of raw materials, accessories and consumables	60,457	65,709	(5,252)
Provision for obsolete inventory	(6,836)	(6,562)	(274)
Raw materials, accessories and consumables	53,621	59,147	(5,526)
Gross value of finished products and goods for resale	387,377	349,849	37,528
Provision for obsolete inventory	(51,467)	(46,048)	(5,419)
Finished products and goods for resale	335,910	303,801	32,109
Total	389,531	362,948	26,583

The change in raw materials compared to 2018 depends on production volumes for the period; the relevant provision reflects the obsolescence of raw materials (leather and accessories) which are no longer deemed suitable for the production plans. Inventories of finished products were up 32,109 thousand Euro compared to 31 December 2018 (+10.6%), partly because of the expanded stock program portfolio and the increased average unit cost of inventories. For a better understanding of how the above provisions for obsolete inventory were calculated, please see note 2 “Basis of presentation” paragraph Discretionary valuations and significant accounting estimates.

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

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Raw materials	274	74	200
Finished products	4,754	2,457	2,297
Total	5,028	2,531	2,497

12. Right of return assets

Concerning the right of return as per “Revenue from contracts with customers”, the line item “Right of return assets”, amounting to 5,473 thousand Euro (2,831 thousand Euro as at 31 December 2018), includes the estimated cost of the products expected to be returned, equal to the previous carrying amount of inventories (estimated cost of production) less potential future costs associated with their recovery.

13. Trade receivables

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

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Trade receivables	152,543	148,704	3,839
Provision for bad debt	(5,341)	(5,799)	458
Total	147,202	142,905	4,297

Trade receivables mainly refer to wholesale sales and are due for around 25,695 thousand Euro to fragrances (26,494 thousand Euro as at 31 December 2018) and, for the remainder, to other product categories. They are interest-free and are generally due in 90 days or less. The related provision for bad debt is considered adequate to meet any cases of insolvency. In addition, during the year the Group reported 775 thousand Euro in credit losses after writing off non-performing trade receivables.

The changes in the provision for bad debt during 2019 were as follows:

(In thousands of Euro)	Value at 01.01.2019	Translation difference	Provisions	Uses	Value at 31.12.2019
Provision for bad debt	5,799	37	145	(640)	5,341

For an analysis of past due but not impaired trade receivables reference should be made to note 3 “Management of financial risks – Credit risk”.

14. Tax receivables

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

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Due from tax authorities (value added tax and other taxes)	8,405	7,279	1,126
Due from tax authorities for direct taxes	11,695	14,566	(2,871)
Withholding taxes	7	6	1
Total	20,107	21,851	(1,744)

Tax receivables mainly refer to VAT receivables and amounts due from tax authorities for income taxes relating to advances paid during the year. They were down 1,744 thousand Euro year-on-year, primarily because of the decline in amounts due from tax authorities for income taxes.

15. Other current assets

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

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Other receivables	16,690	25,933	(9,243)
Accrued income	129	123	6
Prepaid expenses	14,695	14,847	(152)
Other receivables for short-term hedging derivatives	1,466	1,263	203
Total	32,980	42,166	(9,186)

As at 31 December 2019, other receivables mainly include:

- receivables due from credit card management companies for retail sales amounting to 9,234 thousand Euro (11,221 thousand Euro as at 31 December 2018);
- receivables due from the Holding company Ferragamo Finanziaria S.p.A. totaling 2,599 thousand Euro (10,389 thousand Euro as at 31 December 2018), broken down as follows:
 - (i) 574 thousand Euro due to Ferragamo Parfums S.p.A. under the domestic fiscal unity. The decline from 8,364 thousand Euro as at 31 December 2018 referred mainly to Salvatore Ferragamo S.p.A. because of the amounts used to offset the corporate income tax (IRES) under the domestic fiscal unity;
 - (ii) 2,025 thousand Euro in receivables concerning the corporate income tax (IRES) refund claim (online request sent in 2013) regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, recognized in 2012.
- advances to suppliers amounting to 3,404 thousand Euro (2,522 thousand Euro as at 31 December 2018).

Prepaid expenses mainly include 9,077 thousand Euro in contributions to customers relating to the fit-out of tailored single brand stores and/or stores-in-stores, 751 thousand Euro in insurance premiums, and 146 thousand Euro in rents outside the scope of the new standard IFRS16. Upon the first-time adoption of IFRS16, prepaid lease expenses relating to leases within the scope of the new accounting standard (2,859 thousand Euro as at 31 December 2018) were added to the relevant right-of-use assets as required by the new standard.

“Other receivables for short-term hedge derivatives”, amounting to 1,466 thousand Euro (1,263 thousand Euro as at 31 December 2018), refer to the fair value measurement of outstanding derivative contracts (hedge component) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

16. Other current financial assets

“Other current financial assets” totaled 101 thousand Euro as at 31 December 2019 and referred to the fair value measurement of derivatives for the non-hedge component (120 thousand Euro as at 31 December 2018). As at 31 December 2018, this line item included 960 thousand Euro in time deposits at banks with maturities greater than three months.

17. Cash and cash equivalents

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

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Time deposits	27,705	12,097	15,608
Bank and post office sight deposits	193,475	194,107	(632)
Cash and values on hand	1,152	1,506	(354)
Total	222,332	207,710	14,622

Time deposits at banks have maturities of up to 3 months. Bank and post office deposits refer to temporary cash holdings maintained mainly to meet imminent payments.

Also during 2019, the Group continued using 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 limit its bank debt.

As at 31 December 2019, the Group had unused credit lines amounting to 661,231 thousand Euro; as at 31 December 2018, unused credit lines totaled 704,239 thousand Euro.

For the purposes of the consolidated statement of cash flows, the item “Cash and cash equivalents” as at 31 December 2019 and 31 December 2018 was broken down as follows:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Cash and bank sight deposits	194,627	195,613	(986)
Time deposits	27,705	12,097	15,608
Bank overdrafts	-	(3)	3
Total	222,332	207,707	14,625

Below is the reconciliation of the liabilities from financing activities as reported on the statement of cash flows for the years ended 31 December 2019 and 2018.

(In thousands of Euro)	Cash flow							Value at 31.12.2019
	Value at 31.12.2018	IFRS 16 impacts at 01.01.2019	for principal repaid/ received	for interest paid/ received	Translation difference	New leases	Other non- cash changes	
Other current financial assets	960	-	(971)	-	11	-	-	-
Total assets from financing activities	960	-	(971)	-	11	-	-	-
Non current interest-bearing loans & borrowings	15,892	-	-	-	501	-	(16,393)	-
Current interest-bearing loans & borrowings (excluding bank overdrafts)	20,936	-	10,009	(469)	722	-	16,862	48,060
Non current lease liabilities	-	625,406	-	-	11,172	156,729	(234,040)	559,267
Current lease liabilities	-	-	(114,388)	(16,004)	269	-	247,185	117,062
Total liabilities from financing activities	36,828	625,406	(104,379)	(16,473)	12,664	156,729	13,614	724,389

(In thousands of Euro)	Value at 01.01.2018	Cash flow		Translation difference	Other non- cash chang es	Value at 31.12.2018
		for principal repaid/ received	for interest paid/ received			
Other current financial assets	-	944	-	16	-	960
Total assets from financing activities	-	944		16	-	960
Non current interest-bearing loans & borrowings	14,814	-	(82)	1,078	82	15,892
Current interest-bearing loans & borrowings (excluding bank overdrafts)	66,529	(46,439)	(1,590)	846	1,590	20,936
Total liabilities from financing activities	81,343	(46,439)	(1,672)	1,924	1,672	36,828

The column “Other non-cash changes” includes the reclassification of debt into the non current and current portions of Interest-bearing loans & borrowings and Lease liabilities, interest on Interest-bearing loans & borrowings and Lease liabilities accrued during the period, as well as the effect of the early termination of some leases on Lease liabilities.

18. Share capital and reserves

The authorized share capital of the Parent company as at 31 December 2019 totaled 16,939,000 Euro; the subscribed and paid up share capital amounted to 16,879,000 Euro and consisted of 168,790,000 ordinary shares with a nominal value of 0.10 Euro each.

The treasury share reserve, amounting to 2,776 thousand Euro, consisted of 150,000 shares in Salvatore Ferragamo S.p.A., purchased in 2018 (no. 14,000) and 2019 (no. 136,000) at an average unit price of 18.50 Euro.

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 the 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 504,319 thousand Euro, which refers entirely to the Parent company, was set up with retained earnings; the increase registered in the period included 25,941 thousand Euro in profit for the year 2018 net of 57,372 thousand Euro in dividends paid out, which were approved in 2019.

The cash flow hedge reserve was negative for 499 thousand Euro and is the result of the measurement of the financial instruments defined as cash flow hedges as at 31 December 2019, given the hedges against exchange rate risk, and is shown net of the tax effect.

The translation reserve, negative for 16,002 thousand Euro, reflects value changes in the Group share of shareholders’ equity of the consolidated companies, due to changes in the exchange rates of the companies’ functional currencies against the presentation currency of the consolidated financial statements.

Retained earnings amounting to 166,510 thousand Euro include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. During 2019, this reserve was affected by the combined impact of several factors. On the one hand, it rose by 62,420 thousand Euro due to the capitalization of the profit for 2018, net of the Parent company’s profit which was allocated to the extraordinary reserve, and by 701 thousand Euro due to translation effects. On the other hand, the reserve was down by 57,372 thousand Euro as a result of the dividends paid out by the Parent company in 2019, and by 991 thousand Euro because of the recognition of put and call agreements on pre-existing minority interests (note 41).

As at 31 December 2019, the items “Other reserves” and “Effect IAS 19 equity” (net total of 752 thousand Euro) include the amounts recognized for the valuation differences required by IFRS compared to the local standards of the Group’s companies. In addition, the item “Other reserves” includes:

- The IFRS 16 First-Time Adoption Reserve, negative 11,761 thousand Euro, referring to two leases for which the Group elected to measure the right-of-use asset at the carrying amount as if the standard had been applied since the commencement date, net of the relevant 4,493 thousand Euro tax effect. For more details, please refer to note 2 Basis of presentation;
- the specific reserve set up in 2016 to service the future free share capital increase of the Parent company for 60 thousand Euro (nominal value of 0.10 Euro each) for the 2016-2020 Stock Grant Plan;

- the 2016-2020 Stock Grant Reserve (841 thousand Euro) referring to the fair value measurement as at 31 December 2019 of the rights to receive shares in the Parent company: their impact on the period amounted to a negative 343 thousand Euro. For details on the 2016-2020 Stock Grant Plan, please refer to note 40.

The amounts are net of the tax effects where applicable.

The changes in shareholders' equity items occurred in 2019 and 2018 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 2019				
Treasury share reserve	-	-	(2,776)	(2,776)
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	504,319	-	-	504,319
Cash flow hedge reserve	-	-	(499)	(499)
Translation reserve	-	(16,002)	-	(16,002)
Retained earnings	166,510	-	-	166,510
Other reserves	-	-	752	752
Total	675,017	(16,002)	472	659,487
31 December 2018				
Share premium	-	-	(251)	(251)
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	478,378	-	-	478,378
Cash flow hedge reserve	-	-	(3,049)	(3,049)
Translation reserve	-	(9,014)	-	(9,014)
Retained earnings	161,752	-	-	161,752
Other reserves	-	-	13,452	13,452
Total	644,318	(9,014)	13,147	648,451

19. Provisions for risks and charges

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

(In thousands of Euro)	Value at 01.01.2019	Translation difference	Additions	Uses	Reclassifications	Value at 31.12.2019
Legal disputes	8,555	-	652	(7,106)	(17)	2,084
Other	10,936	272	974	(345)	-	11,837
Total	19,491	272	1,626	(7,451)	(17)	13,921

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 largely refers to the conclusion of the tax disputes of the Parent company and Ferragamo Parfums S.p.A. (6,300 thousand Euro and 404 thousand Euro, respectively) following the settlement of IRES and IRAP tax audits relating to the years 2014 and 2015 entered into between the Group's Italian entities and Italian taxation authorities, resulting in the recognition of a liability amounting to 10,499 thousand Euro in taxes and interest. The use of this provision also refers, to a lesser extent, to the settlement of certain legal and labor proceedings and/or disputes during the year. The amounts set aside are primarily associated with labor and legal disputes that arose during 2019.

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 (11,583 thousand Euro as at 31 December 2019); 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 911 thousand Euro referring to costs for the restoration of premises.

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

20. Employee benefit liabilities

The following table shows the breakdown of employee benefits as at 31 December 2019 and 31 December 2018:

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Employee defined benefit liabilities	11,686	11,139	547
Other employee benefit liabilities	215	253	(38)
Total	11,901	11,392	509

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 2019 and 2018:

(In thousands of Euro)	2019			2018		
	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	15,087	(3,948)	11,139	15,236	(3,924)	11,312
Current service cost	557	-	557	520	-	520
Financial charges/(income)	270	(76)	194	255	(65)	190
Changes included in net profit/(loss) for the period	827	(76)	751	775	(65)	710
Returns on plan assets	-	(164)	(164)	-	131	131
Actuarial loss/(gain) arising from:						
- financial assumptions	1,006	-	1,006	(135)	-	(135)
- demographic assumptions	4	-	4	(134)	-	(134)
- experience-based adjustments	(150)	-	(150)	(82)	-	(82)
Translation differences	168	(108)	60	365	(230)	135
Changes included in other comprehensive income	1,028	(272)	756	14	(99)	(85)
Contributions paid by the employer	-	(436)	(436)	-	(398)	(398)
Benefits paid	(677)	153	(524)	(938)	538	(400)
Other changes	(677)	(283)	(960)	(938)	140	(798)
Value at the end of the period	16,265	(4,579)	11,686	15,087	(3,948)	11,139

Employee defined benefit liabilities of the Group's Italian companies (the Parent company and Ferragamo Parfums S.p.A.) amounted to 8,697 thousand Euro, up by 309 thousand Euro compared to 31 December 2018.

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

	31 December 2019	31 December 2018
Annual rate of salary increase	3.17%	3.30%
Annual discount rate	0.46%	1.21%
Inflation rate	2.00%	2.00%

As regards the demographic assumptions used in determining defined benefit liabilities of the Group's Italian companies, the figure used as a benchmark for the mortality rate is that for the Italian population recorded by ISTAT in 2000, less 25%, broken down by age and gender while the staff turnover rate has been estimated at 5.65% per year.

Employee defined benefit liabilities of the Group's non-Italian companies refer to Ferragamo Japan KK, Ferragamo Retail Taiwan Limited, Ferragamo France S.A.S., Ferragamo Monte-Carlo SAM, Ferragamo Belgique SA, Ferragamo Mexico S.de R.L.de C.V., Ferragamo Usa Inc., Ferragamo (Thailand) Limited and Ferragamo Retail India Private Limited. They amounted to 2,989 thousand Euro, up by 238 thousand Euro compared to 31 December 2018. 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 2019	31 December 2018
Annual rate of salary increase	2.0% - 6.0%	2.0% - 6.0%
Annual discount rate	0.36% - 7.98%	0.42% - 8.65%

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 2019 and 31 December 2018 concerning employee benefit obligations of Italian companies, which have the highest impact on total defined benefit obligations:

(In thousands of Euro)	2019			2018		
	Change %	Additions	Disposals	Change %	Additions	Disposals
Annual rate of salary increase	+/- 0.5%	28	(27)	+/- 0.5%	24	(23)
Annual discount rate	+/- 0.5%	(401)	433	+/- 0.5%	(376)	405
Mortality rate	+/- 0.025%	(3)	3	+/- 0.025%	(2)	2
Staff turnover rate	+/- 0.5%	(55)	59	+/- 0.5%	(36)	38

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)	2019	2018
Top managers, middle managers and store managers	747.23	749.90
White collars	2,943.95	2,889.74
Blue collars	297.46	290.73
Temporary Agency staff	122.62	95.52
Total	4,111.26	4,025.89

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

21. Other non current liabilities

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

(In thousands of Euro)	31 December	31 December	Change
	2019	2018	2019 vs 2018
Payables for deferred liabilities	11,188	57,469	(46,281)
Other payables	705	212	493
Total	11,893	57,681	(45,788)

The steady decline in Payables for deferred liabilities (Payables for deferred rents in 2018) compared to 31 December 2018 was almost entirely attributable to the impact of the first-time adoption of the new accounting standard IFRS16 (46,270 thousand Euro), whereas the balance as at 31 December 2019 largely refers to the straight-lining of the amounts received from lessors for the costs incurred to fit out the stores.

As at 31 December 2019, "Other payables" include 186 thousand Euro in guarantee deposits received for lease contracts (212 thousand Euro as at 31 December 2018) and a 519 thousand Euro liability to the Group's employees for the portion of the 2019-2021 Long-Term Incentive Plan (2019-2021 LTIP) recognized in 2019. The Plan became effective on 1 October 2019 and will expire on 31 December 2021. For more details, please refer to the Directors' report on operations, section "Significant events occurred during the year".

22. Lease liabilities

Below are the changes in lease liabilities occurred in 2019, broken down between current and non current.

(In thousands of Euro)	Lease liabilities		
	non current	current	Total
Value at 31.12.2018	-	-	-
IFRS 16 impact at 01.01.2019	625,406	-	625,406
Translation difference	11,172	269	11,441
Additions	156,729	-	156,729
Disposals	(4,685)	-	(4,685)
Reclassifications	(229,355)	229,355	-
Repayment of lease liabilities	-	(114,388)	(114,388)
Interest expense on lease liabilities	-	17,830	17,830
Interest expense on lease liabilities	-	(16,004)	(16,004)
Value at the end of the period	559,267	117,062	676,329

The average weighted IBR applicable to leases outstanding as at 31 December 2019 was 2.78%.

23. Other non current financial liabilities

As at 31 December 2018, the item “Other non current financial liabilities” included 4 thousand Euro pertaining to the fair value measurement of the non current portion of outstanding derivatives (non-hedging component).

24. Trade payables

The breakdown of trade payables was as follows:

(In thousands of Euro)	31 December	31 December	Change
	2019	2018	2019 vs 2018
Trade payables	197,460	208,720	(11,260)
Advances from customers	1,474	1,573	(99)
Total	198,934	210,293	(11,359)

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.

25. Refund liabilities

Concerning the right of return as per “Revenue from contracts with customers”, the line item “Refund Liabilities” totaled 8,720 thousand Euro as at 31 December 2019 (4,832 thousand Euro as at 31 December 2018) and refers to the liability to customers for the amount of the products expected to be returned.

26. Interest-bearing loans & borrowings

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

(In thousands of Euro)	31 December	31 December	Change
	2019	2018	2019 vs 2018
Medium/long-term financial payables to banks	-	15,892	(15,892)
Short-term financial payables to banks	48,060	20,936	27,124
Bank overdrafts	-	3	(3)
Total	48,060	36,831	11,229

In general, the financial requirements are covered by short-term payables relating to short- and medium/long-term bank credit lines. During 2019, the Group continued using a significant part of its cash surpluses to take out intercompany loans, regulated at current market conditions, so as to limit its bank debt. In 2019, the Parent company maintained an amount of committed lines consistent with 2018 and 2017 – a year in which it repaid early or did not renew a number of lines – to account for the Group’s significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. As at 31

December 2019, the term loan related to Ferragamo Japan KK, which can be fully repaid at maturity, was still outstanding and had a residual maturity of 7 months. The Group's loans and credit lines are at floating rates. The cost of debt is generally benchmarked to the market rate for the period (usually Euribor/Libor or the benchmark of the loan currency on the specific interbank market) increased by a spread which depends on the type of credit line used. For term loans with maturity of more than one year, the interest period and the market rate used (Euribor/Libor), does not exceed three months, including for drawdowns beyond the year. Drawdowns range from one day to a maximum of less than three years (term loans). The margins applied are in line with the best market standards.

The financial instruments used are:

- i) uncommitted credit lines made available in the currency and country of residence of the individual company in order to meet short-term financial needs linked to the management of working capital;
- ii) short- and medium/long-term committed credit lines, in the form of either revolving credit lines or term loans, negotiated on a bilateral basis by the Parent company.

As at 31 December 2019, committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of twenty months. The credit lines and the related financial business are spread among leading national and international banks. As at the reporting date, outstanding drawdowns were below one year.

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 2019		31 December 2018	
	Agreed	Used	Agreed	Used
Committed credit lines	188,703	28,703	187,811	23,838
<i>Revolving credit lines</i>	<i>172,301</i>	<i>12,301</i>	<i>171,919</i>	<i>7,946</i>
<i>Term loans</i>	<i>16,402</i>	<i>16,402</i>	<i>15,892</i>	<i>15,892</i>
Uncommitted credit lines	520,588	19,357	553,259	12,993
Total	709,291	48,060	741,070	36,831

The following table provides the breakdown and changes in the net financial position as at 31 December 2019 and 31 December 2018, 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
	2019	2018	
A. Cash	1,152	1,506	(354)
B. Other cash equivalents	221,180	206,204	14,976
C. Cash and cash equivalents (A)+(B)	222,332	207,710	14,622
Derivatives – non-hedging component	101	120	(19)
Other financial assets	-	960	(960)
D. Current financial receivables	101	1,080	(979)
E. Current bank payables	48,060	20,939	27,121
F. Derivatives – non-hedging component	238	790	(552)
G. Other current financial payables*	119,301	2,169	117,132
H. Current financial debt (E)+(F)+(G)	167,599	23,898	143,701
I. Current financial debt, net (H)-(C)-(D)	(54,834)	(184,892)	130,058
J. Non current bank payables	-	15,892	(15,892)
K. Derivatives – non-hedging component	-	4	(4)
M. Other non current payables*	559,267	-	559,267
N. Non current financial debt (J)+(K)+(M)	559,267	15,896	543,371
O. Net financial debt (I)+(N)	504,433	(168,996)	673,429

* As at 31 December 2019, Other current financial payables included 21,910 thousand Euro in Current lease liabilities to related parties. As at 31 December 2019, Other non current payables included 99,261 thousand Euro in Non current lease liabilities to related parties. For more details, please refer to the note "Transactions with Related Parties" below.

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 2019, the financial and non-financial covenants were complied with by all the companies involved.

27. Tax payables

As at 31 December 2019, tax payables amounted to 26,491 thousand Euro (19,507 thousand Euro as at 31 December 2018) and concerned payables for income taxes pertaining to the period, VAT and other taxes due by Group companies. The net 6,984 thousand Euro increase compared to 31 December 2018 was primarily attributable to the recognition of the direct tax liability resulting from the settlement of the tax disputes of the Parent company Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A., totaling 9,418 thousand Euro and 35 thousand Euro, respectively, net of the amount already paid during 2019 (1,046 thousand Euro). For more details, please refer to the Directors' report on operations, section "Significant events occurred during the year".

28. Other current liabilities

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

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs 2018
Other payables	37,382	26,648	10,734
Payables to social security institutions	5,224	5,504	(280)
Accrued expenses	2,548	1,832	716
Deferred income	3,609	2,232	1,377
Other payables for hedging derivatives	5,554	2,063	3,491
Total	54,317	38,279	16,038

Other payables mainly include the Group's payables to employees for amounts accrued but not yet paid at the reporting date (24,267 thousand Euro, up from 22,152 thousand Euro as at 31 December 2018); they also include payables for invoices to be received due to suppliers and service providers that had not been billed at the reporting date. The line item also includes Salvatore Ferragamo S.p.A.'s payable due to the holding company Ferragamo Finanziaria S.p.A. (8,489 thousand Euro) under the domestic fiscal unity relating to 2019.

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

The item "Other payables for hedge derivatives" shows the fair value valuation at the end of the year of outstanding derivatives (hedge component) entered into by the Parent company to manage exchange rate risk. For further details, please refer to note 30.

29. 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 2019	31 December 2018	Change 2019 vs 2018
Short-term derivatives	238	790	(552)
Other current financial payables	2,239	2,169	70
Total	2,477	2,959	(482)

As at 31 December 2019, "other current financial payables" include the put option (2,239 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 2018, this item amounted to 2,169 thousand Euro. For further details, please refer to note 41.

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, please refer to note 30 below.

30. Financial instruments and fair value measurement

The classification of financial instruments under IFRS 9 involves various items. The following table sets out the book value of outstanding financial instruments, divided by category, compared to the corresponding fair values, as at 31 December 2019 and 31 December 2018.

Classification of financial instruments and presentation of their fair value

FINANCIAL ASSETS	31 December 2019			31 December 2018		
	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	101	-	101	120	-	120
Receivables and loans						
Receivables from others (M/L term)	709	1,150	1,859	497	1,600	2,094
Receivables due from credit cards	9,234	-	9,234	11,221	-	11,221
Trade receivables	147,202	-	147,202	142,905	-	142,905
Guarantee deposits	-	16,939	16,939	-	16,646	16,646
Other current financial assets	-	-	-	960	-	960
Cash and cash equivalents	222,332	-	222,332	207,710	-	207,710
Derivatives – hedging component	1,466	-	1,466	1,263	-	1,263
Total	381,044	18,089	399,133	364,676	18,246	382,919

FINANCIAL LIABILITIES	31 December 2019			31 December 2018		
	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	198,934	-	198,934	210,293	-	210,293
Payables to banks	48,060	-	48,060	20,939	15,892	36,831
Other financial payables	2,239	-	2,239	2,169	-	2,169
Guarantee deposits	67	186	253	59	212	271
Lease liabilities	117,062	559,267	n/a*	-	-	n/a*
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	238	-	238	790	4	794
Derivatives – hedging component	5,554	-	5,554	2,063	-	2,063
Total	372,154	559,453	255,278	236,313	16,108	252,421

*Under the new standard IFRS16, Lease liabilities are not measured at fair value.

The table shows that most outstanding financial assets and liabilities refer to short-term financial items, except for lease liabilities; 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 Company uses a pricing model based on market interest rate values and exchange rates at the measurement date.

“Receivables from others (M/L term)” included receivables due to Ferragamo Parfums S.p.A. from Emanuel Ungaro Italia S.r.l. for advance payments under the licensing agreement for the production and distribution of Ungaro-branded fragrances, which was renegotiated in July 2017. Under the agreement, both the 709 thousand Euro current portion and 1,150 thousand Euro non-current portion are to be repaid based on a repayment plan, to be calculated in accordance with future royalties. Payments are expected to be made in annual installments starting from 2019 through 2023. The fair value was calculated by discounting the nominal amount using the market IRS

rates quoted for the individual annual maturities, in accordance with the discounted cash flow method. The negative market interest rates for some maturities until 2023 were assumed to be zero, resulting in a fair value equal to the nominal amount. Also for “Guarantee deposits” the book value is a reasonable approximation of the fair value. There have been no changes in the valuation methods used compared to the previous years or transfers from one Level to another in the hierarchy of assets or liabilities measured at fair value.

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

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

The table summarizes the effects on the income statement and shareholders’ equity in reference to each category of outstanding financial instruments for the Group in the years 2019 and 2018.

(In thousands of Euro)	2019	2018
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	(18,069)	(12,425)
Derivatives – hedging component	(8,894)	16,063
<i>Net gains/(losses) on financial instruments recognized in shareholders’ equity:</i>		
Derivatives – hedging component	3,354	(22,617)
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	1,537	1,452
Interest expense	2,519	2,641
Interest expense on lease liabilities	17,830	-
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>		
	325	324
<i>Interest income accrued on financial instruments written-off</i>		
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	145	905

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 2019 and 2018.

31. Revenues from contracts with customers

In the years ended 31 December 2019 and 31 December 2018, revenues totaled 1,372,449 thousand Euro and 1,335,269 thousand Euro, respectively. The tables below provide the breakdown by channel and geographical area of the main categories of revenues from contracts with customers for the years 2019 and 2018.

(In thousands of Euro)	2019			
	Retail	Wholesale	Licenses and services	Total Revenues from contracts with customers
Europe	164,059	173,310	9,874	347,243
North America	214,484	97,993	591	313,068
Japan	108,287	10,154	12	118,453
Asia Pacific	353,734	156,992	587	511,313
Central and South America	58,921	22,923	528	82,372
Total	899,485	461,372	11,592	1,372,449

(In thousands of Euro)	2018			
	Retail	Wholesale	Licenses and services	Total Revenues from contracts with customers
Europe	151,615	169,985	8,143	329,743
North America	208,157	95,410	500	304,067
Japan	108,634	10,373	25	119,032
Asia Pacific	353,616	151,343	590	505,549
Central and South America	56,194	20,424	260	76,878
Total	878,216	447,535	9,518	1,335,269

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

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

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

32. Rental income investment properties

Rental income investment properties were wholly due to the Ferragamo USA Group for the lease of space in owned or leased and sub-leased properties. In 2019, they amounted to 4,812 thousand Euro, down 6,761 thousand Euro from 11,573 thousand Euro in the prior year as a major real estate lease came to an end in February 2019 and the relevant property has not yet been leased out to other entities.

33. Cost of goods sold and operating costs

Cost of goods sold and operating costs in the years ended 31 December 2019 and 31 December 2018 totaled 1,248,354 thousand Euro and 1,207,273 thousand Euro, respectively, and were classified by function as follows:

(In thousands of Euro)	2019	2018	Change 2019 vs. 2018
Cost of goods sold	483,767	484,862	(1,095)
Style, product development and logistics costs	50,292	48,376	1,916
Sales & distribution costs	482,315	456,803	25,512
Marketing & communication costs	79,676	73,326	6,350
General and administrative costs	127,837	124,565	3,272
Other operating costs	24,467	19,341	5,126
Total	1,248,354	1,207,273	41,081

Costs were up 3.4% from 2018 net of the decline in the cost of goods sold. This was partially due to the appreciation in the average annual exchange rate of the major currencies other than the Euro in which the Group incurs part of its operating costs, and partially to the greater costs incurred to support growth.

34. 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)	2019	2018	Change 2019 vs. 2018
Raw materials, finished products and consumables used	266,670	282,472	(15,802)
Costs for services	536,954	624,298	(87,344)
Personnel costs	234,431	216,710	17,721
Amortization and depreciation of tangible and intangible assets	67,278	64,427	2,851
Depreciation of right-of-use assets	118,334	-	118,334
Write-downs of tangible/intangible assets	220	25	195
Other charges	24,467	19,341	5,126
Total	1,248,354	1,207,273	41,081

Compared to 31 December 2018, costs for services fell steadily as the Group recognized the line item Depreciation of right-of-use assets following the first-time adoption of the new accounting standard IFRS 16.

The following table shows the impacts of leases accounted for under IFRS 16 as well as outside the scope of said standard on profit or loss, broken down by nature, in 2019:

(In thousands of Euro)	2019	% of Total
Depreciation of right-of-use assets	118,334	56.0%
Interest expense on lease liabilities	17,830	8.4%
Income from lease liabilities	(78)	-
Costs relating to short-term leases	13,722	6.5%
Costs relating to low-value leases	656	0.3%
Costs relating to leases with variable payments not included in the measurement of lease liabilities	61,017	28.8%
Total	211,481	100.0%

Some of the Group's leases contain variable lease payments linked to the revenues generated by stores (DOS), inside leased premises that are not included in the measurement of leases, in accordance with the new accounting standard IFRS 16, and are recognized on an accrual basis. As at 31 December 2019, overall variable lease payments accounted for 28.8% of the total expense recognized in profit or loss associated with leases either included or not in the lease liability as per the new accounting standard IFRS 16. Variable lease payments depend on sales, and therefore the Group's performance in subsequent years. The Group estimates that in the future variable lease payments will continue to be proportionate to the sales of finished goods.

In general, the Group's lease contracts include terms that prohibit subleasing the leased asset, but do not require the Group to comply with financial covenants.

The Group does not have termination options that it intends to exercise but did not consider when measuring the lease liability. With respect to renewal options, under its accounting policy for determining the lease term the Group considered the renewal options it intends to exercise.

Given the exemptions used upon initial application of IFRS 16, the Group discloses amounts of commitments for short-term leases that are significantly different from those reported in the 2019 income statement, even though overall its portfolio of short-term leases in 2019 is consistent with the one planned for 2020.

35. Other income

Other income is broken down as follows:

(In thousands of Euro)	2019	2018	Change 2019 vs. 2018
Expense recovery	3,713	2,808	905
Rental income from operating properties	433	408	25
Advertising contributions	13	130	(117)
Other income and revenues	13,350	5,337	8,013
Gains on disposal of tangible/intangible assets	83	53	30
Windfall profit	3,199	1,464	1,735
Total	20,791	10,200	10,591

Other income, totaling 20,791 thousand Euro, climbed 10,591 thousand Euro from 31 December 2018. The change was largely attributable to the increase in Other income and revenues, which includes the greater amount of grants received by the Group's companies and, in part, to the inclusion in this line item of 1,993 thousand Euro in grants received from the lessor for leasehold improvements, which are recognized on a straight-line basis over the lease term and, prior to the introduction of IFRS16, were offset against the lease expense for the period.

36. Financial operations

Financial operations are broken down as follows:

(In thousands of Euro)	2019	2018	Change 2019 vs. 2018
Financial charges			
Interest expense	1,638	1,672	(34)
Discount charges and other financial charges	2,101	2,166	(65)
Interest expense on lease liabilities	17,830	-	17,830
Losses on exchange rate differences	19,844	27,935	(8,091)
Financial charges for fair value adjustment of derivatives	23,028	21,659	1,369
Total	64,441	53,432	11,009

(In thousands of Euro)	2019	2018	Change 2019 vs. 2018
Financial income			
Interest income	874	732	142
Other financial income	663	720	(57)
Income from lease liabilities	78	-	78
Gains on exchange rate differences	25,303	28,889	(3,586)
Financial income for fair value adjustment of derivatives	4,959	9,234	(4,275)
Total	31,877	39,575	(7,698)

The interest expense recognized in 2019 largely derives from the recognition of 1,185 thousand Euro in interest relating to the settlement of the tax disputes of Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A.. For more details, please refer to the Directors' report on operations, section "Significant events occurred during the year". The line item also includes interest expense on short-term bank loans and, to a lesser extent, 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.

Interest expense on lease liabilities – which the Group started recognizing as of 1 January 2019, following the introduction of the new accounting standard IFRS 16 – amounted to 17,830 thousand Euro.

Gains and losses on exchange rate differences were recorded mainly by the Parent company Salvatore Ferragamo S.p.A., and derive from sales in currencies other than the Euro, to both Group companies (intercompany level) and to third parties. During 2019 net exchange rate gains amounted to 5,459 thousand Euro compared to net exchange rate gains of 954 thousand Euro in 2018.

Financial income/(charges) for fair value adjustment of derivatives refer to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company and the changes in the fair value of non-hedge derivatives and are closely related to net gains and losses on exchange rate differences. In 2019, the Group reported 18,069 thousand Euro in net financial charges for the fair value adjustment of derivatives, compared to 12,425 thousand Euro in net financial charges in 2018.

37. Income Taxes

The taxes recorded in the income statement were as follows:

(In thousands of Euro)	2019	2018	Change 2019 vs. 2018
Current taxes*	(42,571)	(30,164)	(12,407)
Deferred taxes	15,395	(6,342)	21,737
Use of/(Allocation) to the provision for risks for taxes from previous	6,704	(6,821)	13,525
Taxes from previous years*	(9,297)	(2,398)	(6,899)
Total	(29,769)	(45,725)	15,956
Tax rate	25.4%	33.6%	

To provide a better presentation, the line item Taxes from previous years, classified within Current taxes in 2018, has been disclosed in a separate line.

Current taxes included the tax benefit of the Parent company for direct taxes (IRES and IRAP) related to the so-called "Patent Box", amounting to 10,218 thousand Euro in 2019 (compared to 4,043 thousand Euro in 2018). Please refer to the Directors' report on operations, section "Significant events occurred during the year".

The use of the provision for risks and charges, amounting to 6,704 thousand Euro, is closely associated with 9,297 thousand Euro in taxes from previous years: in 2019, the Group's Italian entities, Salvatore Ferragamo S.p.A. and Ferragamo Parfums S.p.A, recognized 2,593 thousand Euro in direct taxes relating to previous years, net of the amount allocated to the provision for risks in 2018 (6,821 thousand Euro), following the settlement of the tax dispute with Italian taxation authorities during the year (for more details, please refer to the Directors' report on operations, section "Significant events occurred during the year", paragraph "Tax and customs disputes and audits").

Deferred taxes include the reversal in the year of deferred tax assets on tax losses totaling 617 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 2019 and 31 December 2018.

(In thousands of Euro)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	2019	2018
	Statement of financial position		Other Comprehensive Income		Income statement	
Deferred tax assets						
- on employee benefits	1,533	1,300	868	767	118	17
- on tangible assets	7,653	6,393	-	-	1,102	1,666
- on intangible assets	1,113	1,070	-	-	44	(127)
- on right-of-use assets and lease	16,578	-	-	-	15,424	-
- on the cash flow hedge reserve	-	256	158	964	550	(2,822)
- on the valuation of inventories	12,403	11,413	-	-	876	872
- on the elimination of the profit	46,867	35,745	-	-	11,122	(1,422)
- on tax losses	560	1,154	-	-	(617)	(4,575)
- on taxed provisions	3,582	2,613	-	-	946	(321)
- for other temporary differences	6,447	16,925	-	-	(14,178)	(89)
Deferred tax assets	96,736	76,869	1,026	1,731	15,387	(6,801)
Deferred tax liabilities						
- on employee benefits	(97)	(74)	-	-	(22)	(33)
- on tangible assets	(373)	(583)	-	-	217	(120)
- on the cash flow hedge reserve	(274)	-	-	-	(274)	-
- on the valuation of inventories	(2,433)	(2,446)	-	-	13	539
- for other temporary differences	(2,393)	(2,421)	-	-	74	73
Deferred tax liabilities	(5,570)	(5,524)	-	-	8	459
Net effect	91,166	71,345	1,026	1,731	15,395	(6,342)

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 2019 and 31 December 2018 were as follows:

(In thousands of Euro)		31 December 2019		
Expiry	Previous tax losses	Tax rate	Deferred tax assets	
Without time limits	981	25.00%	245	
Over 5 years	1,028	30.62%	315	
Total	2,009	27.87%	560	

(In thousands of Euro)		31 December 2018		
Expiry	Previous tax losses	Tax rate	Deferred tax assets	
Without time limits	4,159	18.18%	756	
1 to 3 years	160	25.00%	40	
Over 5 years	1,195	29.96%	358	
Total	5,514	20.93%	1,154	

The following table shows the tax losses of Group companies as at 31 December 2019 and 31 December 2018 on which deferred tax assets have not been calculated and the relevant expiry dates:

(In thousands of Euro)		Expiry				
31 December 2019	Without time limits	Within 1 year	1 to 3 years	3 to 5 years	over 5 years	
122,142	79,160	6,070	6,626	6,702	23,584	

(In thousands of Euro)		Expiry				
31 December 2018	Without time limits	Within 1 year	1 to 3 years	3 to 5 years	over 5 years	
99,132	61,655	3,749	8,930	6,297	18,501	

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

(In thousands of Euro)	2019	2018
Profit before taxes	117,134	135,912
<i>IRES rate in force for the year</i>	<i>(24.0%)</i>	<i>(24.0%)</i>
Theoretical tax charge	(28,112)	(32,619)
IRAP effect	(6,427)	(4,281)
(Non-deductible costs) net of non-taxable income	(19)	1,456
Differences arising from different rates – foreign countries	2,480	415
Other effects	(3,128)	(818)
Effects from non-registration of deferred taxes	(3,085)	(5,050)
Patent Box impact (IRES and IRAP)	10,218	4,043
Research and Development Tax Credit impact (IRES-IRAP)	897	348
Effect of (allocation to)/use of the provision for risks and charges for taxes from previous years	6,704	(6,821)
Effect of taxes from previous years	(9,297)	(2,398)
Total differences	(1,657)	(13,106)
Total taxes from the income statement	(29,769)	(45,725)
Effective tax rate	(25.4%)	(33.6%)

38. 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 reporting period, considering also the weighted average impact of treasury shares during the reporting period.

For the purposes of calculating the diluted earnings per share, the weighted average number of shares was increased in order to take into account the dilution effects of the 2016-2020 Stock Grant Plan (2nd cycle). For further details, please refer to note 40.

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

	2019	2018
Net profit (loss) – shareholders of the Parent company (Euro)	87,281,193	88,360,651
Average number of ordinary shares	168,698,181	168,789,830
Basic earnings per share – ordinary shares (Euro)	0.517	0.523
Average number of ordinary shares	168,698,181	168,789,830
Dilution effect: number of shares which could have been issued (Stock Grant Plan)	-	50,810
Diluted average number of ordinary shares	168,698,181	168,840,640
Diluted earnings per share – ordinary shares (Euro)	0.517	0.523

Other information

39. Dividends

Pursuant to the resolution of the Shareholders' Meeting of 18 April 2019, the Parent company Salvatore Ferragamo S.p.A. paid Shareholders a dividend of 0.34 Euro per share for each of the 168,740,000 outstanding ordinary shares (net of 50,000 treasury shares at the date of the Shareholders' Meeting), relating to the profit for 2018, for a total amount of 57,371,600 Euro, with coupon detachment on 20 May 2019 and payment of the dividend as from 22 May 2019.

During 2019, other Group companies with third-party minority shareholders paid them dividends amounting to 6,021 thousand Euro.

40. Share-based payments

Stock Grant Plan

(a) Plan Description

In order to adopt a medium/long-term incentive system based on the financial instruments of Salvatore Ferragamo S.p.A. for the top management of the Salvatore Ferragamo Group, at the proposal of the Nomination and Remuneration Committee, in 2016 the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below. For more details on the Plan's objectives, scope, and term as well as the method for measuring fair value, please refer also to the Annual Report as at 31 December 2018 (note 39 of the Consolidated Financial Statements).

Plan Aims

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

Object of the Plan

The Plan is divided into two Cycles:

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

The Plan involves the following:

- granting Beneficiaries the Options to subscribe for up to a maximum of 600,000 ordinary shares in the Parent company Salvatore Ferragamo S.p.A. over the two cycles;
- a three-year Performance Period for each cycle (1st cycle: 2016/2018 three-year period – 2nd cycle: 2017/2019 three-year period);
- granting the Shares contingent on a review by the Board of Directors of the Performance Targets achieved in each three-year cycle (2016/2018 - 2017/2019);

- that, at the date of the grant, there must be a Relationship between the beneficiary and the Company or one of its subsidiaries (i.e. an employment and/or partnership and/or administrative relationship).

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

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

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

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

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

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

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

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

At the meetings held on 30 June 2016, 2 August 2016, and 14 March 2017, as part of the 1st cycle, and 22 June 2017 as well as 8 March 2018, as part of the 2nd cycle, the Board of Directors, with the favorable opinion of the Nomination and Remuneration Committee, granted 565,000 rights to receive ordinary shares in Salvatore Ferragamo S.p.A. to managers of both Salvatore Ferragamo S.p.A. and some of its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., Ferragamo Mexico S. de R.L. de C.V., and Ferragamo Japan K.K.).

Expiry of the Plan

At the meeting held on 18 June 2019, with respect to the 1st Cycle of the 2016-2020 Stock Grant Plan, which was set to end on 30 June 2019, the Board of Directors of Salvatore Ferragamo S.p.A., having heard the Nomination and Remuneration Committee, confirmed that the performance targets of said Plan were not achieved and resolved to close the 1st Cycle of the 2016-2020 Stock Grant Plan without granting any shares in Salvatore Ferragamo S.p.A..

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.

Therefore, the balance of outstanding rights to receive shares at the end of period was as follows: 105,000 fully assigned as part of the 2nd Cycle, as the following table shows.

Changes in the period of the number of rights assigned to receive shares*	
(i) outstanding at the start of the year	180,000
(ii) assigned in the period	-
(iii) canceled in the period	-
(iv) exercised in the period	-
(v) expired in the period (1st cycle)	75,000
(vi) outstanding at the end of the period (2nd cycle)	105,000
(vii) exercisable at the end of the period	-

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

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

	31 December 2019		31 December 2018	
	Number	Fair Value (In thousands of Euro)	Number	Fair Value (In thousands of Euro)
<u>Rights to receive shares assigned to the top managers of Salvatore Ferragamo S.p.A.</u>				
- at the start of the year	120,000	753	180,000	867
- assigned in the year	-	-	-	-
- canceled in the period	-	-	80,000	420
- transferred in the period	-	-	20,000	-
- expired in the period (1st cycle)	50,000	159	-	-
- at the end of the period (2nd cycle)	70,000	387	120,000	753
<u>Rights to receive shares assigned to the subsidiaries' top managers</u>				
- at the start of the year	60,000	431	90,000	444
- assigned in the period	-	-	10,000	47
- canceled in the period	-	-	20,000	111
- transferred in the period	-	-	(20,000)	-
- expired in the period (1st cycle)	25,000	111	-	-
- at the end of the period (2nd cycle)	35,000	184	60,000	431
<u>Total rights to receive shares assigned to Ferragamo Group's top managers</u>				
- at the start of the year	180,000	1,184	270,000	1,311
- assigned in the period	-	-	10,000	47
- canceled in the period	-	-	100,000	531
- expired in the period (1st cycle)	75,000	270	-	-
- at the end of the period (2nd cycle)	105,000	571	180,000	1,184

The measurement period for the above performance targets concerning the 2nd cycle of the Plan essentially drew to a close with the year ended 31 December 2019, therefore the relevant measurement has already been estimated at the date of these financial statements. Below are the results of said estimate:

(i) the Total Shareholder Return (“TSR”) compared to a peer group was not achieved, therefore the shares contingent on this target will not be granted. However, pursuant to the relevant accounting standards, the total cost of the Plan associated with this target – the so-called market condition – has been entirely recognized through profit or loss as estimated at the beginning of the Plan;

(ii) the actual cumulative consolidated gross profit (before taxes) for the years 2017, 2018 and 2019, compared to the cumulative Consolidated Gross Profit estimated in the Budget over the same period, was not achieved, therefore also the shares contingent on the second target will not be granted. In this case, once again pursuant to the accounting standards concerning the so-called non market condition, the Group reversed also the relevant cost recognized through profit or loss in previous years and in 2019 up to the end of the period.

(c) Fair value measurement

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

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

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

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

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

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

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

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

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

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

41. 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., and Ferragamo Retail Macau Limited.

Below are the details on the agreements on minority interests and the effects of the options which have been recognized in the consolidated financial statements as at 31 December 2019.

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, since the financial statements as at 31 December 2010, the Group has been recognizing a financial liability to take into account the possibility of minority shareholders exercising the put option on their 29% stake. Due to this recognition, as at 31 December 2019 financial debt amounted to 2,239 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 are recognized directly in equity.

42. 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)	2019	2018
Retail revenues	899,485	878,216
Wholesale revenues	461,372	447,535
Licenses and services	11,592	9,518
Rental income investment properties	4,812	11,573
Revenues	1,377,261	1,346,842
Gross profit	893,494	861,980
Gross profit %	64.9%	64.0%
Personnel costs	(219,966)	(203,138)
Rental costs	(93,074)	(204,087)
Amortization, depreciation and write-downs of non current assets	(184,558)	(63,405)
Communication costs	(70,600)	(66,007)
Other costs (net of other income)	(175,598)	(175,574)
Operating profit	149,698	149,769
Net financial (charges)/income	(32,564)	(13,857)
Profit before taxes	117,134	135,912
Income Taxes	(29,769)	(45,725)
Net profit/(loss)	87,365	90,187
EBITDA*	335,530	214,221
EBITDA excl. IFRS16*	205,013	214,221

* As regards the definition of EBITDA and "EBITDA excl. IFRS16", please refer to the specific paragraph in the Directors' report on operations on alternative performance measures.

(In thousands of Euro)	31 December 2019	31 December 2018
Inventories and Right of return assets	395,004	365,779
Trade receivables	147,202	142,905
Tangible assets and investment property	290,896	265,915
Right-of-use assets	576,455	-
Intangible assets with a finite useful life	42,484	42,879
Other assets	169,404	160,863
Total assets gross of cash and cash equivalents and current financial	1,621,445	978,341
Net financial debt	504,433	(168,996)
Trade payables and Refund Liabilities	207,654	215,125
Other liabilities	124,093	151,874
Shareholders' equity	785,265	780,338
Total liabilities and shareholders' equity (net of cash and cash equivalents)	1,621,445	978,341

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 2019	474,164	219,750	36,943	185,659	12,900	929,416
31 December 2018	177,894	54,899	20,447	68,447	7,084	328,771

43. Transactions with related parties

This section describes the transactions with related parties undertaken in the years ended 31 December 2019 and 31 December 2018.

(In thousands of Euro)	2019					31 December 2019				
	Revenues	Operating costs (net of other)	Financial income	Financial charges	Right-of-use assets	Trade receivable	Other assets	Trade payables	Other liabilities	Lease liabilities
Holding company:										
Ferragamo Finanziaria S.p.A. (company which exercises management and coordination on Salvatore Ferragamo S.p.A.)	-	(94)	-	(28)	748	-	2,599	-	(8,489)	(760)
Related companies										
Palazzo Feroni Finanziaria S.p.A.	30	(7,319)	1	(1,374)	50,109	8	70	(182)	-	(51,726)
Lungarno Alberghi S.r.l.	153	(1,944)	-	(778)	20,686	34	-	(4)	-	(21,728)
Ferragamo Foundation	3	(195)	-	-	-	-	-	(56)	-	-
Companies connected to members of the Board of Directors										
Arpa S.r.l.	40	(52)	-	-	-	16	-	(19)	-	-
Bacco S.r.l.	-	(3)	-	-	11	-	-	-	-	(11)
Baia di Scarlino S.r.l.	4	-	-	-	-	-	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(11)	-	-	-	-	-	(12)	-	-
Castiglion del Bosco Hotel S.r.l.	14	-	-	-	-	-	-	-	-	-
Il Borro S.r.l. Società agricola	17	(32)	-	-	-	7	-	-	-	-
The European House Ambrosetti S.p.A.	-	(5)	-	-	-	-	-	(5)	-	-
Nautor Holding S.r.l.	4	-	-	-	-	3	-	-	-	-
Osteria del Borro S.r.l.	-	(13)	-	-	-	-	-	-	-	-
Prisma Property Investment Management S.r.l.	3	-	-	-	-	1	-	-	-	-
Harbour City Estates Limited	-	(9,898)	-	(917)	38,557	-	2,791	-	-	(39,058)
Imaginex Management Co. Ltd.	-	(13)	-	-	-	-	-	-	-	-
Times Square Ltd.	-	(3,028)	-	(72)	1,590	-	-	-	-	(1,617)
Harriman Property Management Limited	-	(5)	-	-	-	-	-	-	-	-
Harriman Leasing Limited	-	-	-	-	-	-	771	-	-	-
Lane Crawford (Hong Kong) Limited	-	(3)	-	-	-	-	-	-	-	-
Long Jin Complex Development (Chengdu) Co. Ltd	-	(2,248)	-	(86)	1,480	-	596	(5)	-	(1,494)
Dalian Times Square Commercial Co. Ltd.	-	(592)	-	(105)	2,369	-	184	-	-	(2,515)
Pedder Group Limited	158	-	-	-	-	23	-	-	-	-
OIS Realty Limited	-	(467)	-	(28)	1,463	-	130	-	-	(1,445)
Shanghai Wheelock square Development Co. Ltd.	-	(542)	-	(10)	57	-	149	(38)	-	(13)
Shanghai Longxing Property Development Co. Ltd.	-	(150)	-	-	-	-	373	-	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(82)	-	-	-	-	19	-	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(50)	-	-	-	-	-	-	-	-
Wharf (China) Property Management Co. Ltd - IFS Branch	-	(122)	-	-	-	-	-	-	-	-
Chongqing Jiayi Real Estate Development Co Ltd.	-	(338)	-	(35)	719	-	102	(32)	-	(804)
Changsha Times Outlet Commerce Limited	-	(35)	-	-	-	-	4	(2)	-	-
Chengdu Times Outlets Commerce Co., Ltd	-	(187)	-	-	-	-	4	(3)	-	-
Other related parties connected to members of the Board of Directors										
Heirs of Wanda Miletto Ferragamo	-	(51)	-	-	-	-	-	-	-	-
Massimo Ferragamo	-	(134)	-	-	-	-	-	(33)	-	-
Edoardo Ferragamo	-	(32)	-	-	-	-	-	(32)	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities										
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(5,454)	-	-	-	-	-	-	(2,313)	-
Total	426	(33,099)	1	(3,433)	117,789	92	7,792	(423)	(10,802)	(121,171)
Group total	1,377,2	(743,796)	31,877	(64,441)	576,455	147,202	49,919	(198,934)	(66,210)	(676,329)
% ratio	0.0%	4.5%	0.0%	5.3%	20.4%	0.1%	15.6%	0.2%	16.3%	17.9%

(In thousands of Euro)	2018		31 December 2018			
	Revenues	Operating costs (net of other income)	Trade receivables	Other assets	Trade payables	Other current liabilities
Holding company:						
Ferragamo Finanziaria S.p.A.	-	(117)	-	10,389	-	-
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)						
Related companies						
Palazzo Feroni Finanziaria S.p.A.	22	(7,138)	8	70	(225)	-
Lungarno Alberghi S.r.l.	182	(2,128)	36	-	(2)	-
Ferragamo Foundation	2	(180)	-	-	(55)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	35	(37)	27	-	(20)	-
Bacco S.r.l.	-	(3)	-	-	-	-
Baia di Scarlino S.r.l.	5	-	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(6)	-	-	(5)	-
Castiglion del Bosco Hotel S.r.l.	13	-	-	-	-	-
Il Borro S.r.l. Società agricola	4	1	12	-	-	-
The European House Ambrosetti S.p.A.	-	(7)	-	-	-	-
Osteria del Borro S.r.l.	-	(5)	-	-	(2)	-
Osmadue S.r.l.	-	67	-	-	-	-
Prisma Property Investment Management S.r.l.	1	-	-	-	-	-
Harbour City Estates Limited	-	(9,635)	-	2,723	-	-
Imaginex Management Co. Ltd.	-	(103)	-	-	(1)	-
Times Square Ltd.	-	(2,916)	1	-	-	-
Harriman Property Management Limited	-	(5)	-	-	-	-
Harriman Leasing Limited	-	(7)	-	752	-	-
Lane Crawford (Hong Kong) Limited	-	(3)	-	-	-	-
Long Jin Complex Development (Chengdu) Co. Ltd	-	(2,056)	-	592	-	-
Dalian Times Square Commercial Co. Ltd.	-	(990)	-	309	-	-
Pedder Group Limited	276	-	59	-	-	-
OIS Realty Limited	-	(319)	-	110	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(546)	-	148	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(252)	-	371	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(77)	-	18	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(86)	-	5	-	-
Changsha Times Outlet Commerce Limited	-	(28)	-	4	-	-
Chengdu Times Outlets Commerce Co., Ltd	-	(155)	-	4	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletta Ferragamo	-	(82)	-	-	-	-
Massimo Ferragamo	-	(127)	-	-	(32)	-
Directors, Statutory Auditors and Managers with strategic responsibilities						
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(6,973)	-	-	-	(1,084)
Total	540	(33,913)	143	15,495	(342)	(1,084)
Group total	1,346,842	(712,211)	142,905	58,812	(210,293)	(38,279)
% ratio	0.0%	4.8%	0.1%	26.3%	0.2%	2.8%

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. (1,864 thousand Euro), in favor of Lungarno Alberghi S.r.l. (488 thousand Euro), and in favor of Ferragamo Finanziaria S.p.A. (23 thousand Euro): they concerned the leasing of properties owned by said companies. There are no other guarantees, given or received, relating to receivables and payables with related parties. The Group has not set aside any provision for bad debt in relation to amounts due from related parties.

Specifically:

Holding company

Ferragamo Finanziaria S.p.A.

Under the domestic fiscal unity in which the Parent company Salvatore Ferragamo S.p.A. participates together with Ferragamo Finanziaria S.p.A. (consolidating entity) and Ferragamo Parfums S.p.A., Other current liabilities included 8,489 thousand Euro in corporate income tax (IRES) payables of Salvatore Ferragamo S.p.A.. Other assets, totaling 2,599 thousand Euro, included Ferragamo Parfums S.p.A.'s 574 thousand Euro IRES receivable for the year 2019 under the domestic fiscal unity, and the 2,025 thousand Euro IRES refund claim regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, as set out in Law Decree no. 201 of 6 December 2011 recognized in 2012. Out of said amount, a portion totaling 1,235 thousand Euro was refunded in January 2020.

Salvatore Ferragamo S.p.A. has entered into two outstanding lease contracts with Ferragamo Finanziaria S.p.A. concerning the lease of an industrial shed adjacent to the Osmannoro facility, which the Parent company converted into a design and prototyping laboratory for the development of leather goods, as well as a parking area next to the Osmannoro facility. Since they fall within the scope of IFRS 16, the two leases were accounted for by recognizing a right-of-use asset, depreciated over the lease term, and a corresponding lease liability.

Related companies

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

- sale of products;
- leases; if they fall within the scope of IFRS 16, they are accounted for accordingly (i.e. by recognizing right-of-use assets, lease liabilities, depreciation expense, and financial charges), otherwise lease payments are recognized through profit or loss on a straight-line basis over the lease term and the relevant payables are included in Trade payables;
- rendering of services.

In particular, the following transactions should be noted:

Palazzo Feroni Finanziaria S.p.A.

Revenues and the relevant receivables largely refer to IT and administrative services.

Right-of-use assets and lease liabilities, operating costs, and finance expense largely refer to leases for the headquarters in Florence and some stores of the Italian chain, which mostly fall within the scope of IFRS 16. Other assets refer to the relevant guarantee deposits.

Lungarno Alberghi S.r.l.

Revenues (and the relevant credit balances) refer to product sales; right-of-use assets, lease liabilities, operating costs, and interest expense largely refer to the lease of a space used as a store of the Italian retail chain, which falls within the scope of IFRS 16.

Ferragamo Foundation

The costs (and the related accounts payable balances) incurred refer for 105 thousand Euro to the services provided for the management of the Salvatore Ferragamo historical archive (110 thousand Euro in 2018) and for 90 thousand Euro to donations to support the institutional activities of the Foundation (70 thousand Euro in 2018).

Companies connected to members of the Board of Directors

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

- sale of products;
- leases; if they fall within the scope of IFRS 16, they are accounted for accordingly (i.e. by recognizing right-of-use assets, lease liabilities, depreciation expense, and financial charges), otherwise lease payments are recognized through profit or loss on a straight-line basis over the lease term and the relevant payables are included in Trade payables;
- rendering of services.

In particular, the following transactions should be noted:

Harbour City Estates Limited

Right-of-use assets and lease liabilities, operating costs, and financial charges largely refer to leases for premises in Hong Kong, including the Canton Road flagship store, which mostly fall within the scope of IFRS 16. Other assets refer to the relevant guarantee deposits.

Times Square Ltd. and Harriman Leasing Limited

As regards Times Square Ltd., right-of-use assets and lease liabilities, operating costs, and financial charges mainly refer to leases for premises for a store in Hong Kong within the scope of IFRS 16, while as regards Harriman Leasing Limited, they refer to the guarantee deposit for the same store in Hong Kong.

Long Jin Complex Development (Chengdu) Co. Ltd (formerly LongJin Zonghe Kaifa (Chengdu) LTD

Right-of-use assets and lease liabilities, operating costs, and financial charges refer to the lease for a store of Ferragamo Moda (Shanghai) Limited, which largely falls within the scope of IFRS 16, whereas other assets refer to the relevant guarantee deposit.

Dalian Times Square Commercial Co. Ltd.

Right-of-use assets and lease liabilities, operating costs, and financial charges refer to the lease for a store of Ferragamo Moda (Shanghai) Limited, which falls within the scope of IFRS 16, whereas other assets refer to the relevant guarantee deposit.

Shanghai Wheelock square Development Co. Ltd.

Right-of-use assets and lease liabilities, operating costs, and financial charges refer to the lease of the offices of Ferragamo Fashion Trading Shanghai Co. Limited and Ferragamo Moda Shanghai Limited, which falls within the scope of IFRS16, whereas other assets refer to the relevant guarantee deposits.

OIS Realty Limited

Right-of-use assets and lease liabilities, operating costs, and financial charges refer to the lease for the offices of Ferragamo Hong Kong Limited and Ferragamo Retail Hong Kong Ltd, which falls within the scope of IFRS 16, whereas other assets refer to the relevant guarantee deposit.

Chongqing Jiayi Real Estate Development Co Ltd.

Right-of-use assets and lease liabilities, operating costs, and financial charges refer to the lease for a store of Ferragamo Moda (Shanghai) Limited, which largely falls within the scope of IFRS 16, whereas other assets refer to the relevant guarantee deposit.

Shanghai Longxing Property Development Co. Ltd.

Costs refer to rents for premises for a store of Ferragamo Moda (Shanghai) Co. Ltd., which was closed during 2019, and other assets refer to the relevant guarantee deposit, which was refunded in January 2020.

Other related parties connected to members of the Board of Directors

Heirs of Wanda Milette Ferragamo

Operating costs and financial charges refer to the lease for a property used as a store, which falls within the scope of IFRS 16 and whose term ended in 2019.

Massimo Ferragamo

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

Edoardo Ferragamo

Costs (and the relevant debt balance) refer to the rendering of business advisory services in 2019 between Edoardo Ferragamo and Ferragamo Parfums S.p.A..

Directors, Statutory Auditors and Managers with strategic responsibilities

For information on Directors and Statutory Auditors, please refer to note 44 below.

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

Full name	Role
Giacomo Ferragamo	Brand and Product Manager and Deputy Chairman of the Board of Directors
Micaela le Divelec Lemmi	Managing Director
Alessandro Corsi*	Manager of Administration, Finance and Control
Ugo Giorcelli**	Manager of Administration, Finance and Control

* Alessandro Corsi in office as from 11 January 2019

** Ugo Giorcelli has held this position until 10 January 2019

The costs associated with the managers with strategic responsibilities (excluding the fees and payables related to the Managing Director and the Deputy Chairman Giacomo Ferragamo, reported in the section Directors) referred to the cost incurred by the Group as part of the employment relationship and, in addition, they included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles. In 2019, they amounted to 479 thousand Euro (compared to 475 thousand Euro in 2018). In general, the managers with strategic responsibilities receive non-monetary benefits such as cars, mobile phones, insurance policies, and accommodation.

44. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)			2019							
Full name	Position held	Term of office	End of term of office	Fees			Salaries, bonuses and other incent.	Other fees	Stock Grant	Total
				for the position held	as committee members	Non-monetary benefits				
Ferruccio Ferragamo	Chairman	1.01-31.12	a)	700	-	b) c) d)	-	400	-	1,100
Micaela Le Divelec Lemmi	Managing Director	1.01-31.12	a)	800	-	b) c) d)	-	1,128	-	1,928
Giacomo Ferragamo	Deputy Chairman	1.01-31.12	a)	35	15	b) c) d)	573	-	(48)	575
Giovanna Ferragamo	Director	1.01-31.12	a)	200	-		-	-	-	200
Leonardo Ferragamo	Director	1.01-31.12	a)	35	-		-	-	-	35
Diego Paternò Castello di San Giuliano	Director	1.01-31.12	a)	35	15		-	-	-	50
Angelica Visconti	Director	1.01-31.12	a)	35	15	b) c) d) e)	265	-	(16)	299
Francesco Caretti	Director	1.01-31.12	a)	285	-		-	-	-	285
Peter Woo Kwong Ching	Director	1.01-31.12	a)	-	-		-	-	-	-
Umberto Tombari	Director	1.01-31.12	a)	35	40		-	-	-	75
Marzio Alessandro Alberto Saà	Director	1.01-31.12	a)	35	40		-	-	-	75
Chiara Ambrosetti	Director	1.01-31.12	a)	35	28		-	-	-	63
Lidia Fiori	Director	1.01-31.12	a)	35	26		-	-	-	61
Total				2,265	179		838	1,528	(64)	4,746

- a) upon approval of the 2020 financial statements
b) car
c) mobile phone
d) insurance policies
e) accommodation

Statutory Auditors

(In thousands of Euro)			2019				
Full name	Position held	Term of office	End of term of office	Fees for the position held	Other fees*	Other fees received from subsidiaries	Grand total
Andrea Balelli	Chairman	1.01-31.12	a)	64	13	-	77
Fulvio Favini	Acting Statutory Auditor	1.01-31.12	a)	48	10	-	58
Paola Caramella	Acting Statutory Auditor	1.01-31.12	a)	48	10	-	58
Total				160	33	-	193

- a) upon approval of the 2019 financial statements
(*) Other fees refer to amounts due for the position as Chairman or member of the Supervisory Board pursuant to Italian Leg. Decree 231/2001

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

45. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2019	31 December 2018
Sureties provided by third parties in the interests of Group companies	9,689	9,037
Guarantees provided by third parties in the interests of Group companies	4,602	4,059
Guarantees provided by Group companies in the interests of third parties	136,238	166,420
Total	150,529	179,516

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

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

Guarantees provided by Group companies refer to a guarantee for 6 million US dollars (equal to 5,341 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.

46. Public funds disclosure as per art. 1 paragraphs 125-129 of Italian Law no. 124/2017

Pursuant to art. 1, paragraph 125, of Italian Law 124/2017, as for the requirement to disclose in the notes any funds received during the year in the form of subventions, grants, paid services, and generally economic benefits of any kind from public administrations and the entities as per paragraph 125 of the same article, in 2019 the Italian entities Salvatore Ferragamo S.p.A and Ferragamo Parfums S.p.A. did not receive funds greater than 10,000 Euro. In accordance with art. 3-quater of Italian Law Decree 135/2018, converted with the relevant amendments into Law no. 12 11 February 2019, with respect to the funds received, please refer to the information in the National State Aid Register as per article 52 of Italian Law no. 235 of 24 December 2012.

47. Significant non-recurring events and transactions

During 2019, the Salvatore Ferragamo Group did not carry out significant non-recurring transactions and no significant non-recurring events occurred.

48. 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.

49. Subsidiaries highlights

Subsidiaries highlights are shown in the table below.

(In thousands)		2019			2018		
Company	Currency	Revenues	Net profit/(loss)	Shareholders' equity	Revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Pty Ltd.	AUD	30,741	376	22,093	32,660	597	21,717
Ferragamo Japan K.K.	JPY	13,450,746	(387,520)	84,290	13,805,442	(338,686)	464,666
Ferragamo Korea Ltd.	KRW	150,303,572	8,214,365	78,558,176	141,760,185	13,283,551	88,343,811
Ferragamo Espana S.L.	EURO	12,932	43	3,827	9,993	141	3,784
Ferrimag Limited	HKD	-	115,326	124,786	-	55,780	124,961
Ferragamo Retail HK Limited	HKD	388,030	(93,298)	104,657	536,370	28,028	197,956
Ferragamo Retail Taiwan Limited	TWD	596,271	17,784	264,649	583,002	6,505	326,545
Ferragamo Mexico S. de R.L. de C.V.	MXN	1,277,966	76,397	626,041	1,239,936	89,694	550,365
Ferragamo Retail Nederland B.V.	EURO	5,602	(728)	1,323	5,662	(450)	2,051
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	CNY	1,185,003	105,972	423,767	1,099,397	52,712	413,255
Ferragamo (Singapore) Pte. Ltd.	SGD	29,701	(7,576)	(18,474)	31,061	(5,479)	(10,898)
Ferragamo (Thailand) Limited	THB	170,988	(43,981)	(32,784)	179,698	(20,656)	11,383
Ferragamo (Malaysia) Sdn Bhd	MYR	44,232	(34)	24,247	45,276	1,940	24,281
Ferragamo Hong Kong Ltd.	USD	233,190	19,410	178,882	223,408	8,428	180,107
Ferragamo USA Group	USD	352,163	(366)	81,579	352,657	6,421	93,809
Ferragamo Deutschland GmbH	EURO	13,540	211	6,052	10,131	(3,827)	5,841
Ferragamo Belgique SA	EURO	1,540	(212)	672	1,366	(261)	885
Ferragamo Monte-Carlo S.A.M.	EURO	905	(196)	285	779	(270)	482
Ferragamo (Suisse) SA	CHF	8,246	91	1,500	9,060	(1,500)	1,409
Ferragamo U.K. Limited	GBP	24,288	(201)	8,845	22,561	241	9,046
Ferragamo France S.A.S.	EURO	23,114	521	9,121	20,251	86	10,097
Ferragamo Parfums S.p.A.	EURO	85,281	1,363	25,546	91,472	994	24,336
Ferragamo Chile S.A.	CLP	518,082	(325,389)	(466,311)	922,158	(159,390)	(140,922)
Ferragamo Austria GmbH	EURO	3,824	148	3,907	3,697	25	3,759
Ferragamo Retail India Private Limited	INR	-	(44,605)	(433,333)	101,741	(118,733)	(388,655)
Ferragamo Retail Macau Limited	MOP	138,047	(1,153)	84,176	159,364	7,324	89,723
Ferragamo Moda (Shanghai) Co.Ltd.	CNY	303,977	15,694	(38,720)	253,871	1,975	(54,414)
Ferragamo Brasil Roupas e Acessorios Ltda.	BRL	28,970	1,014	21,055	22,044	658	20,040
Ferragamo Argentina S.A.	ARS	98,830	(43,133)	36,611	54,222	(37,478)	16,085
Ferragamo Denmark ApS*	DKK	2,348	(1,198)	-	4,932	(3,170)	1,504

*company in liquidation as from 1 July 2019. The company ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020.

50. Significant events occurred after 31 December 2019

At the end of 2019, a new coronavirus, known as Covid-19, was found in Wuhan, China. As at the date of preparation of the 2019 Annual Report, the virus is infecting thousands of individuals in several countries around the world. The levels of contagion seen in recent weeks vary widely from one country to another. The Covid-19 Coronavirus has spread from China into South Korea, Iran, and Italy, where the outbreak is currently more severe than in all the other countries that have confirmed cases in both Europe and the Americas.

In order to contain the epidemic and protect public health, in January 2020 the Chinese government quarantined Wuhan and other major cities around the country. As part of its containment measures, the Government also extended the closure of schools, government offices, and production plants for the Lunar New Year and asked people to refrain from visiting public places and/or leisure venues. Several flights to and from China have also been canceled.

Other countries are currently taking similar precautions. Italy has adopted rules and measures that have significantly disrupted the social and economic life of individuals—at first in the areas where the outbreak appears to more severe (the Lombardy, Veneto, and Emilia Romagna regions), and then throughout the country.

These events are significantly affecting traffic and sales, especially in China's retail channel, as well as Chinese tourist flows around the globe, with clear repercussions on the Group's sales also in other geographies and across the various channels.

Given, among other things, the above considerations about the Covid-19 Coronavirus outbreak, it is currently impossible to reliably estimate how these events will actually affect other macroeconomic variables (e.g. employment, interest rates, government subsidies, etc.). For instance, China is apparently past the peak of the outbreak and has touted a significant reduction in new infections.

As at the date of preparation of this Report, given the fast-moving situation and contagion as well as the uncertainty about the scale of the economic and social impacts of the Covid-19 Coronavirus, it is impossible to reliably estimate the length and scope of the outbreak and, therefore, how this could potentially impact the Group's financial performance, financial position, and cash flows.

On 10 March 2020, Salvatore Ferragamo S.p.A. entered into an agreement to acquire 100% of Arts S.r.l. for 11.3 million Euro, payable at the closing, in addition to the acquiree's net cash on hand as at 31 March 2020 (estimated at around 3.5 - 4.0 million Euro), to be paid at a later date before 28 February 2021. The transaction is expected to close by April 2020. Arts S.r.l. has been collaborating with Salvatore Ferragamo S.p.A. since its inception in 1984, helping with the prototyping, industrialization, and quality control of products as well as the monitoring of the Group's network of suppliers with respect to men's footwear. With this deal, the Group seeks to strengthen its control over its supply chain and acquire strategic capabilities in one of its key product categories

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(In thousands of Euro) Type of services	Subject which supplied the service	Recipient	Notes	2019 Fees
Audit	Independent Auditors of the Parent company	Parent company		203
Other services	i) Independent Auditors of the Parent company	Parent company	1	35
	ii) Independent Auditors' network of the Parent company	Parent company	2	169
Subtotal				407
Audit	i) Independent Auditors of the Parent company	Subsidiaries		118
	ii) Independent Auditors' network of the Parent company	Subsidiaries		805
Tax assistance services	Independent Auditors' network of the Parent company	Subsidiaries		49
Other services	i) Independent Auditors of the Parent company	Subsidiaries		12
	ii) Independent Auditors' network of the Parent company	Subsidiaries		114
Subtotal				1,098
Total				1,505

1) The line item refers to certification services rendered to the Parent company.

2) The line item refers mainly to IT support services.

Florence, 10 March 2020

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

**Statement pursuant to article 154 bis of Leg. Decree no. 58 of 24 February 1998
(Consolidated Law on Finance)**

1. The undersigned Micaela le Divelec Lemmi in her 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 2019 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2019 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 2019:

- 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.

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, 10 March 2020

Managing Director
Micaela le Divelec Lemmi

Manager charged with preparing Company’s Financial Reports
Marco Fortini



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Salvatore Ferragamo Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Salvatore Ferragamo S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

EY S.p.A.
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We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Risk of inventory obsolescence</p> <p>The Group is subject to the risk that the unsold products at the end of the season or, in case of fragrances, at the end of the life cycle, quickly become obsolete and that, therefore, the inventories of these products are subject to impairment; to account for such risk, the consolidated financial statements include an obsolescence reserve of 51.5 million of euro recorded as a reduction in inventories of finished products and goods. In addition, the consolidated financial statements include an obsolescence reserve of Euro 6.8 million recorded as a reduction to inventories of raw materials to account for the risk posed by slow-moving items.</p> <p>The estimate of the inventories' recoverable amount for the risk of obsolescence was considered a key audit matter as it requires the application of judgment by the management, particularly in defining the key assumptions on which the assessment is based, either endogenous (disposal or disposal policies on secondary sales channels / markets) and exogenous (market demand and expected sales forecasts in the future).</p> <p>The disclosure relating to the estimation of the inventories' obsolescence reserve is included in Note 2 in the paragraph "Discretionary valuations, and significant accounting estimates".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) assessment of the processes and key controls implemented by the parent company surrounding the estimate of the inventories' obsolescence reserve; ii) testing key controls in place at the Group; iii) the assessment of the key assumptions used by the management to calculate the estimated recoverable amount of slow moving, excess or obsolete items, such as the ageing of items and sales or production forecasts; iv) the assessment of the consistency of the assumptions used by management in the actual estimate with respect to the final figures and the corresponding assumptions of the previous year and, where discrepancies are noted, the assessment of the appropriateness of the estimate change; v) testing of the data used by the Management to estimate the inventories obsolescence reserve, on a sample basis; and vi) verification of the mathematical accuracy of the calculations performed by management. <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements</p>
<p>Accounting and valuation of right of use assets</p> <p>As of January 1, 2019 the new International Financial Reporting Standard 16 - Leasing ("IFRS 16") related to the accounting of lease agreements was implemented.</p> <p>The new standard provides that, for a lease agreement, the lessee accounts a right of use asset and a lease liability measured at the present value of future non-variable lease payments. The right of use assets are subsequently measured at cost less depreciation and impairment losses.</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) the analysis of accounting policies and assumptions used by the management for the implementation of the new standard, including the definition of the lease term; ii) assessment of the documentation prepared by the Group in the determination of the implementation impacts as of January 1, 2019; iii) testing of the discount rate assumed by management;



As of January 1, 2019, the Group recognized Euro 528.4 million of right of use assets, in addition to Euro 35.6 million classified as investment property, and Euro 625.4 million of lease liabilities. The Group, in accordance with IFRS 16, has provided information on the effects related to the implementation of the new standard starting from January 1, 2019 in Note 2, paragraph "Changes in international accounting standards".

In addition, the Management also assesses at least annually impairment indicators on right of use assets and, if present, perform an impairment test on such assets.

The implementation of IFRS 16 was considered a key audit matter as it requires a high degree of judgment in: (i) the estimation of the value of rights of use assets, with particular reference to the definition of the lease term and the discount rate and (ii) the assessments of their recoverability, also in consideration of the magnitude of the implementation impacts on the Group's consolidated financial statements.

The Group has provided disclosures related to the assessment of the recoverability of rights of use assets in Note 2 "Basis of presentation" and 7 "Right-of-use assets" to the consolidated financial statements.

iv) assessment of the procedure and the key controls in place at the Group related to management and accounting of lease agreements;
v) testing of key controls in place at the Group related to management and accounting of lease agreements, including application controls within the Group's information technology system, tested with the assistance of our IT specialists;
vi) testing of the changes in the account balances from the prior year, and in the agreements' portfolio;
vii) assessment of the impairment process adopted by the Group.

Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements

Accounting for exchange rate risk hedging instruments and related disclosures

In order to mitigate its exposure to exchange rate risk, the Group enters into a significant number of derivative financial instruments (forward currency) in connection to transactions with foreign countries carried out in the ordinary course of business.

These financial instruments are recorded at fair value as other current assets for Euro 1.5 million and as other current liabilities for Euro 5.6 million as of December 31, 2019, and accounted for as hedging instruments (hedge accounting).

In addition, the Group recorded net financial charges for the fair value adjustment of derivatives for Euro 18.1 million in the year 2019.

The application of the hedge accounting,

Our audit procedures in response to this key audit matter included, among others:

i) assessment of the processes and key controls implemented by the Group to determine the effectiveness of the hedging policy, necessary for the application of hedge accounting techniques, and to determine the fair value of derivatives, with the assistance of our experts in valuation of financial instruments;
ii) testing key controls in place at the company, including application controls within the company's information technology system, tested with the assistance of our IT specialists;
iii) testing of the validity of the input data in the valuation models for contracts referred to transactions completed during the year, as well



including the valuation of hedging instruments, was considered a key audit matter due to the fact that (i) the Group holds a significant amount of financial instruments, in terms of population and dollar value, managed through a specific module of the company's information technology system to record each contract and calculate its valuation at the balance sheet date, (ii) the assessment of the effectiveness of the hedging policy affects the accounting of such instruments and (iii) the performance of the variables underlying these contracts is influenced by the market conditions that are not controlled by the management.

The disclosure relating to the exchange risk management is included in Note 3 "Management of financial risks (IFRS 7)", and the disclosure relating the assumptions underlying the calculation of the fair value is included in Note 30 "Financial instruments and fair value measurement".

as transactions still ongoing as at December 31, 2019, on a sample basis;
 iv) testing of the calculation of fair value for derivatives instrument in place at December 31, 2019 on sample basis;
 v) testing of the effectiveness of the hedging policy in order to verify the accounting treatment, on a sample basis;
 vi) obtaining written confirmation from contractual counterparties for derivative financial instruments.

Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Salvatore Ferragamo S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all



matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Salvatore Ferragamo S.p.A., in the general meeting held on 30 March 2011, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

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 Ownership Structure of Group Salvatore Ferragamo as at December 31, 2019, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the consolidated financial statements of Salvatore Ferragamo Group as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Salvatore Ferragamo Group as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.



Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Florence, March 26, 2020

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

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

Salvatore Ferragamo S.p.A.

Separate Financial Statements as at 31 December 2019

Financial Statements	141
Statement of financial position – assets.....	141
Statement of financial position – liabilities and shareholders’ equity	142
Income statement	143
Statement of comprehensive income.....	144
Statement of cash flows.....	145
Statement of changes in shareholders’ equity	146
Explanatory notes to the separate financial statements.....	147
Comments on the main statement of financial position items (assets, shareholders’ equity and liabilities).....	176
Comments on the main income statement items	192
Other information.....	198
Disclosure pursuant to art. 149-duodecies of the Issuers’ Regulation	214
Statement pursuant to article 154 bis of Leg. Decree no. 58 of 24 February 1998 (Consolidated Law on Finance).....	216
Report of the Board of Statutory Auditors	217
Independent Auditor’s Report	227

Financial Statements

Statement of financial position – assets

(In Euro)	Notes	31 December 2019	<i>of which with related parties</i>	31 December 2018	<i>of which with related parties</i>
NON CURRENT ASSETS					
Property, plant and equipment	5	115,420,054		111,865,855	
Right-of-use assets	6	110,878,094	71,553,252	-	
Intangible assets with a finite useful life	7	35,722,662		35,066,883	
Investments in subsidiaries	8	193,737,823		198,209,742	
Other non current assets	9	335,833		314,167	
Other non current financial assets	10	333,594	70,000	330,253	70,000
Deferred tax assets	39	10,661,884		8,291,336	
TOTAL NON CURRENT ASSETS		467,089,944	71,623,252	354,078,236	70,000
CURRENT ASSETS					
Inventories	11	120,451,360		122,439,091	
Right of return assets	12	13,487,023		10,266,573	
Trade receivables	13	194,185,598	161,392,314	171,150,121	138,048,977
Tax receivables	14	10,888,074		10,871,095	
Other current assets	15	8,556,160	1,962,391	15,420,474	9,955,950
Other current financial assets	16	99,874,958	99,773,509	49,630,814	49,521,539
Cash and cash equivalents	17	120,088,330		95,918,685	
TOTAL CURRENT ASSETS		567,531,503	263,128,214	475,696,853	197,526,466
TOTAL ASSETS		1,034,621,447	334,751,466	829,775,089	197,596,466

Statement of financial position – liabilities and shareholders' equity

(In Euro)	Notes	31 December 2019	<i>of which with related parties</i>	31 December 2018	<i>of which with related parties</i>
SHAREHOLDERS' EQUITY					
Share capital	18	16,879,000		16,879,000	
Reserves	18	545,593,637		521,136,365	
Net profit/(loss) for the period		124,211,203		83,313,017	
TOTAL SHAREHOLDERS' EQUITY		686,683,840		621,328,382	
NON CURRENT LIABILITIES					
Provisions for risks and charges	19	15,481,850		15,280,558	
Employee benefit liabilities	20	6,502,822		6,441,079	
Other non current liabilities	21	306,100	48,889	1,255,019	
Non current lease liabilities	22	96,181,026	65,740,964	-	
Deferred tax liabilities	39	3,171,404		2,897,557	
TOTAL NON CURRENT LIABILITIES		121,643,202	65,789,853	25,874,213	
CURRENT LIABILITIES					
Trade payables	23	145,232,230	9,670,921	149,451,286	9,377,144
Refund liabilities	24	20,873,450		15,976,200	
Tax payables	26	13,727,363		2,926,990	
Other current liabilities	27	28,834,597	10,752,432	13,957,436	1,083,627
Current lease liabilities	22	17,455,412	8,483,721	-	
Other current financial liabilities	28	171,353		260,582	
TOTAL CURRENT LIABILITIES		226,294,405	28,907,074	182,572,494	10,460,771
TOTAL LIABILITIES		347,937,607	94,696,927	208,446,707	10,460,771
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1,034,621,447	94,696,927	829,775,089	10,460,771

Income statement

(In Euro)	Notes	2019	<i>of which with related parties</i>	2018	<i>of which with related parties</i>
Revenues from contracts with customers	30	836,947,210	622,053,967	745,102,569	520,631,657
Change in inventories of finished products		5,995,568		18,027,009	-
Costs for raw materials, goods and consumables	31	(237,462,166)	(708,721)	(228,947,877)	(757,892)
Costs for services	32	(305,678,102)	(11,264,757)	(307,112,535)	(20,795,121)
Personnel costs	33	(72,412,217)	(1,251,776)	(67,588,043)	(1,766,707)
Amortization, depreciation and write-downs	34	(40,573,259)	(7,843,668)	(20,115,166)	-
Other operating costs	35	(52,964,160)	(48,251,170)	(53,033,755)	(50,602,498)
Other income	36	14,267,295	4,264,558	7,382,777	1,789,244
Operating profit		148,120,169		93,714,979	
Financial charges	37	(48,382,093)	(2,179,944)	(50,746,499)	
Financial income	38	53,478,040	33,631,433	65,825,423	32,709,520
Profit before taxes		153,216,116		108,793,903	
Income Taxes	39	(29,004,913)		(25,480,886)	
Net profit/(loss) for the period		124,211,203		83,313,017	

Statement of comprehensive income

(In thousands of Euro)

	Notes	2019	2018
Net profit/(loss) for the period (A)		124,211	83,313
<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	2,207	(10,861)
- Income taxes		(529)	2,606
		<u>1,678</u>	<u>(8,255)</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)		1,678	(8,255)
<i>Other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period</i>			
- Net gain/(loss) from recognition of defined-benefit plans for employees	20	(386)	(24)
- Income taxes		93	6
		<u>(293)</u>	<u>(18)</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)		(293)	(18)
Total other income/(losses) for the period, net of taxes (B1+B2 = B)		1,385	(8,273)
Total comprehensive income for the period, net of taxes (A+B)		125,596	75,040

Statement of cash flows

(In Euro)	Notes	2019	<i>of which with related parties</i>	2018	<i>of which with related parties</i>
Net profit/(loss) for the period		124,211,203		83,313,017	
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 right-of-use assets	5-6-7	40,573,259	(7,843,668)	20,115,166	
Income taxes*	39	29,004,913		25,480,886	
Provision for employee benefit plans	20	77,863		84,760	
Allocation to / (use of) the provision for obsolete inventory	11	6,580,338		(176,980)	
Allocation to / (use of) the provisions for risks and charges	19	264,332		14,205	
Losses and provision for bad debt	13	198,895	198,895	385,955	385,350
Losses / (gains) on disposal of tangible and intangible assets		303,760		(20,293)	
Write-down / (revaluation) of investments in subsidiaries	8	11,668,051		9,419,129	
Stock grant plan costs	40	(206,907)		(114,587)	
Interest expense and interest expense on lease liabilities*	37	4,479,372	2,179,945	16,644	
Interest income*	38	(1,235,723)	(1,107,974)	(593,048)	(469,238)
Dividend income from subsidiaries*	38	(32,523,460)	(32,523,460)	(32,240,280)	(32,240,280)
Other non-monetary items		1,666,090		(1,963,272)	
Changes in operating assets and liabilities:					
Trade receivables	13	(18,603,293)	(23,343,337)	(12,077,596)	(23,149,567)
Inventories	11	(4,592,611)		(25,234,119)	
Trade payables	23	231,733	293,777	5,502,746	(5,049,724)
Other receivables and tax payables*	14-26	(700,047)		(1,519,819)	
Employee benefits payments	20	(402,142)		(287,359)	
Other assets*		(1,322,743)		7,764	
Other liabilities		3,203,700	1,229,089	1,902,805	(443,319)
Other net	19	(350,743)		(389,862)	
Income taxes paid*		(10,990,418)	16,482,164	(4,665,588)	11,261,422
Interest expense and interest expense on lease liabilities paid*		(2,512,138)	(1,507,919)	(16,644)	
Interest received*		1,235,723	1,107,974	593,048	469,238
Dividends received*		32,523,460	32,523,460	32,240,280	32,240,280
Net cash from (used in) operating activities		182,782,467	(12,311,054)	99,776,958	(16,995,838)
Cash flow from investing activities:					
Purchase of tangible assets	5	(21,072,985)		(25,508,385)	
Purchase of intangible assets	7	(11,519,739)		(12,006,002)	
Proceeds from the sale of tangible and intangible assets		30,201		51,557	
Investments in subsidiaries	8	39,909		(10,564,827)	
Net change in financial receivables*	16	(50,251,970)	(50,251,970)	(18,852,004)	(18,852,004)
Net cash from (used in) investing activities		(82,774,584)	(50,251,970)	(66,879,661)	(18,852,004)
Cash flow from financing activities:					
Repayment of lease liabilities	22	(15,941,956)	(7,121,594)		-
Dividends paid	18	(57,371,619)	(40,684,709)	(64,140,200)	(47,716,053)
Treasury share repurchase	18	(2,524,663)		(251,009)	
Net cash from (used in) financing activities		(75,838,238)	(47,806,303)	(64,391,209)	(47,716,053)
Increase (Decrease) in Cash and Cash Equivalents		24,169,645		(31,493,912)	
Cash and Cash Equivalents at the beginning of the year		95,918,685		127,412,597	
Increase/(decrease) in cash and cash equivalents		24,169,645		(31,493,912)	
Cash and Cash Equivalents at the end of the year		120,088,330		95,918,685	

*To provide a better presentation, the additional information (interest paid, income taxes paid, interest received, and dividends received) previously disclosed in a dedicated table following the statement of cash flows has been included in the line item net cash from/(used in) operating activities, restating the comparative information from 2018.

Statement of changes in shareholders' equity

(In thousands of Euro)											
Note 18	Share capital	Treasury share reserve	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 01.01.2019	16,879	(251)	4,188	2,995	478,378	25,478	(806)	(1,199)	12,353	83,313	621,328
Profit/(loss) for 2019										124,211	124,211
Other comprehensive income/(losses)							1,678	(293)			1,385
Total comprehensive income (loss)	-	-	-	-	-	-	1,678	(293)	-	124,211	125,596
Allocation of 2018 result					25,941					(25,941)	-
Distribution of dividends										(57,372)	(57,372)
Treasury share repurchase		(2,525)									(2,525)
Stock Grant Reserve									(343)		(343)
As at 31.12.2019	16,879	(2,776)	4,188	2,995	504,319	25,478	872	(1,492)	12,010	124,211	686,684

(In thousands of Euro)											
	Share capital	Treasury share reserve	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 01.01.2018	16,879	-	4,188	2,995	429,505	25,478	7,449	(1,181)	12,480	113,013	610,806
Profit/(loss) for 2018										83,313	83,313
Other comprehensive income/(losses)							(8,255)	(18)			(8,273)
Total comprehensive income (loss)	-	-	-	-	-	-	(8,255)	(18)	-	83,313	75,040
Allocation of 2017 result					48,873					(48,873)	-
Distribution of dividends										(64,140)	(64,140)
Treasury share repurchase		(251)									(251)
Stock Grant Reserve									(127)		(127)
As at 31.12.2018	16,879	(251)	4,188	2,995	478,378	25,478	(806)	(1,199)	12,353	83,313	621,328

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 operated 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 2019 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 10 March 2020.

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 2018 and 2017 is given below.

Ferragamo Finanziaria S.p.A. (In Euro)	31 December 2018	31 December 2017
STATEMENT OF FINANCIAL POSITION		
ASSETS		
B) Fixed assets	166,312,869	202,876,967
C) Current assets	142,466,156	40,805,581
D) Accruals and Deferrals	702	230
TOTAL ASSETS	308,779,727	243,682,778
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	115,713,388	115,515,072
- Profit (loss) for the year	131,233,249	40,380,796
B) Provisions for risks and charges	376,194	518,387
D) Payables	11,631,585	37,441,450
E) Accruals and Deferrals	75,351	77,113
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	308,779,727	243,682,778
Guarantees, commitments and other risks	-	-
INCOME STATEMENT		
A) Value of production	100,283,774	88,072
B) Costs of production	(3,492,160)	(2,534,315)
Difference between value and costs of production	96,791,614	(2,446,243)
C) Financial income and charges	35,240,555	42,550,657
Profit before taxes	132,032,169	40,104,414
Income taxes for the year, current and deferred	(798,920)	276,382
Profit (loss) for the year	131,233,249	40,380,796

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 2019 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 liabilities 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 liabilities 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. To provide a better presentation, the additional information (interest paid, income taxes paid, interest received, and dividends received) previously disclosed in a dedicated table following the statement of cash flows has been included in the line item net cash from/(used in) operating activities, restating the comparative information from 2018.

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 2019 are the same as those adopted in previous years with the exception of international accounting standards newly adopted in 2019.

Discretionary valuations and significant accounting estimates

The preparation of the Separate 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 Company's products are subject to fashion market trends, product inventories at the end of the season or, in the case of fragrances, at the end of the life cycle of the individual item, are subject to impairment. Specifically, the provision for obsolete inventory of finished products reflects management's estimate of the expected impairment losses on the products of the collections of previous seasons, considering the ability to sell them through the Company's various distribution channels. Generally, impairment assumptions involve percentages of impairment that become greater the older the collections are, so as to reflect the decline in selling prices in secondary channels (mainly outlets) on the one hand, and on the other hand, the decrease in the probability of selling them as time goes by. This percentage is based on both a statistical analysis of the change in inventory age and an assessment of the consistency in the use of percentages over time. In case of changes in available information, the percentages are reassessed and adjusted as needed. The provision for obsolete raw materials reflects management's estimates of the decline in the probability they will be used based on the calculation of slow-moving raw materials;
- provision for bad debt relating to wholesale sales, which is linked to the solvency and standing of customers with whom the Company has well-established and consolidated relations; the Company uses

a matrix to calculate Expected Credit Losses (ECLs) on trade receivables. The provisioning rates are based on the days past due for each customer category grouped in the different segments that present similar historical loss experiences (for instance, by geographic area, product type, customer type, rating, and guarantees). The matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (for example, country risk) are expected to deteriorate over the next year, which can lead to an increased number of defaults in the country concerned, the historical default rates are adjusted accordingly. At every reporting date, the Company updates historical observed default rates and analyzes changes in forward-looking estimates. The assessment of the correlation between historical observed default rates, forecast economic conditions, and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and in forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. For more details on the analysis of credit risks, please refer to notes 3 and 13;

- provisions for risks and charges, in particular expected future expenses and costs relating to ongoing or foreseeable disputes;
- rights of return to adjust revenue from contracts with customers. Some contracts to sell goods include a right of return. The Company has concluded that the expected value method is the most appropriate to estimate the amount of variable consideration on sales of goods with rights of return, considering the large number of contracts with similar characteristics;
- 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 20;
- deferred tax assets, which are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences or any tax losses can be utilized. In this regard, the 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 29;
- fair value of share-based payment plans, settled in either cash or shares, that the Company uses to provide incentives to the Group's management; for details about the assumptions underlying the measurement of share-based payment plans at fair value, reference should be made to note 40.
- risk of defeat in the disputes involving the Company; the Company recognizes a liability when facing legal disputes and lawsuits if it believes it is probable that they will require an outflow of financial resources and a reliable estimate can be made of the amount of the potential losses. Given the uncertainty surrounding the outcome of these proceedings, it is hard to reliably estimate the outflow of resources that will be required to settle them, therefore the amount of the provisions for legal disputes may change as a result of future developments in the outstanding proceedings. The Company monitors the status of ongoing lawsuit and proceedings and consults with its legal advisors as well as legal experts. Moreover, the Company assesses uncertain tax positions and, if required, recognizes a liability

In addition, as of 1 January 2019, following the adoption of IFRS 16, the Company made the significant accounting estimates reported below in its capacity as lessee:

- Lease term: the identification of the lease term is a very significant issue, as the form, regulations, and business practices related to property lease agreements vary significantly from one jurisdiction to another, and assessing the impact on the estimated lease term of the options to renew the lease at the end of the non-cancellable period requires using assumptions. In defining the lease term, the Group considered whether either the lessee or lessor, or both, have renewal and termination options, respectively. When renewal options exercisable by both parties to the agreement exist, the Group considered whether there are significant economic incentives to refuse the renewal request, in accordance with paragraph B34 of IFRS 16. When there are options exercisable by only one of the two parties, the Group considered paragraph B35 of IFRS 16. Applying the above, considering the specifics facts and circumstances as well as the estimate of whether it will be reasonably certain that the option will be exercised, resulted in the following:
- For annual leases that are automatically renewed except in the event of termination, the Group considered an average term of five years based on historical evidence;
- In the other cases, if only the Company can exercise the option, we considered a lease term until the end of the second renewal term, based on historical evidence and the fact that a renewal beyond the second term could not be considered reasonably certain.

After the lease commencement date, the Company reassesses the lease term upon the occurrence of a significant event or a significant change in circumstances that is within the control of the Company and affects whether the

lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

In June 2019, the IFRS Interpretation Committee began discussing the topic of the lease term (project: Lease Term and Useful Life of Leasehold Improvements). In November 2019, the Committee published a decision that clarifies how to read and relate the concepts of non-cancellable period, lease term (considered for the purposes of recognizing the liability), and enforceable period (allowing to identify the moment in which the contract does no longer generate enforceable rights and obligations) to each other for the purposes of applying IFRS 16. The decision clarified that, for the purposes of identifying the enforceable period, a lessee shall consider the contractual moment when both parties may exercise their right to terminate the contract without incurring penalties that are not immaterial; the concept of penalty is not to be interpreted in a strictly contractual sense, but shall rather be viewed considering all the economics of the contract. After identifying the enforceable period, when renewal or termination options exist, the lessor shall assess for which period it is reasonably certain to control the right to use the asset, and thus determines the lease term. The Company considered such discussions and conclusions at the reporting date and will continue monitoring how they evolve over time.

- Definition of the discount rate: as most leases entered into by the Company do not contain an implicit interest rate, the Company calculated an Incremental Borrowing Rate (IBR). To determine the IBR it should use to discount future lease payments, the Company identified existing leases as a portfolio of leases with similar characteristics and determined the relevant IBR as the interest rate of a risk-free instrument in Italy (where the leases were entered into), based on the different lease terms, increased by the Group's Credit spread.

With respect to 2018 – before the adoption of IFRS 16 and in relation to commercial lease contracts entered into – the Company had 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 remained with the lessor; therefore, these contracts were 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, if necessary, 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), Right-of-use assets, Intangible assets with a finite useful life, Investments

The book value of Property, plant and equipment, Right-of-use assets, Intangible assets with a finite useful life, and Investments is subject to impairment testing (events or changed situations suggesting that the book value cannot be recovered) when there are indicators of impairment which require an immediate assessment of impairment, or when events have occurred which require the procedure to be repeated. Impairment exists when the book value of an asset or cash flow generating unit exceeds its recoverable value, which is the higher of its fair value less the costs of sale and its value in use. The calculation of the fair value less the costs of sale is based on the data available from sale binding transactions between free and independent parties involving similar assets or observable market prices, less the extra costs relating to the disposal of the asset. The value in use is calculated based on discounted cash flow models using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset. The cash flows are taken from the business plans prepared by senior management, which represent the best estimate made by the Company on the economic conditions set for the plan period. The plan forecasts refer to a time period of three years, 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, 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. The carrying amount of an item of property, plant and equipment and each initially recognized significant component is derecognized on disposal (i.e. on the date the buyer obtains control over it) or when no future economic benefits are expected from its use or disposal. The gain/loss arising from the derecognition of the asset (calculated as the difference between the net carrying amount of the asset and the consideration received) is included in profit or loss when the item is derecognized.

Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. The contract is, or contains, a lease if it provides the right to control the use of a specific asset for a period of time in exchange for consideration.

The Company uses the exemption under IFRS16 for intangible assets.

The Company as lessee

The Company applies a single accounting model for all leases to which it is lessee, except for short-term leases and leases of low-value assets. The Company recognizes a financial lease liability and a right-of-use asset.

Right-of-use assets:

The Company recognizes a Right-of-use asset at the lease commencement date (that is the date on which the underlying asset is available for use by the lessee). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses determined as described below, and adjusted for any remeasurement of lease liabilities. The cost of Right-of-use assets includes the amount of the recognized lease liability, initial direct costs incurred, lease payments made at or before the commencement less any lease incentives received, and the estimate of costs to be incurred by the Company in restoring the underlying asset to its original condition, if required by the lease.

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, depreciation is calculated on a straight-line basis over the shorter of the lease term and the useful life of the asset as follows:

	Useful life
Buildings	33 years
Equipment and other assets	3-5 years
Vehicles	3-4 years

Right-of-use assets are tested for impairment should events or changes in circumstances 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 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.

Lease liabilities:

At the commencement date of the lease, the Company recognizes a lease liability measured at the present value of future lease payments to be made over the lease term. Future payments include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the Company is reasonably certain to exercise the option to terminate. The variable lease payments that do not depend on an index or a rate, but that in the case of the Company mainly depend on sales volumes, continue to be recognized as costs for services in profit or loss. In calculating the present value of future payments, the Company uses the Incremental Borrowing rate (IBR) at the lease commencement date. Subsequently, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the lease liability is remeasured to account for any change in the terms of the lease.

Short-term leases and leases of low-value assets:

the Company has elected not to apply IFRS 16 to short-term leases (leases with a lease term of 12 months or less) and leases for which the underlying asset is of low value (less than 5,000 Euro). Payments on these leases are recognized as expense on a straight-line basis in accordance with the terms and conditions of the lease.

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.

The Group capitalizes the initial direct costs incurred in obtaining an operating lease and recognizes those costs as an expense over the lease term on the same basis as the lease income

Business combinations

Business combinations are accounted for using the acquisition method.

The acquisition cost is valued as the total of the transferred consideration measured at fair value at the acquisition date and the amount of any minority interests in the acquired company.

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

Intangible assets

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

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

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

	Useful life
Industrial patents and intellectual property rights	2-5 years
Concessions, licenses and trademarks	10 years
Development costs	3-5 years

An intangible asset is derecognized on disposal (i.e. on the date the buyer obtains control over it) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

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 with 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.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The general rule in IFRS 9 is that an entity shall recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

Financial assets

On initial recognition, financial assets are classified according to their contractual cash flow characteristics and the business model under which they are held. The assessment of the contractual cash flow characteristics is known as the SPPI ('solely payments of principal and interest "SPPI"') test and is conducted for each instrument. However, identical financial instruments may be analyzed in groups, since the outcome of the test would not be different than under an individual or separate assessment.

The Company's business model for managing financial assets refers to how the Company manages financial assets in order to generate cash flows. The business model determines whether the cash flows will result from the collection of contractual cash flows, sales proceeds, or both. Based on these characteristics, financial assets are classified into four categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through other comprehensive income with reclassification of cumulative gains and losses (debt instruments);
- Financial assets at fair value through other comprehensive income without reclassification of cumulative gains or losses on disposal (equity instruments);
- Financial assets at fair value through profit or loss.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15.

After initial recognition, the Company measures financial assets at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in the statement of profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include trade receivables, loans to subsidiaries, and guarantee deposits.

Financial assets at fair value through other comprehensive income (debt instruments)

The Company measures debt instruments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through other comprehensive income, gains and losses are recognized through other comprehensive income except for changes resulting from exchange differences and impairment losses, as well as reversals, which are recognized in the statement of profit or loss. Upon derecognition, the cumulative fair value change recognized in other comprehensive income is recycled to profit or loss; the amounts recognized through profit or loss are the same that would have been recognized if the financial assets had always been measured at amortized cost. The Company currently does not have this type of instruments.

Investments in equity instruments

Under IFRS 9, all equity instruments, including derivatives on these instruments, shall be measured at fair value through profit or loss on the assumption that they do not give rise to the contractual cash flows required to pass the SPPI test. However, upon initial recognition, the Company may irrevocably classify its equity investments as equity instruments at fair value through other comprehensive income when they meet the definition of equity instruments as per IAS 32 "Financial Instruments: Presentation" and are not held for trading. The classification is determined for each individual instrument. This category includes Investments in subsidiaries.

Investments

Investments in subsidiaries are measured 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 assets at fair value through profit or loss

In general, IFRS 9 defines the classification at fair value through profit or loss as a residual category to be applied to all those financial assets that, because of their contractual characteristics, are not measured at amortized cost or at fair value through other comprehensive income. However, the Company may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise from recognizing the gains and losses on the asset on different bases. Although this may be considered an accounting policy choice, the standard does not require applying it consistently to all similar transactions.

Financial instruments at fair value through profit or loss are carried in the statement of financial position at fair value, with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments. Derivatives, including separated embedded derivatives, are classified as financial instruments held for trading, unless they are designated as effective hedging instruments.

A derivative embedded in a non-derivative hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the

definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss

Reclassification

A financial asset is reclassified only if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be expected or the Company changes its business model for managing financial assets. The reclassification shall be applied prospectively from the date of reclassification, without restating any previously recognized gains, losses, and interest.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or
- the Company has transferred the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party and (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, whereby it retains the contractual rights to receive cash flows from the asset, but assumes a contractual obligation to pay the cash flows to one or more recipients, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When all the risks and rewards of ownership of the financial assets are substantially transferred, the Company derecognizes the financial asset and recognizes any rights and obligations created or retained as separate assets or liabilities; otherwise, the financial asset continues to be recognized. When it has neither transferred nor retained substantially all of the risks and rewards, nor lost control over the asset, the Company continues to recognize the asset to the extent of its continuing involvement; when control over the financial assets is not retained, the Company derecognizes the financial asset and recognizes any rights and obligations created or retained as separate assets or liabilities. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. Specifically, the impairment model applies to all financial assets measured at amortized cost and at fair value through other comprehensive income, but not to financial assets at fair value through profit or loss. In addition, the following types of instruments also fall within the scope of the model:

- Loan Commitments not measured at FVTPL;
- Financial guarantees within the scope of IFRS 9;
- Lease receivables within the scope of IFRS 16;
- Contract Assets within the scope of IFRS 15.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The cash flows that the Company expects to receive depend on the probability of a default by the counterparty and the amount it expects to be able to recover; the expected cash flows will therefore include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Under the general approach of the Standard, the impairment of financial assets is determined based on the monitoring of the counterparties' credit standing. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. More specifically, for the above financial assets, the Company adopts the practical expedient of the provision matrix to calculate impairment, i.e. has established a matrix system based on historical collection information, adjusted for forward-looking factors specific to the debtors and the economic environment, as a means to determine expected credit losses.

Financial liabilities

Financial liabilities are classified and measured at amortized cost using the effective interest rate method, except for those financial liabilities that are classified at fair value through profit or loss because they do not meet the conditions for the measurement at amortized cost. This is the case of financial liabilities held for trading. In

addition, the Company may, at initial recognition, irrevocably designate a financial liability as at fair value through profit or loss if doing so would result in more relevant information, as:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases;
- a group of financial assets or liabilities is managed and measured at fair value in accordance with a risk management policy or based on an investment strategy, and information about the group is provided internally on that basis to key management personnel.

Derivatives with negative fair values are also classified and measured at fair value through profit or loss, except for those held as effective hedging instruments. All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings as well as payables, directly attributable transaction costs. The Company’s financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

The measurement of financial liabilities depends on their classification as financial liabilities at fair value through profit or loss and loans & borrowings at amortized cost.

Financial liabilities at fair value through profit or loss: financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of settling or transferring them in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of profit or loss. Financial liabilities are designated at fair value through profit or loss upon initial recognition, only if the criteria in IFRS 9 are satisfied. Upon initial recognition, the Company has not designated any financial liability as at fair value through profit or loss.

Financial liabilities at amortized cost (loans and borrowings): after initial recognition, loans are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included as finance costs in the statement of profit or loss.

It is not possible to reclassify financial liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments such as: foreign exchange forward contracts, to hedge financial risks relating to exchange rate fluctuations affecting commercial transactions in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into, and are subsequently measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. As allowed under IFRS 9 paragraph 7.2.21, the Company elected to apply IAS 39 for the purpose of hedge accounting.

In keeping with the provisions of IAS 39.88 and IFRS 9.6.4.1, hedging derivatives are eligible for hedge accounting only when:

- At the inception of the hedge, there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedge is likely to be highly effective;
- for cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to the measurement of cash flows that could affect profit or loss;
- 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 as well as a firm commitment 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. In the case of a firm commitment, the fair value of the component related to the hedged risk is recognized as an asset or liability, adjusting the line item in the statement of financial position that will be affected by the firm commitment upon its realization.
- 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 or a firm commitment 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.

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.

Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale or cancellation of treasury shares. Any difference between the purchase value and the consideration, in the event of a sale and/or grant, is recognized in a reserve in equity.

Inventories

Inventories are measured 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.

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.

The methods for determining fair value in reference to 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.

Costs

Costs are recognized when related to goods or services sold or consumed during the period or systematically allocated, or when it is not possible to identify their future usefulness.

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.

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

Revenues from contracts with customers

Revenues from contracts with customers are recognized when control of goods or services transfers 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.

Sale of goods

Revenues from the sale of goods are recognized when control of the good passes to the customer, generally upon shipment depending on the terms applied.

The Company considers whether the contract includes other promises representing performance obligations to which part of the consideration for the transaction must be allocated (for example guarantees). When determining the transaction price for the sale of goods, the Company considers the effects of variable consideration, significant financing components, non-cash consideration, and consideration payable to the customer (if any).

- **Right of return**

Some contracts allow customers to return goods within a specified period of time. The Company uses the expected value method to estimate the goods that will not be returned, as this method better predicts the amount of variable consideration to which the Company will be entitled. The guidance in IFRS 15 regarding the constraints on the recognition of variable consideration applies to the determination of the amount of variable consideration that can be included in the transaction price. The Company adjusts revenues for the goods expected to be returned, and recognizes a liability for the refunds. The right of return of an asset (and the corresponding adjustment to the changes in inventories of finished products) is recognized also for the right to recover goods from customers.

Royalties

Revenues from royalties derive from sales-based royalties arrangements with customers, and are therefore recognized based on the stage of completion of the licensee's sales in accordance with the terms of the agreement.

Right of return assets

A right of return asset represents the Company's right to recover goods expected to be returned from customers. The asset is measured at the previous carrying amount of inventories less any costs for its recovery, including any impairment of the returned products. The Company regularly updates the estimated amount of returns from customers as well as any additional impairment of the returned products.

Refund liabilities

The refund liability represents the obligations to refund some or all of the consideration received (or to be received) from the customer and is measured based on the amount the Company expects to be refunded to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Share-based payment plans

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

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

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

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

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

Cash-settled transactions

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

Financial income and charges

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

Dividends

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

Income Taxes

Current taxes

Current income taxes are determined in relation to taxable income and in compliance with the rates and provisions in force; payables for current taxes are recognized in the statement of financial position, net of any tax advances paid.

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

Deferred taxes

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

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

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

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

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

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

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

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

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

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

Value added tax

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

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

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

Put and call agreements on minority interests

Put and call agreements are financial instruments in compliance with the provisions of IFRS 9.

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

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaced 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 recognizes 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 are 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 generally recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Conversely, the standard does not introduce significant changes for lessors.

The Company has applied IFRS 16 starting from 1 January 2019, completing a two-stage project in early 2019: the first stage consisted in an assessment, which began in 2017 and was completed in 2018, while the second stage involved implementing the new corporate IT system dedicated to supporting accounting operations as required by the introduction of the new accounting standard.

Specifically, as for leases previously classified as operating leases, the Company recognized:

- a) a financial liability, equal to the present value of future lease payments outstanding at the date of transition, discounted using the applicable incremental borrowing rate at the date of transition;
- b) a right-of-use asset equal to the amount of the financial liability at the date of transition, less any accruals or deferrals referring to the lease and recognized in the statement of financial position as at 31 December 2018.

As at 1 January 2019, the first-time adoption of IFRS 16 significantly impacted the Company's separate financial statements, as the following table shows:

(In thousands of Euro)	Impacts of the first-time adoption IFRS 16 at 01.01.2019
Right-of-use assets	90,845
TOTAL NON CURRENT ASSETS	90,845
Other current assets	(394)
TOTAL CURRENT ASSETS	(394)
TOTAL ASSETS	90,451
Other reserves (effect of first-time adoption of IFRS 16)	-
TOTAL SHAREHOLDERS' EQUITY	-
Other non current liabilities	(1,247)
Non current lease liabilities	59,171
TOTAL NON CURRENT LIABILITIES	57,924
Current lease liabilities	32,527
TOTAL CURRENT LIABILITIES	32,527
TOTAL LIABILITIES	90,451
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	90,451

The other impacts on the Company's financial statements, detailed in the subsequent explanatory notes, can be summarized as follows:

- income statement: since it presents costs by nature, the Company recognized a decline in costs for services and, therefore, an increase in amortization, depreciation and write-downs as well as financial charges. In addition, compared to IAS 17, the combination of straight-line depreciation of the “right-of-use asset” and the effective interest rate method applied to the lease liability result in higher financial charges to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term;
- classification of the repayment of lease liabilities into Net cash from financing activities and the interest expense on lease liabilities into Net cash from operating activities;
- alternative performance measures: the mentioned change in the nature, qualification, and classification of expenses affects EBITDA, operating profit, net invested capital, Net Financial Debt, Cash Flows, and the other measures of the Group's financial performance and financial position. Therefore, management has introduced certain performance indicators restated by excluding the impact of IFRS16 in the Report on operations attached to these Separate Financial Statements.

The impacts of the adoption of IFRS 16 all but entirely refer to property lease agreements (premises used as stores/DOS, warehouses, offices) and, to a lesser extent, leases of vehicles, equipment, and other assets.

In adopting IFRS 16, the Company used the exemptions under the standard. Specifically, it used:

- the exemption for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets (i.e. the assets underlying the lease have a value of 5,000 Euro or less when new). The leases to which the latter exemption was applied largely fall within the category of Equipment and other assets. For these leases subject to exemption, the introduction of IFRS 16 did not require recognition of a financial lease liability and the corresponding right-of-use asset, but lease payments are recognized through profit or loss on a straight-line basis over the term of the relevant leases and the relevant liability is recognized under trade payables, as in the past;

- the exemption from applying IFRS16 to intangible assets, specifically with respect to the software used by the Company.

The Company applied the practical expedient as per IFRS 16:C3, which allows to grandfather previous conclusions reached under IFRIC 4 and IAS 17 as to whether a specific contract is, or contains, an operating lease. Such practical expedient was applied to all contracts, in accordance with IFRS 16:C4. Therefore, the Company did not apply the standard to contracts that were not previously identified as leases under IAS 17 and IFRIC 4.

The Company used the practical expedient in IFRS 16 concerning the separation of non-lease components for the Vehicles category. The non-lease component for this category was not separated and accounted for separately from lease components, but rather considered together with the latter when determining the financial lease liability and the corresponding right-of-use asset.

In addition, with respect to the transitional provisions, the Company used the following additional practical expedients:

- Classification of leases for which the lease term ends within 12 months of the date of transition as short-term leases. For these leases, lease payments were recognized through profit or loss on a straight-line basis;
- Exclusion of initial direct costs from the measurement of the right-of-use asset as at 1 January 2019;
- The Company applied a single IBR to a portfolio of leases with reasonably similar characteristics, such as leases with a similar remaining lease term entered into in Italy;
- Use of hindsight in determining the lease term, especially concerning the exercise of options to extend or terminate the lease.

To provide a better understanding of the impacts of initially applying the standard, the following table shows the reconciliation between future commitments associated with leases, disclosed in note 43 of the Explanatory notes to the separate financial statements as at 31 December 2018, and the impact of adopting IFRS 16 as at 1 January 2019.

(In millions of Euro)	
Reconciliation of lease commitments	
Operating lease obligations as at 31 December 2018	66
Short-term and low-value lease payments	(3)
Other changes*	46
Non-discounted financial lease liability as at 1 January 2019	109
Discounting effect	(17)
Discounted financial lease liability as at 1 January 2019	92

* Other changes are largely related to operating lease renewal periods considered within the financial liability as at 1 January 2019.

The transition to IFRS 16 requires the exercise of professional judgment that involves defining some accounting policies as well as using assumptions. Below is a summary of the main assumptions and estimates:

- Lease term: for details on the estimates used to identify the lease term, please refer to the paragraph “Discretionary valuations and significant accounting estimates” in the Explanatory Notes to these Separate Financial Statements.

- Definition of the discount rate: for details on the estimates used to determine the rate for discounting future lease payments, please refer to the paragraph “Discretionary valuations and significant accounting estimates” in the Explanatory Notes to these Separate Financial Statements. The weighted average IBR used for the transition was 3.24%.

- Right-of-use assets: the Company recognizes right-of-use assets at the commencement date of the lease (i.e. the date on which the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the leased asset. Right-of-use assets are tested for impairment.

- Lease liabilities: at the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of future lease payments to be made over the lease term. Future payments include fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments that do not depend on an index or a rate, but that in the case of the Company mainly depend on sales volumes, continue

to be recognized as costs for services in profit or loss. In calculating the present value of future payments, the Company uses the Incremental Borrowing rate (IBR) at the lease commencement date. Subsequently, the lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the lease liability is remeasured to account for any change in the terms of the lease.

The Company acts also as lessor. Leases in which the Company acts as lessor have been classified as operating leases and, as such, recognized as previously done under IAS 17. This is also in accordance with the new standard IFRS 16, which does not require transitional changes for these leases.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

The interpretation specifically addresses the following:

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

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Company applied the interpretation starting from its effective date. Since its current accounting policy was aligned with the interpretation, there were no impacts on its separate financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment clarifies that the measurement of the payment for the early termination of the contract by a lender is irrespective of which party pays or receives it. The amendment is effective for annual periods beginning on or after 1 January 2019, and application is retrospective. This amendment did not have any impact on the separate financial statements.

Annual improvements 2015-2017 cycle

These improvements include:

- IFRS 3 Business Combinations: the amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation;
- IFRS 11 Joint Arrangements: a party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured;
- IAS 12 Income taxes: the amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.
- IAS 23 Borrowing costs: the amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity shall apply these amendments to borrowing costs incurred on or after the beginning of the annual period in which the entity first applies such amendments.

The amendments are effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted. The Company applied the interpretation starting from its effective date.

Amendments to IAS 19: Plan amendment, curtailment or settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity must:

- determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that

effect, excluding amounts included in net interest, is recognized in other comprehensive income. The amendments to IAS 19 must be applied to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Earlier application is permitted. These changes will apply only to the Company's potential future plan amendments, curtailments or settlements (currently there are none).

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.

Amendments to “References to the Conceptual Framework in IFRS Standards”

The IASB issued the Conceptual Framework in March 2018, setting out a comprehensive set of concepts for financial reporting, the definition of standards, the development of consistent accounting policies, and the assistance to understand and interpret standards. It introduces some new concepts, provides updated definitions and recognition criteria for assets and liabilities, and clarifies some important concepts.

Amendments to IFRS 3 – Definition of a Business

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to assist entities to determine whether an acquired set of assets and liabilities is a business. These clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business. The Board provided also new illustrative examples in addition to the amendments.

Amendments to IAS 1 and IAS 8

In October 2018, the IASB issued amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors to align the definition of “material” across the standards and to clarify certain aspects of the definition. The new definition states that “Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.” The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 9, IAS 39, and IFRS 7 “Financial Instruments: Disclosures”, which mark the end of the Phase 1 of its project to address the effects of the Interbank Offered Rates (IBOR) reform on financial reporting. The amendments include temporary changes that make hedge accounting applicable during the period of uncertainty caused by the replacement of the pre-existing Interest Rate Benchmark with an alternative risk-free interest rate. The amendments assume that the benchmark on which the hedged cash flows and/or the hedging instrument are based will not be altered as a result of the IBOR reform. The amendments shall be applied retroactively. The amendments are effective for annual periods beginning on or after 1 January 2020. The Company will monitor the evolution of the changes being made to the reform.

3. Management of financial risks (IFRS 7)

Salvatore Ferragamo S.p.A. monitors, also on a Group basis, the exposure in different measure to the various financial risks related to its business, in particular to the market risk category which includes the following types of risk:

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

Financial risks are managed on the basis of guidelines defined by the Company, in compliance with the goals set centrally by the Board of Directors. This enables the supervision and coordination of the operations of the individual Group companies, also through more effective financial planning and control, the systematic monitoring of the levels of exposure to financial risks as well as the trend in cash management, and the provision of useful indications in order to optimize the management of dealings with the reference credit institutions.

In accordance with these directives, control over the management of individual financial risks is ensured through intervention aimed at containing their impact, also by using derivatives. Derivatives are used for hedging purposes

only. In accordance with IFRS, some derivatives have been classified as held for trading, although they have been entered into solely for hedging purposes.

Financial liabilities largely consist of trade payables, payables to banks (if any), other financial payables, and lease liabilities following the introduction of the new accounting standard IFRS16. The management of these liabilities is largely aimed at financing the Group's operations.

Interest rate risk

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

Interest rate risk can be classified as follows:

- flow risk, which refers to the variability in interest income and expense received and paid following changes in market interest rates;

- price risk, relating to the sensitivity of the assets and liabilities market value to changes in the level of interest rates (it refers to fixed rate assets or liabilities).

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

Bank debt is wholly represented by short-term, floating-rate loans. The cost of bank debt is benchmarked to the market rate (generally Euribor/Libor for the period or the benchmark of the loan currency on the specific interbank market) in the period increased by a spread which depends on the type of line of credit used. Uses of the lines range from one day to a maximum of one year. The margins applied are in line with best market standards.

Cash surpluses are held in current accounts with reference banks, which bear interest at the Euribor/Libor rate or the benchmark of the relevant currency on the specific interbank market, or invested 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.

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 2019 and 2018, considering the amounts of sensitive assets and liabilities, interest rate trends, and the relevant market volatility, which reached negative levels or levels close to zero, showed no contingent gains or losses through profit or loss.

The possible upward or downward change in the market's benchmark interest rates has an immaterial impact on the Company's income statement.

Exchange rate risk

The exposure to exchange rate risk derives from operations in currencies other than the accounting currency, i.e. the Euro.

In particular, the exchange rate risk can be classified based on the nature of the exposure and of the effects on operating results due to the different relevance of costs and revenues in foreign currency compared to the moment when the price conditions were defined (economic risk) and due to the translation of trade or financial receivables and payables denominated in foreign currency (settlement risk).

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

The objective of the exchange rate risk hedging policy is to minimize the economic and settlement exchange rate risks, i.e. the risks arising from the possibility that currency parity changes unfavorably during the period between the moment in which a commitment to pay or a right to collect a currency other than the Euro is expected for a future date (definition of budgets, setting of price lists, arrangement of orders), the registration of the accounting document (invoicing) and the moment in which the receipt or payment effectively occurs, generating an effect in terms of translation differences, with an impact on the income statement.

In keeping with the exchange rate risk management policy adopted in recent years, the Company manages exchange rate risk arising from its business, in line with the provisions of the exchange rate risk management policy and the risk management objectives that are periodically established, through the systematic hedging of commercial flows arising from sales forecast in currencies other than the Euro, to both subsidiaries and third parties, with the aim of mitigating the expected risk of variability in margins arising from sales relating to future collections.

The Group has a strong presence on international markets, including through commercial companies located in countries which use currencies other than the Euro, mainly the US dollar, Japanese yen and Chinese renminbi. In the year ended 31 December 2019, around 38% of the Company's net revenues were denominated in US dollars, around 8% in Chinese renminbi, around 6% in Japanese yen, around 5% in South Korean won, and around 5% in Mexican peso. In the year ended 31 December 2018, around 35% of the Company's net revenues were denominated in US dollars, around 8% in Chinese renminbi, around 6% in Japanese yen, around 6% in South Korean won, and around 4% in Mexican peso. The currency risks originate mainly from exports of the Company in US dollars, Chinese renminbi, Japanese yen, South Korean won, and Mexican peso.

In relation to its business model, the Group incurs a significant part of its costs in Euro (costs relating to production and management of the corporate structure borne by Salvatore Ferragamo S.p.A.), while the revenues and costs recorded by Group companies are mainly expressed in the local currencies of the respective reference markets. Exchange rate risk management is mostly focused on the Company through the direct invoicing in the accounting currency of the subsidiary in order to hedge the exposure deriving from sales in currencies other than the Euro by entering into derivatives. In particular, the Company is exposed to changes in the exchange rate between the Euro and the US dollar, in relation both to sales in Dollars on the North American market and on some markets, mainly in Asia. In this context, the Company is exposed to changes in the exchange rates of the currencies in which sales are denominated. This implies the risk that the corresponding value in Euro of revenues determined at the moment of collection is insufficient to cover production costs or to achieve the desired profit margin. This risk is heightened during the significant period between the moment when the sale prices of a collection are set and the moment when revenues are converted into Euro, which extends up to 18 months.

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

To this end, on the basis of market expectations and conditions, before establishing price lists, and in any case not after the beginning of the sales campaign, hedging is arranged for an amount generally between 50% and 90% of forecast sales in foreign currency. This proportion is calculated based on the expected overall exposure, rather than the individual foreign currency. In the period following the preparation of the price list, the total outstanding hedge is added for the orders effectively managed and put into production. 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 2019 and 31 December 2018:

Exchange rate risk (In thousands of Euro)	Cash flow hedge	
	2019	2018
Opening balance	(1,059)	9,802
+ increases for recognition of new positive effectiveness	3,686	10,145
- decreases for recognition of new negative effectiveness	(9,225)	(16,699)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income	(2,854)	(14,995)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in	10,600	10,689
Closing balance	1,148	(1,059)

Overall, the "Reserve", which consists of the value changes in hedges for expected transactions in foreign currency, increased by 2,207 thousand Euro overall during 2019, whereas it had declined by 10,861 thousand Euro in 2018. The changes in value reflect the performance of the Euro against the main hedged currencies. Specifically, the Euro constantly depreciated against the US Dollar throughout 2018 (falling from 1.24 to 1.15) and 2019 (1.15 and 1.1) after appreciating sharply in 2017 (from 1.08 to 1.24). Meanwhile, over the last two years the Japanese Yen has been gradually appreciating relative to the Euro, shifting from 135 to 120, after depreciating steadily in 2017 (from 121 to 136). 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 7,746 thousand Euro in 2019, compared to a positive 4,306 thousand Euro in 2018. During 2019-2018, no hedge was interrupted due to the cancellation of the expected underlying value. Hedges were one hundred percent effective for the whole duration of the underlying asset.

A hedge may become ineffective as a result of:

- Differences in the timing of cash flows of the hedged item and the hedging instrument;
- Changes in the expected amount of cash flows of the hedged item and the hedging instrument.

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 2019 and 2018. 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)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total expected flows
31 December 2019						
Foreign exchange forward contracts						
Notional amount in USD	31,000	55,000	91,000	45,000	-	222,000
Average forward exchange rate (EUR/USD)	1.142	1.150	1.144	1.005	-	
Notional amount in AUD	1,000	2,500	1,000	-	-	4,500
Average forward exchange rate (EUR/AUD)	1.629	1.621	1.614	-	-	
Notional amount in CAD	1,000	3,000	1,000	-	-	5,000
Average forward exchange rate (EUR/CAD)	1.540	1.522	1.548	-	-	
Notional amount in CHF	500	500	-	-	-	1,000
Average forward exchange rate (EUR/CHF)	1.132	1.116	-	-	-	
Notional amount in CNY	70,000	130,000	110,000	50,000	-	360,000
Average forward exchange rate (EUR/CNY)	7.915	7.900	7.973	8.039	-	
Notional amount in GBP	1,500	2,000	1,500	-	-	5,000
Average forward exchange rate (EUR/GBP)	0.881	0.866	0.881	-	-	
Notional amount in HKD	30,000	50,000	45,000	20,000	-	145,000
Average forward exchange rate (EUR/HKD)	8.930	8.918	8.900	8.842	-	
Notional amount in JPY	400,000	1,200,000	1,600,000	1,500,000	-	4,700,000
Average forward exchange rate (EUR/JPY)	125.330	124.793	120.370	118.860	-	
Notional amount in KRW	4,000,000	10,500,000	16,000,000	14,000,000	-	44,500,000
Average forward exchange rate (EUR/KRW)	1,300.084	1,312.443	1,336.612	1,333.471	-	
Notional amount in MXN	40,000	210,000	130,000	40,000	-	420,000
Average forward exchange rate (EUR/MXN)	22.168	23.016	23.335	23.206	-	
Notional amount in SGD	-	2,000	1,000	-	-	3,000
Average forward exchange rate (EUR/SGD)	-	1.6	1.6	-	-	

(In thousands)	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total expected flows
31 December 2018						
Foreign exchange forward contracts						
Notional amount in USD	45,000	23,000	81,000	64,000	-	213,000
Average forward exchange rate (EUR/USD)	1.150	1.154	1.155	1.166	-	
Notional amount in AUD	1,000	1,000	2,500	2,000	-	6,500
Average forward exchange rate (EUR/AUD)	1.579	1.640	1.632	1.609	-	
Notional amount in CAD	2,500	2,500	3,000	1,000	-	9,000
Average forward exchange rate (EUR/CAD)	1.522	1.503	1.514	1.530	-	
Notional amount in CHF	1,000	1,500	1,500	-	-	4,000
Average forward exchange rate (EUR/CHF)	1.128	1.122	1.129	-	-	
Notional amount in CNY	70,000	45,000	125,000	60,000	-	300,000
Average forward exchange rate (EUR/CNY)	7.933	8.044	8.155	8.133	-	
Notional amount in GBP	500	500	2,000	3,500	-	6,500
Average forward exchange rate (EUR/GBP)	0.889	0.888	0.886	0.882	-	
Notional amount in HKD	30,000	30,000	35,000	50,000	10,000	155,000
Average forward exchange rate (EUR/HKD)	9.061	8.961	9.238	9.150	9.119	
Notional amount in JPY	600,000	600,000	1,300,000	1,100,000	-	3,600,000
Average forward exchange rate (EUR/JPY)	127.885	127.849	129.640	128.117	-	
Notional amount in KRW	3,000,000	4,000,000	11,000,000	13,000,000	-	31,000,000
Average forward exchange rate (EUR/KRW)	1,298.100	1,304.600	1,315.745	1,301.854	-	
Notional amount in MXN	100,000	210,000	220,000	40,000	-	570,000
Average forward exchange rate (EUR/MXN)	22.644	22.881	23.331	24.530	-	
Notional amount in SGD	3,000	1,000	2,000	2,000	-	8,000
Average forward exchange rate (EUR/SGD)	1.6	1.6	1.6	1.6	-	

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	9 months to 1 year	over 1 year
31 December 2019						
Exchange rate risk						
Sales expected in USD	160,000	90,000	65,000	5,000	-	-
Sales expected in JPY	4,300,000	1,900,000	1,200,000	1,200,000	-	-
Sales expected in GBP	3,500	3,500	-	-	-	-
Sales expected in MXN	250,000	160,000	90,000	-	-	-
Sales expected in CHF	500	500	-	-	-	-
Sales expected in AUD	2,000	2,000	-	-	-	-
Sales expected in CAD	3,000	3,000	-	-	-	-
Sales expected in CNY	225,000	130,000	60,000	35,000	-	-
Sales expected in HKD	120,000	45,000	45,000	30,000	-	-
Sales expected in SGD	2,000	2,000	-	-	-	-
Sales expected in KRW	36,000,000	16,000,000	16,000,000	4,000,000	-	-

(In thousands)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	9 months to 1 year	over 1 year
31 December 2018						
Exchange rate risk						
Sales expected in USD	153,000	64,000	76,000	13,000	-	-
Sales expected in JPY	3,000,000	1,000,000	1,600,000	400,000	-	-
Sales expected in GBP	6,000	1,300	2,200	2,500	-	-
Sales expected in MXN	400,000	170,000	110,000	120,000	-	-
Sales expected in CHF	3,500	2,000	1,500	-	-	-
Sales expected in AUD	6,000	3,000	3,000	-	-	-
Sales expected in CAD	6,000	3,000	3,000	-	-	-
Sales expected in CNY	210,000	70,000	140,000	-	-	-
Sales expected in HKD	125,000	20,000	75,000	30,000	-	-
Sales expected in SGD	6,000	3,000	3,000	-	-	-
Sales expected in KRW	26,000,000	9,000,000	14,000,000	3,000,000	-	-

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, Chinese renminbi, Japanese yen, South Korean won, Mexican peso, and Hong Kong dollar.

From a time viewpoint, hedges lasting over one year show nil values as at 31 December 2019 as well as 31 December 2018. 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 2019 and 2018.

Below is the impact of the hedged items on the statement of financial position:

(in thousands of Euro)	Expected highly probable sales			
	Carrying amount			
	Notional amount	Cash flow hedge reserve / change in fair value used to measure ineffectiveness	Line item "other current assets"	Line item "other current liabilities"
31 December 2019	268,934	275	1,206	(3,363)
31 December 2018	257,403	(1,059)	1,105	(1,532)

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;
- short and long-term lease 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 2019		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	6.7%	Derivatives	2,514	2,207
			Non-derivatives	(2,582)	
	EUR/USD	5.9%	Derivatives	3,591	7,871
			Non-derivatives	(4,154)	
	EUR/KRW	7.7%	Derivatives	470	1,990
			Non-derivatives	(668)	
	EUR/CNY	4.7%	Derivatives	779	1,298
			Non-derivatives	(637)	
	EUR/MXN	8.6%	Derivatives	1,048	935
			Non-derivatives	(2,124)	
	EUR/GBP	7.0%	Derivatives	496	267
			Non-derivatives	(619)	
	EUR/HKD	5.9%	Derivatives	159	764
			Non-derivatives	(175)	
EUR/SGD	4.7%	Derivatives	1,012	59	
		Non-derivatives	(1,039)		
EUR/THB	6.5%	Derivatives	466		
		Non-derivatives	(462)		
EUR/CAD	5.2%	Derivatives	454	102	
		Non-derivatives	(519)		
Total				(1,990)	15,493
NEGATIVE CHANGE	EUR/JPY	(6.7%)	Derivatives	(2,874)	(2,522)
			Non-derivatives	2,951	
	EUR/USD	(5.9%)	Derivatives	(4,038)	(8,850)
			Non-derivatives	4,670	
	EUR/KRW	(7.7%)	Derivatives	(549)	(2,323)
			Non-derivatives	780	
	EUR/CNY	(4.7%)	Derivatives	(856)	(1,427)
			Non-derivatives	700	
	EUR/MXN	(8.6%)	Derivatives	(1,245)	(1,112)
			Non-derivatives	2,525	
	EUR/GBP	(7.0%)	Derivatives	(571)	(307)
			Non-derivatives	711	
	EUR/HKD	(5.9%)	Derivatives	(179)	(860)
			Non-derivatives	197	
EUR/SGD	(4.7%)	Derivatives	(1,110)	(65)	
		Non-derivatives	1,140		
EUR/THB	(6.5%)	Derivatives	(530)		
		Non-derivatives	525		
EUR/CAD	(5.2%)	Derivatives	(504)	(113)	
		Non-derivatives	576		
Total				2,319	(17,579)

31 December 2018		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	9.7%	Derivatives	1,691	2,114
			Non-derivatives	(1,493)	
	EUR/USD	7.7%	Derivatives	4,003	9,495
			Non-derivatives	(4,310)	
	EUR/KRW	9.1%	Derivatives	325	1,688
			Non-derivatives	(662)	
	EUR/CNY	6.2%	Derivatives	670	1,563
			Non-derivatives	(782)	
	EUR/MXN	14.0%	Derivatives	928	2,184
			Non-derivatives	(2,591)	
	EUR/GBP	10.4%	Derivatives	367	629
			Non-derivatives	(693)	
EUR/HKD	7.8%	Derivatives	243	1,012	
		Non-derivatives	(355)		
EUR/SGD	5.6%	Derivatives	1,754	202	
		Non-derivatives	(925)		
EUR/THB	7.0%	Derivatives	89		
		Non-derivatives	(24)		
EUR/CAD	7.4%	Derivatives	528	264	
		Non-derivatives	(526)		
Total				(1,763)	19,151
NEGATIVE CHANGE	EUR/JPY	(9.7%)	Derivatives	(2,056)	(2,569)
			Non-derivatives	1,814	
	EUR/USD	(7.7%)	Derivatives	(4,666)	(11,069)
			Non-derivatives	5,023	
	EUR/KRW	(9.1%)	Derivatives	(389)	(2,024)
			Non-derivatives	793	
	EUR/CNY	(6.2%)	Derivatives	(759)	(1,770)
			Non-derivatives	885	
	EUR/MXN	(14.0%)	Derivatives	(1,230)	(2,895)
			Non-derivatives	3,434	
	EUR/GBP	(10.4%)	Derivatives	(452)	(774)
			Non-derivatives	853	
EUR/HKD	(7.8%)	Derivatives	(284)	(1,183)	
		Non-derivatives	415		
EUR/SGD	(5.6%)	Derivatives	(1,960)	(226)	
		Non-derivatives	1,034		
EUR/THB	(7.0%)	Derivatives	(102)		
		Non-derivatives	28		
EUR/CAD	(7.4%)	Derivatives	(612)	(306)	
		Non-derivatives	610		
Total				2,379	(22,816)

As the table above shows, a positive change in the exchange rates (*EUR/JPY*, *EUR/USD*, *EUR/KRW*, *EUR/CNY*, *EUR/MXN*, *EUR/GBP*, *EUR/HKD*, *EUR/SGD*, *EUR/THB*, and *EUR/CAD*) would have resulted in a 1,990 thousand Euro and 1,763 thousand Euro loss as at 31 December 2019 and 31 December 2018, respectively; similarly, a negative change in the exchange rates would have generated a 2,319 thousand Euro and a 2,379 thousand Euro profit as at 31 December 2019 and 31 December 2018, 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 15,493 thousand Euro and 19,151 thousand Euro as at 31 December 2019 and 31 December 2018, respectively; the decrease in shareholders' equity as a result of the assumed negative exchange rate changes would have totaled 17,579 thousand Euro and 22,816 thousand Euro as at 31 December 2019 and 31 December 2018, 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 2019, 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 245,000 thousand Euro as well as committed, revolving short and medium/long-term credit lines negotiated on a bilateral basis by the Company for a total of 160,000 thousand Euro.

As at 31 December 2019, Salvatore Ferragamo S.p.A.'s drawdowns on these credit lines were equal to zero (both committed and uncommitted credit lines). As at 31 December 2019, the Parent company had a net financial position amounting to a surplus of 106,156 thousand Euro, considering also lease liabilities in accordance with the accounting standard IFRS 16; as at 31 December 2018, the Company's net financial position amounted to a surplus of 145,289 thousand Euro.

As at 31 December 2019, committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of twenty-one months. The credit lines and the related financial business are spread among leading national and international banks. It has always been the Company's policy to sign and constantly maintain with various and diversified banks a total amount of committed credit lines that is considered consistent with the needs of the individual companies and suitable to ensure at any time the liquidity needed to satisfy and comply with all the Group's financial commitments, at the established economic conditions, as well as guaranteeing the availability of an adequate level of operational flexibility for any expansion programs. In 2019, the Parent company maintained an amount of committed lines consistent with 2018 and 2017 – a year in which it repaid early or did not renew a number of lines – to account for the Group's significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. Cash surpluses are held in current accounts with reference banks, which bear interest at the Euribor/Libor rate or the benchmark of the currency on the specific interbank market, or invested 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 as well as the impact of financial charges. Liquidity investments are carried out with the prime objectives of making resources available at short notice and neutralizing the risk of capital losses, avoiding speculative transactions. These choices, which also take account of the likely future trend in cash flows together with prompt renegotiation of credit lines (even before their expiry), enable a significant reduction in the exposure to the risk under review and allow to adjust the cost of debt to the best market conditions. The Company has constantly maintained access to a wide range of financing sources at competitive costs, despite the external scenario, which continues to be characterized by rigidity in the credit market. Despite the Group's ability to generate high cash flows from current operations, the constant availability of an adequate amount of committed credit lines has allowed to face the most turbulent market phases and volatility in credit flows with confidence. 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 2019
	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	134,772	1,060			135,832
Payables to subsidiaries	9,400				9,400
Lease liabilities	5,485	14,526	50,737	63,422	134,170
Derivatives – non-hedging component	122	8	-	-	130
Derivatives – hedging component	3,985	3,917	-	-	7,902
Total	153,764	19,511	50,737	63,422	287,434

Liquidity risk – Maturity analysis (In thousands of Euro)					31 December 2018
	< 3 months	3-12 months	1-5 years	> 5 years	Total
Trade payables	138,940	1,437	-	-	140,377
Payables to subsidiaries	9,074	-	-	-	9,074
Derivatives – non-hedging component	271	-	-	-	271
Derivatives – hedging component	1,081	2,965	-	-	4,046
Total	149,366	4,402	-	-	153,768

The analysis carried out on the items relating to financial liabilities showed that, except for lease liabilities, maturities are concentrated within three months, with nil values as at 31 December 2019 and 31 December 2018 for maturities of over 12 months. Financial assets recorded in the statement of financial position largely 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 19 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 2019		31 December 2018	
	Current portion	Non current portion	Current portion	Non current portion
Receivables and loans				
Trade receivables	194,186		171,150	-
Receivables due from credit cards	178		191	-
Cash and cash equivalents	120,088		95,919	-
Guarantee deposits		369	-	365
Derivatives	1,567	-	1,372	-
Total	316,019	369	268,632	365

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 2019 and 31 December 2018, 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 2019	%	31 December 2018	%
Italy	18,636	9.6%	21,743	12.7%
Europe	24,701	12.7%	24,366	14.2%
North America	63,859	32.9%	50,176	29.3%
Japan	4,968	2.6%	3,659	2.1%
Asia Pacific	45,219	23.3%	43,552	25.4%
Central and South America	36,803	19.0%	27,654	16.2%
Total	194,186	100.0%	171,150	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 2019	163,387	7,593	3,319	3,897	4,266	11,724	194,186
31 December 2018	152,272	574	1,409	3,288	4,071	9,536	171,150
Figures in % as at 31 December 2019	84.1%	3.9%	1.7%	2.0%	2.2%	6.0%	100.0%
Figures in % as at 31 December 2018	89.0%	0.3%	0.8%	1.9%	2.4%	5.6%	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 2019 and 31 December 2018.

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	2019	2018
Percentage of revenues with the biggest customer	1.5%	0.8%
Percentage of revenues with the 3 biggest customers	2.9%	2.2%
Percentage of revenues with the 10 biggest customers	6.1%	5.5%

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 2019 and 2018.

The Company includes under net debt, if any, interest-bearing loans, other financial payables, lease liabilities, trade and other payables, net of cash and cash equivalents. 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 2019	31 December 2018
Lease liabilities	113,636	-
Trade and other payables	168,513	161,345
Cash and cash equivalents	120,088	95,919
Net debt	162,061	65,426
Total shareholders' equity	685,812	622,134
Shareholders' equity and net debt	847,873	687,560
Debt/Shareholders' equity ratio	23.63%	10.52%

The year-on-year change in the ratio of Net Debt to Shareholders' Equity was attributable to the impact of adopting the new accounting standard IFRS16. For more details, please refer to Note 2 Basis of presentation – IFRS16 Leases.

4. Business combinations

During 2019 there were no business combinations.

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

5. Property, plant and equipment

The breakdown of Property, plant and equipment as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019			31 December 2018		
	Historical	Accumulated	Net value	Historical	Accumulated	Net value
	Cost	depreciation		Cost	depreciation	
Land	18,010	-	18,010	18,010	-	18,010
Buildings	66,787	11,120	55,667	64,462	9,134	55,328
Plant and equipment	54,325	28,558	25,767	49,688	23,536	26,152
Industrial and commercial equipment	21,386	19,401	1,985	22,880	21,032	1,848
Other assets	42,843	32,772	10,071	35,959	29,631	6,328
Leasehold improvements	22,697	19,264	3,433	22,831	19,628	3,203
Fixed assets in progress and payments	487	-	487	997	-	997
Total	226,535	111,115	115,420	214,827	102,961	111,866

The following table shows the changes in Property, plant and equipment for the year ended 31 December 2019:

(In thousands of Euro)	Value	Additions	Disposals	Depreciation	Value at Impairment	Value at 31.12.2019
	01.01.2019					
Land	18,010	-	-	-	-	18,010
Buildings	55,328	2,325	-	(1,986)	-	55,667
Plant and equipment	26,152	4,787	(3)	(5,169)	-	25,767
Industrial and commercial equipment	1,848	1,365	(200)	(950)	(78)	1,985
Other assets	6,328	6,954	-	(3,211)	-	10,071
Leasehold improvements	3,203	1,699	(130)	(1,331)	(8)	3,433
Fixed assets in progress and payments on account	997	391	(901)	-	-	487
Total	111,866	17,521	(1,234)	(12,647)	(86)	115,420

The increase:

- in the item “buildings” mainly refers to the partial renovation of the property housing the women's footwear production unit at Osmannoro - Sesto Fiorentino;
- in the item “plant and equipment” largely refers to the completion and start of operations of a new women's footwear production plant (manovia) at Osmannoro-Sesto Fiorentino;
- in the item “Industrial and commercial equipment” refers to the purchase of new furniture and equipment for the stores that were refurbished during the year;
- in the item “other assets” primarily concerns IT equipment (1,992 thousand Euro) as well as equipment, furniture and furnishings (4,803 thousand Euro), including the investments to renovate the showroom and build the new women's footwear production unit;
- in the item “Leasehold improvements” refers mainly to work carried out for the renovation of some stores.

The item “Fixed assets in progress and payments on account” refers largely to expenses incurred and payments on accounts made for work carried out at Osmannoro.

The decrease in the item “Fixed assets in progress and payments on account” primarily reflects the completion of construction work on a new women's footwear production plant (manovia) and the construction of the new showroom at the registered office in Florence with respect to the work performed during the year but that had already started in 2018.

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

Impairment amounting to 86 thousand Euro in “Industrial and commercial equipment” and “Leasehold improvements” refers to the tangible assets of a store in relation to its forthcoming closure.

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

6. Right-of-use assets

The following statement shows the composition of Right-of-use assets as at 31 December 2019:

(In thousands of Euro)	31 December 2019		
	Historical Cost	Accumulated depreciation	Net value
Right-of-use assets:			
- Buildings	124,201	15,658	108,543
- Vehicles	2,588	855	1,733
- Equipment and other assets	777	175	602
Total	127,566	16,688	110,878

The following table shows the changes in right-of-use assets for the year ended 31 December 2019. The column "IFRS 16 impact at 01.01.2019" refers to the amount recognized as at 01 January 2019 following the first-time adoption of the new accounting standard IFRS 16.

(In thousands of Euro)	Value at	IFRS 16	Additions	Disposals	Depreciation	Value at
	31.12.2018	impact at				01.01.2019
Right-of-use assets:						
- Buildings	-	89,560	36,369	(1,439)	(15,947)	108,543
- Vehicles	-	1,285	1,303	-	(855)	1,733
- Equipment and other assets	-	-	777	-	(175)	602
Total	-	90,845	38,449	(1,439)	(16,977)	110,878

The line item Buildings includes Right-of-use assets largely relating to leases of stores (accounting for approximately 83% of right-of-use assets - Buildings) and, to a lesser extent, leases of offices, company lodgings, and other premises. The largest increases observed during the year refer to new leases, whereas the most significant declines relate to leases that were either terminated early or for which the Company negotiated a reduction in future lease payments.

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. Intangible assets with a finite useful life

The breakdown of Intangible assets with a finite useful life as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019			31 December 2018		
	Historical Cost	Accumulated amortization	Net value	Historical Cost	Accumulated amortization	Net value
Development costs	69,270	43,182	26,088	61,275	34,066	27,209
Industrial patents and use of intellectual property rights	17,753	15,643	2,110	16,748	14,147	2,601
Concessions, licenses and trademarks	7,469	6,092	1,377	7,090	5,840	1,250
Intangible assets with a finite useful life in progress	6,148	-	6,148	4,007	-	4,007
Total	100,640	64,917	35,723	89,120	54,053	35,067

The following table shows the changes in Intangible assets with a finite useful life for the year ended 31 December 2019:

(In thousands of Euro)	Value at	Additions	Disposals	Amortization	Value at
	01.01.2019				31.12.2019
Development costs	27,209	7,995	-	(9,116)	26,088
Industrial patents and use of intellectual property rights	2,601	1,004	-	(1,495)	2,110
Concessions, licenses and trademarks	1,250	379	-	(252)	1,377
Intangible assets with a finite useful life in progress	4,007	4,390	(2,249)	-	6,148
Total	35,067	13,768	(2,249)	(10,863)	35,723

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 1,004 increase in "Industrial patents and use of intellectual property rights" refers to the cost for licenses to use software for the Company's business operations.

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” largely refers to the “Project Life Cycle Management-PLM” (which will allow to manage and streamline the entire life of each individual Ferragamo product), the Enterprise Business Intelligence project (aimed at rationalizing corporate reporting and analytics systems by establishing a single shared “Data Warehouse”), a new distribution model, and the continued development of the Company's e-commerce project.

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.

8. Investments in subsidiaries

The breakdown of Investments in subsidiaries as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro) Company	% invest ment	Value at 01.01.19	Additio ns	Disposal s	Rest ate- ment	Write- downs	Stoc k Grant	Reclas s.	Value at 31.12.19
Ferragamo Parfums S.p.A.	100	40,959	-	-	-	-	(48)	-	40,911
Ferragamo Mexico S. de R.L. de C.V.	99.73	569	-	-	-	-	(31)	-	538
Ferragamo Austria GmbH	100	4,434	-	-	-	-	-	-	4,434
Ferragamo Deutschland GmbH	100	5,792	-	-	-	-	-	-	5,792
Ferragamo Belgique SA	100	1,066	-	-	-	(335)	-	-	731
Ferragamo (Suisse) SA	100	890	-	-	-	-	-	-	890
Ferragamo (Thailand) Ltd	100	2,108	-	-	-	-	-	(2,108)	-
Ferragamo U.K. Limited	100	10,477	-	-	-	-	-	-	10,477
Ferragamo Australia Pty Ltd.	100	4,132	-	-	-	-	-	-	4,132
Ferragamo France S.A.S.	100	9,945	-	-	-	(939)	-	-	9,006
Ferragamo Espana S.L.	100	1,001	-	-	-	-	-	-	1,001
Ferragamo Monte-Carlo S.A.M.	100	-	-	-	-	-	-	-	-
Ferragamo Denmark ApS*	100	-	-	(40)	40	-	-	-	-
Ferragamo USA Inc.	100	57,894	-	-	-	-	(25)	-	57,869
Ferragamo Japan K.K.	71	-	-	-	-	-	-	-	-
Ferragamo Moda (Shanghai) Co. Ltd.	75	3,732	-	-	-	-	-	-	3,732
Ferragamo Hong Kong Ltd.	100	12,791	-	-	-	-	(32)	-	12,759
Ferragamo (Malaysia) Sdn. Bhd.	100	2,856	-	-	-	-	-	-	2,856
Ferragamo Korea Ltd.	100	36,032	-	-	-	-	-	-	36,032
Ferragamo Retail Macau Limited	75.2	1,241	-	-	-	-	-	-	1,241
Ferragamo Retail Nederland B.V.	100	2,291	-	-	-	(954)	-	-	1,337
Ferragamo Retail India Private Limited	100	-	-	-	-	-	-	-	-
Ferragamo Argentina S.A.	95	-	1,648	(863)	-	(785)	-	-	-
Ferragamo Brasil Roupas Acessorios Ltda.	99	-	-	-	-	-	-	-	-
Total		198,210	1,648	(903)	40	(3,013)	(136)	(2,108)	193,738

*company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 7 January 2020.

The change in the investment in Ferragamo Argentina S.A. includes:

- 863 thousand Euro resulting from the 41,068,068 Argentine Peso capital reduction on 23 July 2019, following the reductions of the share capital already completed in prior years, and
- 785 thousand Euro resulting from the 52,250,000 Argentine Peso capital increase (subsequently written off in 2019), finalized on 18 December 2019, which was subscribed by Salvatore Ferragamo S.p.A to the extent of its 95% interest in exchange for outstanding trade receivables, and for the remaining 5% by the company Ferragamo USA Inc..

The change in the investment in Ferragamo Denmark ApS includes:

- 40 thousand Euro resulting from the revaluation of the investment following the final distribution of assets at the end of the liquidation process after receiving the final distribution of assets on 23 December 2019.

For details on the item “Stock Grant” reference should be made to note 40.

In accordance with the provisions of IAS 36, the Company undertook an analysis to identify any indicators of impairment and/or permanent losses in value in subsidiaries or whether any grounds for the write-down in the investments applied in previous years no longer exist.

In particular an assessment was made of the recoverability of the residual value of investments in order to ensure that they are not recognized at a value higher than their recoverable amount.

Impairment tests were performed considering the subsidiary being tested as a CGU. The value used to determine the recoverable amount of the CGUs is the value in use. This was calculated based on expected cash flows, which were discounted at an appropriate rate (Discounted cash-flow analysis – DCF). Specifically, value in use was estimated by discounting the operating cash flows of the CGUs at a rate equal to the weighted average cost of capital (WACC).

The residual value was calculated using a normalized cash flow extrapolated from the last forecast year, applying an annual growth rate (“g”).

The discounted cash-flow analysis was performed based on the budget for the year 2020, prepared and approved by the Board of Directors; as for the two following explicit forecast years (2021 and 2022), the Company used the Business Plan prepared by Senior Management in accordance with management's expectations for the markets where the investments are located. These plans do not account for the potential negative effects of the new coronavirus known as Covid-19.

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 2018);
- Discount rate (Weighted Average Cost of Capital, WACC): 6.80% (7.60% as at 31 December 2018).

The results of the analyses undertaken are provided below:

- write-downs were recorded on the investments in Ferragamo Belgique S.A., Ferragamo Retail Nederland B.V., Ferragamo France S.A.S., and Ferragamo Argentina SA for a total of 3,013 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 amount;

The sensitivity analysis of the above material assumptions used to determine the recoverable amount (+/-0.5% change in the “g” growth rate and +/-0.5% change in the WACC), performed on the investments for which there is an indication of impairment, did not yield significantly different results in terms of recoverable amount.

The following table shows the change in the provision for excess write-downs of investments and includes the amount considered suitable to cover the remaining losses (applying the due percentage) after the book value of the equity investment is set to zero:

(In thousands of Euro)					
Company	% investment	Value at 01.01.19	Write-downs	Reclassifications	Value at 31.12.2019
Ferragamo (Singapore) Pte Ltd.	100	(6,990)	(5,235)	-	(12,225)
Ferragamo Chile S.A.	99	(176)	(371)	-	(547)
Ferragamo (Thailand) Ltd	100	-	(3,089)	2,108	(981)
Total		(7,166)	(8,695)	2,108	(13,753)

The following table provides the main figures from the financial statements of the subsidiaries:

(In thousands)	Location	% investment	Share capital		Total Shareholders' Equity	Profit (Loss) for the year	Value at 31.12.2019
			Currency	Amount			
Subsidiaries							
Ferragamo Parfums S.p.A.	Florence	100	Euro	10,000	25,546	1,363	40,911
Ferragamo Austria GmbH	Vienna	100	Euro	1,853	3,907	148	4,434
Ferragamo Deutschland GmbH	Munich	100	Euro	3,300	6,052	211	5,792
Ferragamo Belgique SA	Brussels	100	Euro	750	672	(212)	731
Ferragamo France S.A.S.	Paris	100	Euro	4,334	9,121	521	9,006
Ferragamo (Suisse) SA	Mendrisio	100	Chf	1,000	1,382	82	890
Ferragamo Espana S.L.	Madrid	100	Euro	4,600	3,827	43	1,001
Ferragamo U.K. Limited	London	100	Gbp	7,673	10,396	(229)	10,477
Ferragamo Retail Nederland B.V.	Amsterdam	100	Euro	500	1,323	(728)	1,337
Ferragamo Denmark ApS	Copenhagen	100	Dkk	550	-	(160)	-
Ferragamo Australia Pty Ltd.	Sydney	100	Aud	13,637	13,812	233	4,132
Ferragamo USA Inc.	New York	100	Usd	74,012	72,618	(327)	57,869
Ferragamo Monte-Carlo S.A.M.	Monte Carlo	100	Euro	304	285	(196)	-
Ferragamo Mexico S. de R.L. de C.V.	Mexico City	99.73	Peso	4,593	29,502	3,544	538
Ferragamo Japan K.K.	Tokyo	71	Yen	0	691	(3,176)	-
Ferragamo Hong Kong Ltd.	Hong Kong	100	Hkd	10	159,232	17,339	12,759
Ferragamo Chile S.A.	Santiago	99	Peso	1,362,590	(553)	(414)	(547)
Ferragamo (Thailand) Limited	Bangkok	100	Thb	0	(981)	(1,265)	(981)
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur	100	Myr	1,300	5,276	(7)	2,856
Ferragamo (Singapore) Pte Ltd.	Singapore	100	Sgd	4,600	(12,225)	(4,960)	(12,225)
Ferragamo Argentina S.A.	Buenos Aires	95	Ars	76,361	545	(800)	-
Ferragamo Retail India Private Limited	New Delhi	100	Inr	300,000	(5,404)	(566)	-
Ferragamo Korea Ltd.	Seoul	100	Kwon	0	60,603	6,293	36,032
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, PRC	75	Usd	1,400	(4,951)	2,029	3,732
Ferragamo Retail Macau Limited	Macau	75.2	Mop	25	9,349	(128)	1,241
Ferragamo Brasil Roupas e Acessorios Ltda.	Sao Paulo	99	Brl	55,615	4,663	230	-
Total							179,985

* Data refer to the Ferragamo USA Group.

** company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 07 January 2020.

9. Other non current assets

“Other non current assets” totaled 336 thousand Euro (314 thousand Euro as at 31 December 2018) and referred entirely to the non-current portion of the tax credit for donations in support of cultural activities as per art. 1 of Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”, made in 2018 and 2019.

10. Other non current financial assets

Other non current financial assets, totaling 334 thousand Euro (330 thousand Euro as at 31 December 2018), 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 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs. 2018
Gross value of raw materials, accessories and consumables	47,611	52,305	(4,694)
Provision for obsolete inventory	(4,202)	(4,132)	(70)
Raw materials, accessories and consumables	43,409	48,173	(4,764)
Gross value of finished products and goods for resale	95,208	85,922	9,286
Provision for obsolete inventory	(18,166)	(11,656)	(6,510)
Finished products and goods for resale	77,042	74,266	2,776
Total	120,451	122,439	(1,988)

The change in stocks of raw materials, down by 4,764 thousand Euro compared to 2018, 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 2,776 thousand Euro. The related provision reflects the difference between the purchase or production cost and the estimated realizable value of products belonging primarily to past collections.

For a better understanding of how the above provisions for obsolete inventory were calculated, please see note 2 "Discretionary valuations and significant accounting estimates".

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

(In thousands of Euro)	2019	2018	change 2019 vs. 2018
Raw materials	(70)	528	(598)
Finished products	(6,510)	(351)	(6,159)
Total	(6,580)	177	(6,757)

12. Right of return assets

Concerning the right of return as per "Revenue from contracts with customers", the line item "Right of return assets" (totaling 13,487 thousand Euro as at 31 December 2019) includes the estimated cost of the products expected to be returned, equal to the previous carrying amount of inventories (estimated cost of production) less potential future costs associated with their recovery. This item is closely related to Refund Liabilities (see note 24) and largely refers to the Group's European companies as well as, to a lesser extent, external customers.

13. Trade receivables

The breakdown of the item "Trade receivables" as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs. 2018
Trade receivables from third parties	36,443	37,054	(611)
Provision for bad debt - third parties	(3,627)	(3,908)	281
Provision for bad debt - subsidiaries	(5,440)	(5,779)	339
Trade receivables from subsidiaries	166,810	143,783	23,027
Total	194,186	171,150	23,036

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. Please note that in 2019 the Company reported 199 thousand Euro in losses on receivables due from Ferragamo Denmark ApS in liquidation (which ceased operations on 16 December 2019).

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 2019 were as follows:

(In thousands of Euro)	Value at 01.01.2019	Provisions	Uses	Value at 31.12.2019
Provision for bad debt - third parties	3,908	-	281	3,627
Provision for bad debt - subsidiaries	5,779		339	5,440
Total	9,687	-	620	9,067

For an analysis of past due but not impaired trade receivables reference should be made to the section “Management of financial risks – Credit risk”. The item uses - subsidiaries included 339 thousand Euro referring to the adjustment made as at 31 December 2019 to the provision for bad debt set up in prior years with respect to trade receivables due from Ferragamo Retail India Private Limited.

14. Tax receivables

The breakdown of the item “Tax receivables” as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs. 2018
Due from tax authorities (valued added tax)	216	305	(89)
Other tax receivables	10,672	9,714	958
Due from tax authorities (Irap)	-	852	(852)
Total	10,888	10,871	17

Tax receivables were essentially in line with the prior year.

Other tax receivables mainly included:

- the 2,767 thousand Euro Research and Development Tax Credit, including the estimated 2,100 thousand Euro credit for the year 2019 (art. 3 of Italian Law Decree no. 145 of 23 December 2013, as superseded by art. 1, paragraph 35 of Italian Law no. 190/2014 – 2015 Budget Law);
- the 7,298 thousand Euro income tax receivable due from tax authorities for the year 2015 and claimed as a refund in the tax return for the same period;
- the 336 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 2017, 2018 and 2019; the remaining 336 thousand Euro non current portion was included within “Other non current assets”. The 358 thousand Euro tax credit for these donations made in 2019 was recognized in the Income Statement under “Other income and revenues”.

15. Other current assets

The breakdown of the item “Other current assets” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs. 2018
Receivables due from credit card management companies	178	191	(13)
Receivables from staff	77	-	77
Other receivables for short-term hedging derivatives	1,466	1,263	203
Other receivables	1,603	1,418	185
Accrued income	121	119	2
Prepaid expenses	3,059	2,381	678
Receivables from the Holding company	1,962	9,956	(7,994)
Receivables from social security institutions	90	92	(2)
Total	8,556	15,420	(6,864)

The 1,962 thousand Euro receivable due from the holding company Ferragamo Finanziaria S.p.A. is associated with the income tax (IRES) refund claim regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs for employees or similar staff from 2007 to 2011 (art. 2, paragraph 1-quater, Italian Law Decree no. 201 of 6 December 2011) which were recognized in 2012.

Other receivables for hedge derivatives totaling 1,466 thousand Euro (1,263 thousand Euro as at 31 December 2018) refer to the fair value measurement 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 expense included 1,340 thousand Euro in contributions for the fit-out of tailored single brand stores and/or stores-in-stores operated by third parties (TPOS)

The item other receivables mainly includes advances to suppliers of 1,310 thousand Euro.

16. Other current financial assets

(In thousands of Euro)	31 December	31 December	change
	2019	2018	2019 vs 2018
Financial receivables due from subsidiaries	99,774	49,522	50,252
Short-term derivatives	101	109	(8)
Total	99,875	49,631	50,244

Financial receivables due from subsidiaries included the loans granted to the subsidiaries Ferragamo Deutschland GmbH, Ferragamo France S.A.S., Ferragamo (Suisse) S.A., Ferragamo Espana S.L., Ferragamo U.K. Limited, Ferragamo Japan K.K., Ferragamo Canada Inc., Ferragamo Usa Inc., Ferragamo (Singapore) PTE Ltd, Ferragamo (Thailand) Limited. For detailed information on financial receivables from subsidiaries reference should be made to the note "Transactions with related parties" below.

The item "Short-term derivatives" totaled 101 thousand Euro and refers to the fair value measurement of derivatives for the non-hedge component (109 thousand Euro as at 31 December 2018). For further details, reference should be made to note 29 below.

17. Cash and cash equivalents

The breakdown of Cash and cash equivalents as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December	31 December	change
	2019	2018	2019 vs. 2018
Time deposits	10,000	-	10,000
Bank and post office sight deposits	109,897	95,728	14,169
Cash and values on hand	191	191	-
Total	120,088	95,919	24,169

Bank and post office deposits refer to temporary cash holdings maintained mainly to meet imminent payments or make intercompany loans, which include also a 10 million Euro short-term investment (time deposit). As at 31 December 2019, the Company had unused credit lines amounting to 405,000 thousand Euro; as at 31 December 2018, unused credit lines totaled 430,000 thousand Euro.

18. Share capital and reserves

The authorized **share capital** of the Company as at 31 December 2019 totaled 16,939,000 Euro; the subscribed and paid up share capital amounted to 16,879,000 Euro and consisted of 168,790,000 ordinary shares with a nominal value of 0.10 Euro each.

The treasury share reserve, amounting to 2,776 thousand Euro, consisted of 150,000 shares in Salvatore Ferragamo S.p.A., which were purchased entirely in December 2018 (no. 14,000) and during 2019 (no. 136,000) at an average unit price of 18.50 Euro.

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 the demerger.

The legal reserve of 4,188 thousand Euro was set up in previous years and cannot be distributed.

The extraordinary reserve of 504,319 thousand Euro was set up with retained earnings; the change recorded in the period was due to an increase of 25,941 thousand Euro in profit for the year 2018 net of 57,372 thousand Euro in dividends paid out, which were approved in 2019.

The revaluation reserve consists of:

- Revaluation reserve as per Italian Law 342/00 amounting to 4,593 thousand Euro;
- Revaluation reserve as per Italian Law 350/03 amounting to 7,420 thousand Euro;
- Revaluation reserve as per Italian Law 266/05 amounting to 13,465 thousand Euro.

No deferred taxes have been allocated to the revaluation reserves based on the assumption that full taxation for these reserves will be indefinitely deferred. Indeed, no transactions are likely to be carried out which would cause their distribution.

The cash flow hedge reserve was positive for 872 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2019, 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 1,492 thousand Euro, is the result of the valuation of actuarial gains and losses charged to shareholders' equity, as envisaged by IAS 19, and is shown net of the tax effect. This valuation was made by an independent actuary.

The item "Other reserves" totaled 12,010 thousand Euro and includes the changes arising from the application of IAS/IFRS instead of Italian accounting principles with reference to the Company's opening balance of shareholders' equity as at 1 January 2010 and the closing balance as at 31 December 2010. In addition, the item "Other reserves" includes:

- the specific reserve set up in 2016 to service the future free share capital increase of the Company for a nominal value of 60 thousand Euro (nominal value of 0.10 Euro per share) for the 2016-2020 Stock Grant Plan;
- the 2016-2020 Stock Grant Reserve (841 thousand Euro) referring to the fair value measurement as at 31 December 2019 of the rights to receive shares in the Parent Company: their impact on the period amounted to a negative 343 thousand Euro. For details on the 2016-2020 Stock Grant Plan, reference should be made to note 40;
- and the 5,037 thousand Euro Stock Grant reserve from prior years.

Finally, the item "Other reserves" included the 1.4 thousand Euro Provision as per art. 55 of Italian Presidential Decree 597/1973 relating to VAT recovery pursuant to art. 15 of Italian Law 26/04/1983.

The amounts are net of the tax effects where applicable.

The following table shows, for each specific entry in shareholders' equity, information regarding the possibility of its use and distribution, as well as its use over the last three years.

Shareholders' equity	Value at 31.12.19	Possibility of use	Amount available	Summary of uses made in the last three years
Share capital	16,879			
Treasury share reserve	(2,776)			
Share capital reserves				
Revaluation reserve Law 342/00	4,593	A - B	4,593	
Revaluation reserve Law 350/03	7,420	A - B	7,420	
Revaluation reserve Law 266/05	13,465	A - B	13,465	
Share capital contributions	2,995	A - B	2,995	
Provision as per Art 55	1.4	A - B - C	1.4	
Net profit reserves				
Legal reserve	4,188	B	812	
Extraordinary reserve	504,319	A - B - C	504,319	
Reserve for adoption of IAS/IFRS	6,427	B*	2,007	
Accumulated gains/losses	(356)	B		
Cash flow hedge reserve	872			
IAS 19 reserve	(1,492)			
Specific reserve for share capital increase to service the Stock Grant Plan	60			
Stock Grant Reserve	5,878			
Net profit/(loss) for the year	124,211			
Total	686,684.4		535,612.4	-

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.

19. Provisions for risks and charges

The breakdown of Provisions for risks and charges as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)					
	Value at 01.01.2019	Provisions	Uses	Reclassifications	Value at 31.12.2019
Legal disputes	8,115	308	(6,694)	-	1,729
Provision for excess write-downs of investments	7,166	8,695	-	(2,108)	13,753
Total	15,281	9,003	(6,694)	(2,108)	15,482

Legal disputes mainly refer to allocations against likely future liabilities relating to legal proceedings against the Company for labor disputes as well as contractual and tax disputes initiated in prior years. 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 amount set aside during the period refers to a labor dispute that arose during 2019.

The use of the provision for legal disputes refers to the 6,300 thousand Euro settlement finalized on 29 November 2019 of the tax audit of Salvatore Ferragamo S.p.A. with respect to the fiscal years 2014 and 2015. For more details, please refer to the paragraph "Tax and customs disputes and audits" in the section "Significant events occurred during the year".

The remaining amount drawn down from the provision for legal disputes (394 thousand Euro) refers to the settlement of a number of legal and labor proceedings and/or disputes during the year.

For detailed information and the changes in the Provision for excess write-downs of investments reference should be made to note 8 "Investments in subsidiaries".

20. Employee benefit liabilities

The breakdown of Employee benefit liabilities as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)			
	31 December 2019	31 December 2018	change 2019 vs 2018
Employee benefit liabilities (severance indemnities)	8,685	8,743	(58)
Advances on employee severance indemnities	(2,182)	(2,302)	120
Total	6,503	6,441	62

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

(In thousands of Euro)		
	31 December 2019	31 December 2018
Present value of the obligation at the beginning of the period	6,441	6,620
Financial charge	78	85
Benefits paid	(402)	(288)
Actuarial loss/(gain) arising from:		
- Financial assumptions	430	42
- Demographic assumptions	2	(113)
- Experience-based adjustments	(46)	95
Total actuarial loss / (gain)	386	24
Present value of the obligation at the end of the period	6,503	6,441

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

	2019	2018
Annual discount rate	0.46%	1.21%
Inflation rate	2.00%	2.00%

As regards the demographic assumptions used in determining defined benefit liabilities, the figure used as a benchmark for the mortality rate is that for the Italian population recorded by ISTAT in 2000, less 25%, broken down by age and gender while the staff turnover rate has been estimated at 5.7% per year.

Here below is a quantitative sensitivity analysis for the main assumptions as at 31 December 2019 and 31 December 2018 concerning employee benefit obligations:

(In thousands of Euro)	2019			2018	
	Change %	Additions	Disposals	Additions	Disposals
Annual discount rate	+/- 0.5%	(292)	313	(283)	304
Mortality rate	+/- 0.025%	(2)	(1)	(1)	1
Staff turnover rate	+/- 0.5%	(35)	37	(23)	24

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)	2019	2018
Top managers, middle managers and store managers	170.34	155.02
White collars	588.82	582.35
Blue collars	197.62	196.72
Temporary Agency staff	20.52	11.97
Total	977.30	946.06

The rising headcount was largely attributable to the strengthening of the central organization and, to a lesser extent, the increase in retail staff at the Italian stores.

21. Other non current liabilities

The breakdown of the item “Other non current liabilities” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs. 2018
Payables for deferred rents	-	1,255	(1,255)
Other payables	306	-	306
Total	306	1,255	(949)

The item Payables for deferred rents was reduced to zero compared to 31 December 2018 as a result of, among other things, the 1,247 thousand Euro impact of initially applying the new accounting standard IFRS 16.

“Other payables” amounted to 306 thousand Euro as at 31 December 2019 and referred to the liability to the Company's employees for the portion of the 2019-2021 Long-Term Incentive Plan (2019-2021 LTIP) recognized in 2019. The Plan became effective on 1 October 2019 and will expire on 31 December 2021. For further details reference should be made to the Directors’ report on operations, section “Significant events occurred during the year”.

22. Lease liabilities

Below are the changes in lease liabilities occurred in 2019, broken down between current and non current.

(In thousands of Euro)	Lease liabilities		
	non current	current	Total
Value at 31.12.2018	-	-	-
IFRS 16 impact at 01.01.2019	91,698	-	91,698
Additions	38,449	-	38,449
Disposals	(1,439)	-	(1,439)
Reclassifications	(32,527)	32,527	-
Repayment of lease liabilities	-	(15,942)	(15,942)
Interest expense on lease liabilities	-	3,298	3,298
Interest expense on lease liabilities paid	-	(2,428)	(2,428)
Value at the end of the period	96,181	17,455	113,636

The average weighted IBR applicable to leases outstanding as at 31 December 2019 was 3.24%.

23. Trade payables

The breakdown of Trade payables as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs 2018
Trade payables to third parties	121,499	124,727	(3,228)
Invoices to be received	14,333	15,650	(1,317)
Payables to subsidiaries	9,400	9,074	326
Total	145,232	149,451	(4,219)

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.

24. Refund liabilities

Concerning the right of return as per “Revenue from contracts with customers”, the line item “Refund Liabilities” (totaling 20,873 thousand Euro) refers to the liability to customers for the amount of the products expected to be returned. This item largely refers to the Group's European companies and is related to Right of return assets (see note 12).

25. 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 2019 and 31 December 2018, 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) short- and medium/long-term committed credit lines, revolving and negotiated on a bilateral basis by the Company.

In 2019, the Parent company maintained an amount of committed lines consistent with 2018 and 2017 – a year in which it repaid early or did not renew a number of lines – to account for the Group’s significant cash flows from continuing operations as well as reduce financial charges consisting of commitment fees on completely unused credit lines. As at 31 December 2019, committed credit lines had a maximum residual duration of thirty-six months and a weighted average residual duration of twenty-one 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 2019		31 December 2018	
	Agreed	Used	Agreed	Used
Committed credit lines	160,000	-	160,000	-
Uncommitted credit lines	245,000	-	270,000	-
Total	405,000	-	430,000	-

The following table provides the breakdown and changes in the net financial position as at 31 December 2019 and 31 December 2018, restated in accordance with the model included in CONSOB Communication no. DEM/6064293 of 28 July 2006.

(In thousands of Euro)	31 December 2019	31 December 2018	Change 2019 vs. 2018
A. Cash	191	191	-
B. Other cash equivalents	119,897	95,728	24,169
C. Cash and cash equivalents (A)+(B)	120,088	95,919	24,169
Derivatives – non-hedging component	101	109	(8)
Other financial assets*	99,774	49,522	50,252
D. Current financial receivables	99,875	49,631	50,244
E. Current bank payables	-	-	-
F. Derivatives – non-hedging component	171	261	(90)
G. Other current financial payables**	17,455	-	17,455
H. Current financial debt (E)+(F)+(G)	17,626	261	17,365
I. Current financial debt, net (H)-(C)-(D)	(202,337)	(145,289)	(57,048)
J. Non current bank payables	-	-	-
K. Derivatives – non-hedging component	-	-	-
M. Other non current payables***	96,181	-	96,181
N. Non current financial debt (J)+(K)+(M)	96,181	-	96,181
O. Net financial debt (I)+(N)	(106,156)	(145,289)	39,133

* The item entirely refers to related parties (short-term loans to Group companies); for further details reference should be made to note 16 and note 42 (intragroup transactions).

**The item entirely refers to the current lease liability, including 8,484 thousand Euro due to related parties. For more details, reference should be made to note 42 (Transactions with related parties).

***The item entirely refers to the non current lease liability, including 65,741 thousand Euro due to related parties. For more details, reference should be made to note 42 (Transactions with related parties).

Limitations on the use of financial resources

The Company's committed credit lines that are currently outstanding do not require compliance with financial covenants.

26. Tax payables

The breakdown of Tax payables as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs 2018
Payables for current taxes – IRAP	2,827	-	2,827
Payables for current taxes – IRES	7,772	-	7,772
Tax payables due to foreign tax authorities for VAT (EU)	201	148	53
Tax payables for withholdings applied	2,922	2,779	143
Other tax payables	5	-	5
Total	13,727	2,927	10,800

Current IRAP and IRES tax payables refer to the outstanding 9,418 thousand Euro liability settled in January 2020 as a result of the settlement finalized on 29 November 2019 of the tax audit of Salvatore Ferragamo S.p.A. for the fiscal years 2014 and 2015 (deeds signed on 21 November 2019). For more details reference should be made to the Directors' report on operations, section "Significant events occurred during the year", paragraph "Tax and customs disputes and audits".

27. Other current liabilities

The breakdown of the item “Other current liabilities” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	31 December 2019	31 December 2018	change 2019 vs 2018
Payables to the Holding company	8,489	-	8,489
Payables to staff	7,867	6,890	977
Payables to social security institutions	3,318	3,264	54
Other payables to third parties	864	389	475
Other payables for hedging derivatives	5,554	2,063	3,491
Accrued expenses	1,658	912	746
Deferred income	1,085	439	646
Total	28,835	13,957	14,878

Payables to the Holding company include the IRES liability to Ferragamo Finanziaria S.p.A..

Payables to staff mainly include the Company’s payables to employees for amounts accrued but not yet paid at the reporting date.

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

Other payables to third parties largely include payables due to related parties. For more details, please refer to note 42 “Transactions with related parties”.

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, please refer to note 29.

The item “Accrued expenses” mainly includes variable fees to the Managing Director and Chairman and the amount accrued as at 31 December 2019 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 350 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. In addition, this item includes the 695 thousand Euro contribution for advertising activities relating to the eyewear licensee that was received in advance in 2019 and scheduled for 2020 under the relevant agreement.

28. Other current financial liabilities

As at 31 December 2019 and 31 December 2018, Other current financial liabilities included short-term derivatives amounting to 171 thousand Euro and 261 thousand Euro, respectively, and referred to the fair value of derivatives with a negative mark to market at the reporting date. For further details reference should be made to note 29 below.

29. Financial instruments and fair value measurement

The classification of financial instruments under IFRS 9 involves various items. The following table sets out the book value of outstanding financial instruments, divided by category, compared to the corresponding fair values, as at 31 December 2019 and 31 December 2018.

Classification of financial instruments and presentation of their fair value

FINANCIAL ASSETS	31 December 2019			31 December 2018		
	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)	portion	portion		portion	portion	
Financial assets at fair value through profit or loss						
Derivatives – non-hedging component	101		101	109		109
Available-for-sale financial assets						
Receivables and loans						
Receivables due from credit cards	178		178	191		191
Trade receivables	194,186		194,186	171,150		171,150
Receivables for loans due from subsidiaries	99,774		99,774	49,522		49,522
Guarantee deposits		334	334		330	330
Cash and cash equivalents	120,088		120,088	95,919		95,919
Derivatives – hedging component	1,466		1,466	1,263		1,263
Total	415,793	334	416,127	318,154	330	318,484
FINANCIAL LIABILITIES						
	31 December 2019		Fair Value	31 December 2018		Fair Value
	Book value			Book value		
	<i>Current</i>	<i>Non current</i>		<i>Current</i>	<i>Non current</i>	
(In thousands of Euro)	portion	portion		portion	portion	
Liabilities at amortized cost						
Trade payables and payments on account	145,232		145,232	149,451		149,451
Payables to banks and other lenders			-			-
Lease liabilities	17,455	96,181	n/a*	n/a	n/a	n/a*
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedging component	171		171	261		261
Derivatives – hedging component	5,554		5,554	2,063		2,063
Total	168,412	96,181	150,957	151,775	-	151,775

*Under the new standard IFRS16, Lease liabilities are not measured at fair value.

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

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

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

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

Also for “Guarantee deposits” the book value is a reasonable approximation of the fair value.

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 2019 and 2018.

(In thousands of Euro)	31 December 2019	31 December 2018
<i>Net gains/(losses) on financial instruments recognized in profit or loss:</i>		
Financial assets/liabilities held for trading	(17,732)	(11,345)
Derivatives – hedging component	7,746	(4,306)
<i>Net gains/(losses) on financial instruments recognized in shareholders' equity:</i>		
Derivatives – hedging component	2,207	(10,861)
<i>Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL</i>		
Interest income	1,236	594
Interest expense	1,182	17
Interest expense on lease liabilities	3,298	
<i>Expenses and fees not included in the effective interest rate regarding financial liabilities</i>	320	321
<i>Interest income accrued on financial instruments written-off</i>		
<i>Provisions for impairment on financial assets</i>		
Receivables/loans	-	386

In 2019 the Company did not make provisions for impairment on financial assets (receivables).

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 2019 and 2018.

30. Revenues from contracts with customers

In 2019 and 2018, revenues from contracts with customers totaled 836,947 thousand Euro and 745,103 thousand Euro, respectively. The tables below provide the breakdown by channel and geographical area of the main categories of revenues from contracts with customers.

(In thousands of Euro)					
2019					
	Retail + e-commerce	Wholesale	Royalties	Other income and services	Total Revenues from contracts with customers
Europe	69,763	174,128	9,637	3,545	257,073
North America	-	201,409	-	6,041	207,450
Asia Pacific	-	263,839	-	6,777	270,616
Japan	-	48,564	-	1,764	50,328
Central and South America	-	49,853	-	1,627	51,480
Total	69,763	737,793	9,637	19,754	836,947

(In thousands of Euro)					
2018					
	Retail + e-commerce	Wholesale	Royalties	Other income and services	Total Revenues from contracts with customers
Europe	68,001	170,707	8,468	3,892	251,068
North America	-	153,694	-	5,309	159,003
Asia Pacific	-	243,781	-	5,557	249,338
Japan	-	43,784	-	864	44,648
Central and South America	-	40,088	-	958	41,046
Total	68,001	652,054	8,468	16,580	745,103

The Company discloses the disaggregation or revenue using a quali-quantitative approach. The Company recognizes revenue from the sale of goods through both the retail and wholesale channels when control over the asset is transferred to the customer, generally upon delivery; in the case of other income and services, revenue is recognized when the service is rendered to customers.

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

Retail and e-commerce revenues refer mainly to revenues generated by sales in directly operated stores (DOS) in Italy and, to a lesser extent, to sales generated on the Company's e-commerce platform.

Revenues from royalties arise mainly from the licensing of the Salvatore Ferragamo brand with reference to the **eyewear** product category to the company Marchon Europe B.V.; to the **watches** product category to the company Vertime B.V. belonging to the Timex Group; and to the **fragrances** product category to the Group company Ferragamo Parfums S.p.A.. Revenues from royalties are accounted for based on the stage of completion of the licensee's sale.

The item other income and services largely includes the recovery of freight and packaging costs as well as services provided to subsidiaries.

For detailed information on revenues from subsidiaries reference should be made to the note "Transactions with related parties" below.

31. 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 2019 and 31 December 2018:

(In thousands of Euro)			
	2019	2018	Change 2019 vs 2018
Raw materials	173,277	178,101	(4,824)
Finished products	54,043	51,922	2,121
Packaging	4,246	4,177	69
Other purchases of materials	757	644	113
Stationery	375	491	(116)
Change in inventories of raw materials,	4,764	(6,387)	11,151
Total	237,462	228,948	8,514

32. Costs for services

The breakdown of Costs for services as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Manufacturing in outsourcing	202,721	189,195	13,526
Production, general, administrative and sales costs	93,923	92,369	1,554
Costs for the use of third-party assets	9,034	25,549	(16,515)
Total	305,678	307,113	(1,435)

As at 31 December 2019, 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 31,166 thousand Euro;
- consultancy costs and fees to third parties (legal, administrative, product, manufacturing process, IT and other minor costs) for a total amount of 25,705 thousand Euro;
- freight and logistics costs totaling 9,632 thousand Euro;
- costs for services from subsidiaries totaling 5,469 thousand Euro; for details on these costs reference should be made to the note “Transactions with related parties” below;
- maintenance and utility costs of 6,128 thousand Euro;
- fees paid to Directors, Statutory Auditors and Supervisory Board for a total amount of 4,202 thousand Euro; for detailed information on these fees reference should be made to the note “Fees paid to Directors and Statutory Auditors” below.

Compared to 31 December 2018, costs for the use of third-party assets fell steadily as the Company recognized the line item Depreciation of right-of-use assets following the introduction of the new accounting standard IFRS 16 effective 1 January 2019.

The following table shows the impacts of leases accounted for under IFRS 16 as well as outside the scope of said standard on profit or loss in 2019:

(In thousands of Euro)	2019	% of Total
Depreciation of right-of-use assets	16,977	70.7%
Net interest expense on lease liabilities	3,296	13.7%
Costs relating to short-term leases	2,456	10.2%
Costs relating to low-value leases	435	1.8%
Costs relating to leases with variable payments not included in the measurement of lease liabilities	851	3.5%
Total	24,015	100.0%

Some of the Company's leases contain variable lease payments linked to the revenues generated by stores (DOS), inside leased premises that are not included in the measurement of leases, in accordance with the new accounting standard IFRS 16, and are recognized on an accrual basis. As at 31 December 2019, overall variable lease payments accounted for 3.5% of the total expense recognized in profit or loss associated with leases either included or not in the lease liability as per the new accounting standard IFRS 16. Variable lease payments depend on sales, and therefore the Company's performance in subsequent years. The Company estimates that in the future variable lease payments will continue to be proportionate to the sales of finished goods.

In general, the Company's lease contracts include terms that prohibit subleasing the leased asset, but do not require the Company to comply with financial covenants.

The Company does not have termination options that it intends to exercise but did not consider when measuring the lease liability. With respect to renewal options, under its accounting policy for determining the lease term the Company considered the renewal options it intends to exercise.

Given the exemptions used upon initial application of IFRS 16, the Company discloses amounts of commitments for short-term leases that are significantly different from those reported in the 2019 income statement, even though overall its portfolio of short-term leases in 2019 is consistent with the one planned for 2020.

33. Personnel costs

The breakdown of Personnel costs as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Salaries and wages	54,327	50,918	3,409
Stock grant plan costs	(207)	(115)	(92)
Incentive plan (2019-2021 LTIP) costs	306	-	306
Social security and welfare cost	14,660	13,756	904
Allocation of severance indemnities and allocation to complementary pension funds	3,326	3,029	297
Total	72,412	67,588	4,824

34. Amortization, depreciation and write-downs

The breakdown of Amortization, depreciation and write-downs as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Depreciation of tangible assets	12,647	10,183	2,464
Depreciation of right-of-use assets	16,977	-	16,977
Amortization of intangible assets	10,863	9,932	931
Write-downs of tangible assets	86	-	86
Total	40,573	20,115	20,458

35. Other operating costs

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
EBIT Adjustment to subsidiaries	47,896	50,147	(2,251)
Allocations to the provisions for other operating risks	308	42	266
Donations	936	935	1
Provision/losses for bad debt – subsidiaries	199	386	(187)
Non-income taxes	771	597	174
Membership fees	403	409	(6)
Other operating costs	2,441	509	1,932
Windfall losses	10	9	1
Total other operating costs	52,964	53,034	(70)

As at 31 December 2019, “Other operating costs” amounted to 52,964 thousand Euro and mainly included:

- 47,896 thousand Euro in costs for EBIT Adjustments to subsidiaries, attributable to the third-year impact of the International standard ruling on transfer pricing signed on 28 July 2017 with the Italian Inland Revenue Office – Central Assessment Department – International Ruling Office. For more details, reference should be made to note 42 “Transactions with related parties” below;
- 936 thousand Euro in donations, including the 500 thousand Euro donation made in 2019 in support of cultural activities as per art. 1 of Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus” – for the restoration of certain Sculptures in Florence’s Piazza della Signoria and Piazzale Michelangelo (the first of three donations totaling 1,094 thousand Euro).
- 199 thousand Euro in credit losses relating to the write-off of receivables due from the subsidiary Ferragamo Denmark ApS; for more details, please refer to note 13;
- 308 thousand Euro in allocations to the provision for risks and charges;
- other operating costs, including 332 thousand Euro in losses on disposal of tangible assets in addition to costs for the settlement of legal disputes.

36. Other income

As at 31 December 2019, “Other income” amounted to 14,267 thousand Euro and mainly included:

- advertising contributions from third parties (3,313 thousand Euro);
- recovery of expenses from subsidiaries (1,656 thousand Euro);
- the 3,214 thousand Euro Research and Development Tax Credit related to 2018 (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 358 thousand Euro, accounting for 65% of the donations made in 2019 referred to in art. 1 of the Italian Law Decree of 31 May 2014, no. 83 – the so-called “Art Bonus”;
- 2,599 thousand Euro in income from EBIT Adjustments from subsidiaries. For more details, reference should be made to the note “Transactions with related parties” below;
- the 50 thousand Euro share pertaining to 2019 of the key money (500 thousand Euro) as set out in the agreement with Marchon Europe B.V. (US group Marchon) for the licensing of the Salvatore Ferragamo brand for the manufacturing and worldwide distribution of Ferragamo-branded eyewear for men and women.

Finally, the item included 298 thousand Euro in insurance refunds, 121 thousand Euro in revenues from museum exhibitions, as well as capital gains from disposals of tangible assets, windfall profit, and other income and revenues from third parties. For details on other income and revenues from subsidiaries reference should be made to the note “Transactions with related parties” below.

37. Financial charges

The breakdown of the item “Financial charges” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Financial charges for fair value adjustment of derivatives	21,888	19,287	2,601
Write-down of investments	11,708	18,570	(6,862)
Losses on exchange rate differences	9,713	12,290	(2,577)
Other financial charges	515	497	18
Financial charges on employee benefits under IAS 19	78	85	(7)
Interest expense on lease liabilities	3,298	-	3,298
Interest expense	1,182	17	1,165
Total	48,382	50,746	(2,364)

Interest expense on lease liabilities has been recognized starting from 1 January 2019 following the introduction of the new accounting standard IFRS16 and amounted to 3,298 thousand Euro.

In addition, during 2019 the Company recognized 1,169 thousand Euro in interest expense resulting from the settlement of tax audits. For more details reference should be made to the Directors’ report on operations, section “Significant events occurred during the year”, paragraph “Tax and customs disputes and audits”.

38. Financial income

The breakdown of the item “Financial income” as at 31 December 2019 and 31 December 2018 is set out in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Financial income for fair value adjustment of derivatives	4,156	7,941	(3,785)
Dividends from investments in subsidiaries	32,523	32,240	283
Financial income from lease liabilities	2	-	2
Restatement value of investments	40	9,151	(9,111)
Gains on exchange rate differences	15,521	15,899	(378)
Interest income	1,236	594	642
Total	53,478	65,825	(12,347)

The item dividends from investments in subsidiaries included the dividends paid by the subsidiaries Ferragamo Hong Kong Ltd, Ferragamo Retail Macau Limited, and Ferragamo Korea Ltd.

39. Income Taxes

The breakdown of Income taxes as at 31 December 2019 and 31 December 2018 is shown in the following table:

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Current taxes	(28,948)	(17,839)	(11,109)
Deferred taxes	2,534	(1,242)	3,776
Use of/(Allocation) to the provision for risks for taxes from previous years	6,300	(6,400)	12,700
Taxes from previous years	(8,891)	-	(8,891)
Total income taxes	(29,005)	(25,481)	(3,524)

Current taxes included the tax benefit of the Company for direct taxes (IRES and IRAP) related to the so-called “Patent Box”, amounting to 10,218 thousand Euro in 2019 (compared to 4,043 thousand Euro in 2018). As for the recognition of 8,891 thousand Euro in taxes from previous years and the 6,300 thousand Euro use of the provision for risks for taxes from previous years, they both refer to the Company's settlement of the IRES and IRAP tax audits relating to the fiscal years 2014 and 2015, with deeds finalized on 21 November 2019. For more details, please refer to notes 19 and 26 and the Directors’ report on operations, section “Significant events occurred during the year”, paragraph “Tax and customs disputes and audits”.

(In thousands of Euro)	2019	2018	Change 2019 vs 2018
Current taxes			
IRES	(24,090)	(14,163)	(9,927)
IRAP	(4,858)	(3,676)	(1,182)
Total	(28,948)	(17,839)	(11,109)
Deferred taxes:			
- IRES deferred in current year	3,410	204	3,206
- IRAP deferred in current year	203	(35)	238
Use of IRES deferred in previous years	(938)	(1,394)	456
Use of IRAP deferred in previous years	(141)	(17)	(124)
Total	2,534	(1,242)	3,776
Taxes from previous years	(8,891)	-	(8,891)
Use of/(Allocation) to the provision for risks for taxes from previous years	6,300	(6,400)	12,700
Total income taxes	(29,005)	(25,481)	(3,524)

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 2019 and 31 December 2018:

(In thousands of Euro)	31 December 2019	31 December 2018	31 December 2019	31 December 2018	2019	2018		
			Statement of financial position		Other Comprehensive Income		Income statement	
Deferred tax assets								
- on employee benefits	532	441	471	378	(2)	(6)		
- on tangible assets	1,111	997	-	-	114	299		
- on the cash flow hedge		256		254	-	-		
- on the valuation of inventories	5,430	3,851	-	-	1,579	(42)		
- on receivables	492	549	-	-	(57)	(64)		
- on taxed provisions	426	450	-	-	(24)	(1,960)		
- on payables								
- for other temporary	2,671	1,747	-	-	924	531		
Deferred tax assets	10,662	8,291	471	632	2,534	(1,242)		
Deferred tax liabilities								
- on the cash flow hedge	(273)	-	(275)	-	-	-		
- for other temporary	(2,898)	(2,898)	-	-	-	-		
Deferred tax liabilities	(3,171)	(2,898)	(275)	-	-	-		
Net effect	7,491	5,394	196	632	2,534	(1,242)		

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 2019 and 31 December 2018 is as follows:

(In thousands of Euro)				
	2019	%	2018	%
IRES				
Profit before taxes	153,216		108,794	
Theoretical taxes	36,772	24%	26,111	24%
Actual taxes	22,667	14.8%	21,753	19.99%
Difference due to:	(14,105)	(9.2%)	(4,358)	(4.0%)
i) Effect of pass-through mechanism of taxation of income of foreign companies resident in countries/territories with a privileged tax regime	-	-	25	0.0%
ii) Effect of withholding taxes on foreign dividends	1,365	0.9%	-	0.0%
iii) Effect of previous years income taxes	7,349	4.8%	26	0.0%
iv) Effect of allocation to/(use of) the provision for risks and charges for taxes from previous years	(6,300)	(4.1%)	6,400	5.9%
v) Effect of permanent increases (decreases):				
Increases				
Write-downs of investments	2,810	1.8%	4,457	4.1%
Other permanent differences	925	0.6%	1,005	0.9%
Decreases				
Income from subsidiaries (dividends)	(7,420)	(4.8%)	(7,738)	(7.1%)
Restatement value of investments	(10)	(0.0%)	(2,196)	(2.0%)
IRAP deduction	(184)	(0.1%)	(136)	(0.1%)
Effect of the Patent Box	(8,789)	(5.7%)	(3,478)	(3.2%)
Research and Development Tax Credit impact	(771)	(0.5%)	(336)	(0.3%)
Other permanent differences	(3,080)	(2.0%)	(2,387)	(2.2%)
Total difference	(14,105)	(9.2%)	(4,358)	(4.0%)

(In thousands of Euro)				
	2019	%	2018	%
IRAP				
Net value of production	148,120		93,715	
Theoretical taxes	5,777	3.90%	3,655	3.9%
Actual taxes	6,338	4.28%	3,728	4.0%
Difference due to:	561	0.38%	73	0.08%
i) Effect of increases in regional IRAP rates	69	0.0%	61	0.1%
ii) Effect of taxes from previous years	1,542	1.0%	-	0.0%
iii) Effect of permanent increases (decreases):				
Increases				
Personnel costs	2,808	1.9%	2,623	2.8%
Other permanent differences	244	0.2%	345	0.4%
Decreases				
Tax wedge	(2,502)	(1.7%)	(2,305)	(2.5%)
Effect of the Patent Box	(1,429)	(1.0%)	(565)	(0.6%)
Research and Development Tax Credit impact	(126)	(0.1%)	(55)	(0.1%)
Other permanent differences	(45)	(0.0%)	(31)	(0.0%)
Total difference	561	0.38%	73	0.08%

Other information

40. Share-based payments

Stock Grant Plan

(a) Plan Description

In order to adopt a medium/long-term incentive system based on the financial instruments of Salvatore Ferragamo S.p.A. for the top management of the Salvatore Ferragamo Group, at the proposal of the Nomination and Remuneration Committee, in 2016 the Board of Directors approved a specific plan (the 2016-2020 Stock Grant Plan or, in short, the Plan) with the characteristics described below. For more details on the Plan's objectives, scope, and term as well as the method for measuring fair value, please refer also to the Annual Report as at 31 December 2018 (note 38 of the Separate Financial Statements).

Plan Aims

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

Object of the Plan

The Plan is divided into two Cycles:

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

The Plan involves the following:

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

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

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

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

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

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

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

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

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

At the meetings held on 30 June 2016, 2 August 2016, and 14 March 2017, as part of the 1st cycle, and 22 June 2017 as well as 8 March 2018, as part of the 2nd cycle, the Board of Directors, with the favorable opinion of the Nomination and Remuneration Committee, granted 565,000 rights to receive ordinary shares in Salvatore Ferragamo S.p.A. to managers of both Salvatore Ferragamo S.p.A. and some of its subsidiaries (Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Parfums S.p.A., Ferragamo Mexico S. de R.L. de C.V., and Ferragamo Japan K.K.).

Expiry of the Plan

At the meeting held on 18 June 2019, with respect to the 1st Cycle of the 2016-2020 Stock Grant Plan, which was set to end on 30 June 2019, the Board of Directors of Salvatore Ferragamo S.p.A, having heard the Nomination and Remuneration Committee, confirmed that the performance targets of said Plan were not achieved and resolved to close the 1st Cycle of the 2016-2020 Stock Grant Plan without granting any shares in Salvatore Ferragamo S.p.A..

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	180,000
(ii) assigned in the period	-
(iii) canceled in the period	-
(iv) exercised in the period	-
(v) expired in the period (1st cycle)	75,000
(vi) outstanding at the end of the period (2nd cycle)	105,000
(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

Therefore, the balance of outstanding rights to receive shares at the end of period was as follows: 105,000 fully assigned as part of the 2nd Cycle.

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

	31 December 2019		31 December 2018	
	Number	Fair Value (In thousands of Euro)	Number	Fair Value (In thousands of Euro)
<u>Rights to receive shares assigned to the top managers of Salvatore Ferragamo S.p.A.</u>				
- at the start of the year	120,000	753	180,000	867
- assigned in the year	-	-	-	-
- canceled in the period	-	-	80,000	420
- transferred in the period	-	-	20,000	-
- expired in the period (1st cycle)	50,000	159	-	-
- at the end of the period (2nd cycle)	70,000	387	120,000	753
<u>Rights to receive shares assigned to the subsidiaries' top managers</u>				
- at the start of the year	60,000	431	90,000	444
- assigned in the period	-	-	10,000	47
- canceled in the period	-	-	20,000	111
- transferred in the period	-	-	(20,000)	-
- expired in the period (1st cycle)	25,000	111	-	-
- at the end of the period (2nd cycle)	35,000	184	60,000	431
<u>Total rights to receive shares assigned to Ferragamo Group's top managers</u>				
- at the start of the year	180,000	1,184	270,000	1,311
- assigned in the period	-	-	10,000	47
- canceled in the period	-	-	100,000	531
- expired in the period (1st cycle)	75,000	270	-	-
- at the end of the period (2nd cycle)	105,000	571	180,000	1,184

The measurement period for the above performance targets concerning the 2nd cycle of the Plan essentially drew to a close with the year ended 31 December 2019, therefore the relevant measurement has already been estimated at the date of these financial statements. Below are the results of said estimate:

(i) the Total Shareholder Return (“TSR”) compared to a peer group was not achieved, therefore the shares contingent on this target will not be granted. However, pursuant to the relevant accounting standards, the total cost of the Plan associated with this target – the so-called market condition – has been entirely recognized through profit or loss as estimated at the beginning of the Plan;

(ii) the actual cumulative consolidated gross profit (before taxes) for the years 2017, 2018 and 2019, compared to the cumulative Consolidated Gross Profit estimated in the Budget over the same period, was not achieved, therefore also the shares contingent on the second target will not be granted. In this case, once again pursuant to the accounting standards concerning the so-called non market condition, the Group reversed also the relevant cost recognized through profit or loss in previous years and in 2019 up to the end of the period.

(c) Fair value measurement

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

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

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

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

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

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

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

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

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

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

41. 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.

42. Transactions with related parties

The following table shows the transactions with related parties for the years ended 31 December 2019 and 31 December 2018; 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)	2019				31 December 2019				
	Revenues	Operating costs (net of other income)	Financial (charges)	Right-of-use assets	Trade receivables	Other assets	Trade payables	Other liabilities	Lease liabilities
Holding company:									
Ferragamo Finanziaria S.p.A.	-	(94)	(27)	748	-	1,962	-	(8,489)	(760)
(company which exercises management and coordination on Salvatore Ferragamo S.p.A.)									
Related companies									
Palazzo Feroni Finanziaria S.p.A.	30	(7,319)	(1,374)	50,109	7	70	(182)	-	(51,726)
Lungarno Alberghi S.r.l.	13	(1,940)	(778)	20,685	-	-	(5)	-	(21,728)
Ferragamo Foundation	3	(195)	-	-	-	-	(56)	-	-
Companies connected to members of the Board of Directors									
Arpa S.r.l.	33	(34)	-	-	12	-	(12)	-	-
Bacco S.r.l.	-	(3)	-	11	-	-	-	-	(11)
Castiglione del Bosco S.a.r.l.	-	(11)	-	-	-	-	(11)	-	-
Il Borro S.r.l.	-	(24)	-	-	-	-	-	-	-
Il Borro S.r.l. Società agricola	1	(8)	-	-	-	-	-	-	-
The European House Ambrosetti S.p.A.	-	(5)	-	-	-	-	(5)	-	-
Nautor Holding S.r.l.	4	-	-	-	4	-	-	-	-
Osteria del Borro S.r.l.	-	(11)	-	-	-	-	-	-	-
Other related parties connected to members of the Board of Directors									
Heirs of Wanda Miletto Ferragamo	-	(51)	-	-	-	-	-	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities*									
Directors, Statutory Auditors and Managers with strategic responsibilities	-	(5,454)	-	-	-	-	-	(2,312)	-
Total	84	(15,149)	(2,179)	71,553	23	2,032	(271)	(10,801)	(74,225)
Company's total	836,947	(694,823)	48,382	110,878	194,186	8,890	145,232	(29,141)	(113,636)
% ratio	0.0%	2.2%	(4.5%)	64.5%	0.0%	22.9%	(0.2%)	37.1%	65.3%

(In thousands of Euro)	2018			31 December 2018		
	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.)	-	(117)	-	9,956	-	-
Related companies						
Palazzo Feroni Finanziaria S.p.A.	21	(7,138)	8	70	(225)	-
Lungarno Alberghi S.r.l.	11	(2,125)	2	-	(1)	-
Ferragamo Foundation	2	(180)	-	-	(55)	-
Companies connected to members of the Board of Directors						
Arpa S.r.l.	30	(27)	24	-	(15)	-
Bacco S.r.l.	-	(3)	-	-	-	-
Castiglion del Bosco S.a.r.l.	-	(6)	-	-	(5)	-
Il Borro S.r.l.	-	1	12	-	-	-
The European House Ambrosetti S.p.A.	-	(7)	-	-	-	-
Osteria del Borro S.r.l.	-	(3)	-	-	(2)	-
Osmadue S.r.l.	-	67	-	-	-	-
Other related parties connected to members of the Board of Directors						
Wanda Miletti Ferragamo	-	(82)	-	-	-	-
Directors, Statutory Auditors and Managers with strategic responsibilities*						
Directors, Statutory Auditors and Managers with strategic responsibi	-	(6,973)	-	-	-	(1,084)
Total	64	(16,593)	46	10,026	(303)	(1,084)
Company's total	745,103	(669,415)	171,150	15,751	(149,451)	(13,957)
% ratio	0.0%	2.5%	0.0%	63.7%	0.2%	7.8%

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. (1,864 thousand Euro), in favor of Lungarno Alberghi S.r.l. (488 thousand Euro), and in favor of Ferragamo Finanziaria S.p.A. (23 thousand Euro): they concerned the leasing of properties owned by said companies. There are no other guarantees, given or received, relating to receivables and payables with related parties. The Company did not make any allocations to the provision for bad debt with respect to the amounts due from related parties. Please note that in 2017 the Company recognized a provision for bad debt with respect to the receivables due from the subsidiary Ferragamo Retail India Private Limited, amounting to 5,440 thousand Euro as at 31 December 2019, and that in 2019 it reported 199 thousand Euro in losses on receivables due from the subsidiary Ferragamo Denmark ApS in liquidation (which ceased operations on 16 December 2019). For additional details, please refer to note 13.

Specifically:

Holding company

Ferragamo Finanziaria S.p.A.

Under the domestic fiscal unity in which Salvatore Ferragamo S.p.A. participates together with Ferragamo Finanziaria S.p.A. (consolidating entity) and Ferragamo Parfums S.p.A., other current liabilities included 8,489 thousand Euro in corporate income tax (IRES) payables outstanding as at 31 December 2019, while Other current assets included the 1,962 thousand Euro IRES refund claim regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, as set out in Law Decree no. 201 of 6 December 2011, recognized in 2012. Out of said amount, a portion totaling 1,212 thousand Euro was refunded in January 2020. Salvatore Ferragamo S.p.A. has entered into two outstanding lease contracts with Ferragamo Finanziaria S.p.A. concerning the lease of an industrial shed adjacent to the Osmannoro facility, which the company converted into a design and prototyping laboratory for the development of leather goods, as well as a parking area next to the Osmannoro facility. Since they fall within the scope of IFRS 16, the two leases were accounted for by recognizing

a right-of-use asset, depreciated over the lease term, and a corresponding lease liability, while the relevant depreciation and financial charges were recognized through profit or loss.

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;
- leases; if they fall within the scope of IFRS 16, they are accounted for accordingly (i.e. by recognizing right-of-use assets, lease liabilities, depreciation expense, and financial charges), otherwise lease payments are recognized through profit or loss on a straight-line basis over the lease term and the relevant payables are included in Trade payables;
- rendering of services.

In particular, the following transactions should be noted:

Palazzo Feroni Finanziaria S.p.A.

Revenues and the relevant receivables largely refer to IT and administrative services. Right-of-use assets and lease liabilities, as well as the relevant operating costs (5,816 thousand Euro in depreciation, in addition to financial charges), largely refer to leases for the headquarters in Florence and some stores of the Italian chain, which fall within the scope of IFRS 16.

Other assets refer to guarantee deposits.

Lungarno Alberghi S.r.l.

Revenues refer to product sales; right-of-use assets and lease liabilities, as well as the relevant operating costs (1,881 thousand Euro in depreciation, in addition to financial charges), refer to the lease of a property used as a store of the Italian chain, which falls within the scope of IFRS 16.

Ferragamo Foundation

Costs (and the relevant debit balances) include 105 thousand Euro relating to services rendered for the management of the Salvatore Ferragamo S.p.A. historical archive (110 thousand Euro in 2018) and 90 thousand Euro in donations to support the institutional activities of the Foundation (70 thousand Euro in 2018).

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;
- leases; if they fall within the scope of IFRS 16, they are accounted for accordingly (i.e. by recognizing right-of-use assets, lease liabilities, depreciation expense, and financial charges), otherwise lease payments are recognized through profit or loss on a straight-line basis over the lease term and the relevant payables are included in Trade payables;
- rendering of services.

Other related parties connected to members of the Board of Directors

Heirs of Wanda Miletta Ferragamo

Operating costs refer to the lease of a property used as a store, whose term ended in 2019.

Directors, Statutory Auditors and Managers with strategic responsibilities

For information on Directors and Statutory Auditors, please refer to note 43 below.

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

Full name	Role
Giacomo Ferragamo	Brand and Product Manager and Deputy Chairman of the Board of Directors
Micaela Le Divelec Lemmi	Managing Director
Alessandro Corsi*	Manager of Administration, Finance and Control
Ugo Giorcelli**	Manager of Administration, Finance and Control

* Alessandro Corsi in office as from 11 January 2019

** Ugo Giorcelli has held this position until 10 January 2019

The costs associated with the managers with strategic responsibilities (excluding the fees and payables related to the Managing Director and the Deputy Chairman Giacomo Ferragamo, reported in the section Directors) referred to the cost incurred by the Group as part of the employment relationship and, in addition, they included the cost of the 2016-2020 Stock Grant Plan for the rights granted as part of the 1st and 2nd cycles. In 2019, they amounted to 479 thousand Euro (compared to 475 thousand Euro in 2018). The managers with strategic responsibilities receive non-monetary benefits such as cars, mobile phones, insurance policies, and accommodation.

Intragroup transactions

The following tables show the overall values, in thousands of Euro, of transactions with subsidiaries:

Company	Trade receivables		Other current financial assets		Total	
	2019	2018	2019	2018	2019	2018
Ferragamo Deutschland GmbH	1,751	2,111	3,400	1,700	5,151	3,811
Ferragamo France S.A.S.	2,838	3,591	800	300	3,638	3,891
Ferragamo (Suisse) S.A.	530	266	5,344	4,703	5,874	4,969
Ferragamo Monte-Carlo S.A.M.	258	275	19	-	277	275
Ferragamo Belgique S.A.	264	318	-	-	264	318
Ferragamo Espana S.L.	1,260	1,647	3,000	2,000	4,260	3,647
Ferragamo U.K. Limited	2,333	2,521	5,877	3,354	8,210	5,875
Ferragamo Austria GmbH	526	706	-	-	526	706
Ferragamo Denmark ApS	-	279	-	134	-	413
Ferragamo Parfums S.p.A.	1,976	2,146	-	-	1,976	2,146
Ferragamo Retail Nederland BV	1,606	985	-	-	1,606	985
Total Europe	13,342	14,845	18,440	12,191	31,782	27,036
Ferragamo Hong Kong Ltd.	29,913	29,916	-	-	29,913	29,916
Ferragamo Retail HK Ltd.	31	53	-	-	31	53
Ferragamo Australia Pty Ltd.	2,685	1,728	-	-	2,685	1,728
Ferragamo Japan KK	4,052	3,656	35,263	11,920	39,315	15,576
Ferragamo Moda (Shanghai) Co. Ltd.	46	65	-	-	46	65
Ferragamo Retail India Private Limited	-	-	-	-	-	-
Ferragamo Retail Taiwan Limited	30	43	-	-	30	43
Ferragamo Retail Macau Limited	5	22	-	-	5	22
Ferragamo Fashion Trading (Shanghai) Co. Ltd	376	168	-	-	376	168
Ferragamo Korea Ltd	11,806	11,460	-	-	11,806	11,460
Ferragamo (Singapore) PTE LTD	224	71	21,441	15,714	21,665	15,785
Ferragamo Thailand Limited	111	56	7,063	-	7,174	56
Ferragamo (Malaysia) SDN BHD	-	22	-	-	-	22
Total Asia Pacific and Japan	49,279	47,260	63,767	27,634	113,046	74,894
Ferragamo Usa Inc.	60,073	46,770	9,792	3,930	69,865	50,700
Ferragamo Canada Inc.	3,501	2,614	7,775	5,767	11,276	8,381
Total North America	63,574	49,384	17,567	9,697	81,141	59,081
Ferragamo Mexico S. de R.L. de C.V.	26,520	21,133	-	-	26,520	21,133
Ferragamo Chile S.A.	2,181	1,739	-	-	2,181	1,739
Ferragamo Argentina S.A.	1,195	715	-	-	1,195	715
Ferragamo Brasil Roupas e Acessorios Ltda	5,279	2,928	-	-	5,279	2,928
Total Central and South America	35,175	26,515	-	-	35,175	26,515
Total	161,370	138,004	99,774	49,522	261,144	187,526

Company	Trade payables		Total	
	2019	2018	2019	2018
Ferragamo France S.A.S	909	144	909	144
Ferragamo Monte-Carlo S.A.M.	-	2	-	2
Ferragamo Suisse S.A.	450	5	450	5
Ferragamo Espana SL	16	9	16	9
Ferragamo U.K. Limited	315	78	315	78
Ferragamo Parfums S.p.a.	276	183	276	183
Ferragamo Retail Nederland BV	281	241	281	241
Ferragamo Belgique S.A.	-	1	-	1
Ferragamo Austria GmbH	-	2	-	2
Ferragamo Denmark ApS	-	15	-	15
Ferragamo Deutschland GmbH	-	10	-	10
Total Europe	2,247	690	2,247	690
Ferragamo Usa Inc.	4,826	3,860	4,826	3,860
Ferragamo Canada Inc.	391	398	391	398
Total North America	5,217	4,258	5,217	4,258
Ferragamo Hong Kong Ltd.	122	102	122	102
Ferragamo Retail HK Ltd.	-	-	-	-
Ferragamo Australia Pty Ltd.	184	164	184	164
Ferragamo Japan K.K.	621	2,005	621	2,005
Ferragamo (Malaysia) SDN BHD	2	-	2	-
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	21	-	21	-
Ferragamo Korea Ltd	497	662	497	662
Total Asia Pacific and Japan	1,447	2,933	1,447	2,933
Ferragamo Mexico S. de R.L. de C.V.	250	28	250	28
Ferragamo Brasil Roupas e Acessorios Ltda	239	1,165	239	1,165
Total Central and South America	489	1,193	489	1,193
Total	9,400	9,074	9,400	9,074

SUBSIDIARIES	Revenues from contracts with customers				Other income and revenues		Financial income		Total	
	Revenues from sales		Revenues from services (including royalties)		2019	2018	2019	2018	2019	2018
	2019	2018	2019	2018						
Ferragamo Deutschland GmbH	6,902	3,755	147	165	29	28	20	17	7,098	3,965
Ferragamo France Sas	10,641	9,231	212	254	40	34	25	27	10,918	9,546
Ferragamo Suisse sa	4,537	4,299	73	75	30	8	8	7	4,648	4,389
Ferragamo Montecarlo Sam	310	215	24	25	2	2	-	-	336	242
Ferragamo Belgique sa	704	569	24	24	2	2	-	-	730	595
Ferragamo Espana s.l.	5,216	4,668	150	152	47	51	12	7	5,425	4,878
Ferragamo UK ltd	15,355	13,559	218	259	31	19	79	69	15,683	13,906
Ferragamo Austria GmbH	1,333	1,445	37	44	64	4	-	-	1,434	1,493
Ferragamo Denmark ApS	(198)	299	15	38	-	1	1	1	(182)	339
Ferragamo Parfums Spa	85	101	3,402	3,668	320	326	-	1	3,807	4,096
Ferragamo Retail Nederland BV	2,781	3,104	60	73	8	7	-	-	2,849	3,184
Total	47,666	41,245	4,362	4,777	573	482	145	129	52,746	46,633
Ferragamo Hong Kong Ltd	182,405	165,717	633	593	242	327	18,600	32,240	201,880	198,877
Ferragamo Retail HK Ltd	-	-	80	103	21	19	-	-	101	122
Ferragamo Australia PTY	8,771	9,372	479	393	49	48	9	-	9,308	9,813
Ferragamo Japan KK	45,094	37,799	794	88	115	84	119	53	46,122	38,024
Ferragamo Korea Limited	78,588	70,452	691	627	2,719	145	13,551	-	95,549	71,224
Ferragamo Fashion Trading Shanghai	-	-	515	278	94	91	-	-	609	369
Ferragamo Moda (Shanghai) Co.	-	-	85	84	31	31	-	-	116	115
Ferragamo Retail India Private Ltd	-	-	-	-	-	-	-	-	-	-
Ferragamo (Malaysia) SDN BHD	-	-	35	56	16	15	-	-	51	71
Ferragamo (Singapore) PTE LTD	-	-	68	126	24	23	482	19	574	168
Ferragamo Retail Taiwan	-	-	55	80	21	19	-	-	76	99
Ferragamo Retail Macau	-	-	20	31	7	6	372	-	399	37
Ferragamo Thailand Limited	-	-	27	46	12	10	105	-	144	56

Total Asia Pacific and Japan	314,858	283,340	3,482	2,505	3,351	818	33,238	32,312	354,929	318,975
Ferragamo USA Inc	189,207	139,003	5,168	4,255	253	241	26	62	194,654	143,561
Sator Realty Inc	-	-	-	443	29	30	-	206	29	679
Ferragamo Canada Inc.	13,824	11,621	537	-	4	-	222	-	14,587	11,621
Total North America	203,031	150,624	5,705	4,698	286	271	248	268	209,270	155,861

SUBSIDIARIES	Revenues from contracts with customers								Total	
	Revenues from sales		Revenues from services (including royalties)		Other income and revenues		Financial income			
	2019	2018	2019	2018	2019	2018	2019	2018		
Ferragamo Mexico s. de r.l. de c.v.	38,252	30,408	445	38	37	119	-	-	38,734	30,565
Ferragamo Chile SA	442	460	-	-	1	1	-	-	443	461
Ferragamo Argentina SA	1,264	582	-	-	1	-	-	-	1,265	582
Ferragamo Brasil R&A Ltda	2,463	1,891	-	-	5	4	-	-	2,468	1,895
Total Central and South America	42,421	33,341	445	38	44	124	-	-	42,910	33,503
Total	607,976	508,550	13,994	12,018	4,254	1,695	33,631	32,709	659,855	554,972

SUBSIDIARIES	Purchase of finished products, raw materials, accessories and consumables		Costs for services		Other operating costs		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	Ferragamo France Sas	57	73	119	101	8,086	8,194	8,262
Ferragamo Espana SL	52	85	-	-	827	1,884	879	1,969
Ferragamo Suisse SA	10	26	-	-	1,958	-	1,968	26
Ferragamo UK Ltd	43	85	317	69	3,988	4,091	4,348	4,245
Ferragamo Retail Nederl. B.V.	8	15	281	234	-	-	289	249
Ferragamo Deutschland GmbH	70	120	-	-	3,004	2,830	3,074	2,950
Ferragamo Austria GmbH	12	21	-	-	-	132	12	153
Ferragamo Denmark ApS	19	27	-	-	199	-	218	27
Ferragamo Parfums Spa	315	232	193	166	-	-	508	398
Ferragamo Montecarlo Sam	4	6	-	-	-	-	4	6
Ferragamo Belgique sa	6	11	-	-	-	-	6	11
Total Europe	596	701	910	570	18,062	17,131	19,568	18,402
Ferragamo Hong Kong Ltd	-	-	484	269	-	-	484	269
Ferragamo Retail HK Ltd	-	-	-	-	-	-	-	-
Ferragamo Retail India	-	-	-	-	-	385	-	385
Ferragamo Japan KK	-	8	798	2,375	-	-	798	2,383
Ferragamo Korea Limited	-	-	510	651	-	-	510	651
Ferragamo Australia Pty	-	-	246	246	4,159	3,588	4,405	3,834
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	-	-	21	-	-	-	21	-
Ferragamo (Singapore) PTE LTD	-	-	12	-	-	-	12	-
Ferragamo Thailand Limited	-	-	-	-	-	-	-	-
Ferragamo Retail Taiwan Limited	-	-	-	-	-	-	-	-
Total Asia Pacific and Japan	-	8	2,071	3,541	4,159	3,973	6,230	7,522
Ferragamo USA Inc	-	-	1,520	1,841	22,782	25,148	24,302	26,989
Ferragamo Canada Inc.	-	-	-	-	1,141	1,892	1,141	1,892
Total North America	-	-	1,520	1,841	23,923	27,040	25,443	28,881
Ferragamo Mexico s.de r.l. de c.v.	-	-	968	42	-	-	968	42
Ferragamo Brasil Roupas e Acessorios Ltda	-	-	-	-	1,951	2,389	1,951	2,389
Total Central and South America	-	-	968	42	1,951	2,389	2,919	2,431
Total	596	709	5,469	5,994	48,095	50,533	54,160	57,236

43. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)		2019								
Full name	Position held	Term of office	End of term of office	Fees			Salaries, bonuses and other incent.	Other fees	Stock Grant	Total
				for the position held	as committee members	Non-monetary benefits				
Ferruccio Ferragamo	Chairman	1.01-31.12	a)	700	-	b) c) d)	-	400	-	1,100
Micaela Le Divelec Lemmi	Managing Director	1.01-31.12	a)	800	-	b) c) d)	-	1,128	-	1,928
Giacomo Ferragamo	Deputy Chairman	1.01-31.12	a)	35	15	b) c) d)	573	-	(48)	575
Giovanna Ferragamo	Director	1.01-31.12	a)	200	-		-	-	-	200
Leonardo Ferragamo	Director	1.01-31.12	a)	35	-		-	-	-	35
Diego Paternò Castello di San Giuliano	Director	1.01-31.12	a)	35	15		-	-	-	50
Angelica Visconti	Director	1.01-31.12	a)	35	15	b) c) d) e)	265	-	(16)	299
Francesco Caretti	Director	1.01-31.12	a)	285	-		-	-	-	285
Peter Woo Kwong Ching	Director	1.01-31.12	a)	-	-		-	-	-	-
Umberto Tombari	Director	1.01-31.12	a)	35	40		-	-	-	75
Marzio Alessandro Alberto Saà	Director	1.01-31.12	a)	35	40		-	-	-	75
Chiara Ambrosetti	Director	1.01-31.12	a)	35	28		-	-	-	63
Lidia Fiori	Director	1.01-31.12	a)	35	26		-	-	-	61
Total				2,265	179		838	1,528	(64)	4,746

a) upon approval of the 2020 financial statements

b) car

c) mobile phone

d) insurance policies

e) accommodation

Statutory Auditors

(In thousands of Euro)		2019					Other fees received from subsidiaries	Grand total
Full name	Position held	Term of office	End of term of office	Fees for the position held	Other fees*			
Andrea Balelli	Chairman	1.01-31.12	a)	64	13	-	77	
Fulvio Favini	Acting Statutory Auditor	1.01-31.12	a)	48	10	-	58	
Paola Caramella	Acting Statutory Auditor	1.01-31.12	a)	48	10	-	58	
Total				160	33	-	193	

a) upon approval of the 2019 financial statements

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

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

44. Dividends

Pursuant to the resolution of the Shareholders' Meeting of 18 April 2019, the Parent company Salvatore Ferragamo S.p.A. paid Shareholders a dividend of 0.34 Euro per share for each of the 168,740,000 outstanding ordinary shares (net of 50,000 treasury shares at the date of the Shareholders' Meeting), relating to the profit for 2018, for a total amount of 57,371,600 Euro, with coupon detachment on 20 May 2019 and payment of the dividend as from 22 May 2019.

45. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2019	31 December 2018
Sureties provided by third parties to third parties in the interests of the Company	5,792	4,818
Sureties provided by third parties to third parties in the interests of Group companies	2,874	3,197
Guarantees provided by the Company to third parties in the interests of Group companies	130,197	141,803
Total	138,863	149,818

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

Guarantees provided by the Company to third parties in the interests of Group companies are mainly in favor of banks to guarantee credit lines which may be used locally and the remainder consists of bank guarantees on lease contracts, including a guarantee for 6 million US dollars (equal to 5,341 thousand Euro) relating to a lease contract of the Ferragamo USA Group.

46. Public funds Disclosure as per art. 1 paragraphs 125-129 of Italian Law no. 124/2017

Pursuant to art. 1, paragraph 125, of Italian Law 124/2017, as for the requirement to disclose in the notes any funds received during the year in the form of subventions, grants, paid services, and generally economic benefits of any kind from public administrations and the entities as per paragraph 125 of the same article, the Company reports that in 2019 it did not receive funds greater than 10,000 Euro. In accordance with art. 3-quater of Italian Law Decree 135/2018, converted with the relevant amendments into Law no. 12 11 February 2019, with respect to the funds received, please refer to the information in the National State Aid Register as per article 52 of Italian Law no. 235 of 24 December 2012.

47. Significant non-recurring events and transactions

During 2019, the Company did not carry out significant non-recurring transactions and no significant non-recurring events occurred.

48. 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.

49. 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 2019		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	550,000	100%		(5)
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	76,361,136	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	Taiwanese Dollar	136,250,000		75%	(3)
Ferragamo Retail Macau Limited	Macau, China	Macau Pataca	25,000	75.20%		
Ferragamo Retail India Private Limited	New Delhi, India	Indian Rupee	300,000,000	100%		(4)
Ferragamo Korea Ltd.	Seoul, South Korea	South Korean Won	3,291,200,000	100%		
Ferragamo (Singapore) Pte Ltd.	Singapore	Singapore Dollar	4,600,000	100%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	100%		
Ferragamo (Malaysia) Sdn. Bhd.	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	100%		
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc.;

2 – Through Ferragamo Hong Kong Ltd.;

3 – Through Ferrimag Limited;

4 – Non-operating company

5- company in liquidation as from 1 July 2019 which ceased operations on 16 December 2019 and was struck off the Copenhagen Company Register on 07 January 2020.

50. Significant events occurred after 31 December 2019

At the end of 2019, a new coronavirus, known as Covid-19, was found in Wuhan, China. As at the date of preparation of the 2019 Annual Report, the virus is infecting thousands of individuals in several countries around the world. The levels of contagion seen in recent weeks vary widely from one country to another. The Covid-19 Coronavirus has spread from China into South Korea, Iran, and Italy, where the outbreak is currently more severe than in all the other countries that have confirmed cases in both Europe and the Americas.

In order to contain the epidemic and protect public health, in January 2020 the Chinese government quarantined Wuhan and other major cities around the country. As part of its containment measures, the Government also extended the closure of schools, government offices, and production plants for the Lunar New Year and asked people to refrain from visiting public places and/or leisure venues. Several flights to and from China have also been canceled.

Other countries are currently taking similar precautions. Italy has adopted rules and measures that have significantly disrupted the social and economic life of individuals—at first in the areas where the outbreak appears to be more severe (the Lombardy, Veneto, and Emilia Romagna regions), and then throughout the country.

These events are significantly affecting traffic and sales, especially in China's retail channel, as well as Chinese tourist flows around the globe, with clear repercussions on the Group's sales also in other geographies and across the various channels.

Given, among other things, the above considerations about the Covid-19 Coronavirus outbreak, it is currently impossible to reliably estimate how these events will actually affect other macroeconomic variables (e.g. employment, interest rates, government subsidies, etc.). For instance, China is apparently past the peak of the outbreak and has touted a significant reduction in new infections.

As at the date of preparation of this Report, given the fast-moving situation and contagion as well as the uncertainty about the scale of the economic and social impacts of the Covid-19 Coronavirus, it is impossible to reliably estimate the length and scope of the outbreak and, therefore, how this could potentially impact the Group's financial performance, financial position, and cash flows.

On 10 March 2020, Salvatore Ferragamo S.p.A. entered into an agreement to acquire 100% of Arts S.r.l. for 11.3 million Euro, payable at the closing, in addition to the acquiree's net cash on hand as at 31 March 2020 (estimated at around 3.5 - 4.0 million Euro), to be paid at a later date before 28 February 2021. The transaction is expected to close by April 2020. Arts S.r.l. has been collaborating with Salvatore Ferragamo S.p.A. since its inception in 1984, helping with the prototyping, industrialization, and quality control of products as well as the monitoring of the Group's network of suppliers with respect to men's footwear. With this deal, the Group seeks to strengthen its control over its supply chain and acquire strategic capabilities in one of its key product categories.

51. 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 2019, totaling 124,211,203 Euro, as follows:

- a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro;
- b) the remainder amount, equal to 66,873,603.00 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	2019 Fees
Audit	Independent Auditors of the Parent company	Parent company		203
Other services	i) Independent Auditors of the Parent company	Parent company	1	35
	ii) Independent Auditors' network of the Parent company	Parent company	2	169
Total				407

1) The line item refers to certification services rendered to the Company.

2) The line item refers mainly to IT support services.

Florence, 10 March 2020

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

DISCLOSURE OF INFORMATION ON THE PROPOSED CHANGE TO THE ALLOCATION OF THE PROFIT FOR THE YEAR 2019 AND THE DISTRIBUTION OF DIVIDENDS

On 6 April 2020, the Board of Directors of Salvatore Ferragamo S.p.A. (or the “**Company**”), in order to support the financial soundness of the Group and mitigate future economic-financial impacts, resolved to withdraw the proposal for the distribution of dividends out of the Company's profits for the year 2019, already approved on 10 March 2020 and disclosed to the market on the same date, and to propose that the Shareholders’ Meeting allocate Salvatore Ferragamo S.p.A.'s 124,211,203 Euro profit for the year 2019 to the extraordinary reserve.

To provide a better understanding of the effects of the resolution passed by the Board of Directors on 6 April 2020, below are excerpts from the Annual Report approved by the Board of Directors on 10 March 2020 that highlight the parts affected by said resolution.

<p>Separate Financial Statement as at 31 December 2019</p> <p>51 Proposal for the allocation of the profit</p>	<p>Separate Financial Statement as at 31 December 2019</p> <p>51 Proposal for the allocation of the profit</p> <p>Post-resolution of the Board of Directors of 6 April 2020</p>
<p>The Board of Directors of Salvatore Ferragamo S.p.A. proposes to allocate the profit for the year 2019, totaling 124,211,203 Euro, as follows:</p> <p>a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro;</p> <p>b) the remainder amount, equal to 66,873,603.00 Euro, to the Extraordinary Reserve.</p> <p><i>omissis</i></p>	<p>The Board of Directors of Salvatore Ferragamo S.p.A. proposes to allocate the profit for the year 2019, totaling 124,211,203 Euro to the Extraordinary Reserve. as follows:</p> <p>a) to Shareholders a gross dividend of 0.34 Euro for each of the 168,640,000 ordinary shares outstanding (net of 150,000 treasury shares) for a total of 57,337,600.00 Euro;</p> <p>b) the remainder amount, equal to 66,873,603.00 Euro, to the Extraordinary Reserve.</p> <p><i>omissis</i></p>

Florence, 6 April 2020

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

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

1. The undersigned Micaela le Divelec Lemmi in her 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 2019 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2019 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 2019:

- 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, 10 March 2020

Managing Director
Micaela le Divelec Lemmi

Manager charged with preparing Company’s Financial Reports
Marco Fortini

Report of the Board of Statutory Auditors to the Shareholders' Meeting

(pursuant to art. 153 of Italian Leg. Decree 58/1998)

Dear Shareholders,

The Board of Statutory Auditors of Salvatore Ferragamo S.p.A. (hereinafter also referred to as “Ferragamo” or “Company”), pursuant to art. 153 of Italian Leg. Decree 58/1998 (“TUF”, which stands for Testo Unico della Finanza – Consolidated Law on Finance in Italian), shall report to the Shareholders' Meeting convened for the approval of the financial statements on the supervisory activities carried out during the year as well as any potentially material omissions or reprehensible events. In addition, the Board of Statutory Auditors shall also make proposals regarding the financial statements and their approval as well as the matters within its area of responsibility.

This report concerns the work performed by the Board of Statutory Auditors of Salvatore Ferragamo S.p.A. during the year ended 31 December 2019 (hereinafter also referred to as “Report”).

Introduction

In the year ended 31 December 2019, the Board of Statutory Auditors performed the supervisory activities required by law in accordance with the standards of conduct recommended by the Italian National Board of Accountants and Auditors (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili), Consob's regulations on corporate controls, and the Corporate Governance Code.

The activities described below were formally recorded in the minutes of the 12 meetings the Board of Statutory Auditors held during 2019 and the 7 meetings held in 2020 up to the preparation of this Report. The Board of Statutory Auditors has always attended the meetings of the Board of Directors, the Control and Risk Committee – which acts also as the Committee responsible for transactions with related parties – and the Nomination and Remuneration Committee.

Appointment of the Board of Statutory Auditors

The Board of Statutory Auditors as at the reporting date was appointed by the Shareholders' Meeting of 27 April 2017, except for the acting statutory auditor Paola Caramella, who was appointed by the Shareholders' Meeting of 20 April 2018, and consisted of Andrea Balelli (Chairman), Paola Caramella (Acting Statutory Auditor), and Fulvio Favini (Acting Statutory Auditor).

The substitute statutory auditors are Roberto Coccia, appointed by the Shareholders' Meeting of 27 April 2017, and Antonietta Donato, appointed by the Shareholders' Meeting of 20 April 2018.

Supervisory activities pursuant to art. 149 of the TUF

Pursuant to art. 149 of the TUF, the Board of Statutory Auditors supervises:

- compliance with the law and the bylaws;
- adherence to the principles of sound management;
- the adequacy of the Company's organizational structure as far as matters within its area of responsibility are concerned, the internal control system, and the administrative-accounting system – as well as the latter's reliability in presenting fairly the Company's operations;
- the implementation of the corporate governance rules set out in the codes of conduct issued by regulated market operators or trade associations that the Company has formally adopted through public disclosures;

- the adequacy of the instructions the Company gives to subsidiaries pursuant to art. 114, paragraph 2 of the TUF.

Supervision of compliance with the law and the bylaws

The Board of Statutory Auditors has obtained the information necessary to perform its supervisory duties by participating in the meetings of the Board of Directors and the Board Committees as well as through hearings of the Company's and Group's Management, meetings with the audit firm, analyses of the information flows received from the relevant control bodies of the Group's companies as well as from the competent business structures, and additional monitoring activities.

The Board of Statutory Auditors has obtained information on the operations carried out and the transactions that materially impacted the Company's financial performance, financial position, and cash flows, as well as the Group's strategic guidelines, from the Directors at least on a quarterly basis. The Board of Statutory Auditors can provide reasonable assurance that the transactions authorized and conducted by the Company comply with the law and the bylaws and are not manifestly imprudent, risky, in conflict of interest, contrary to the decisions of the Shareholders' Meeting, or such as to compromise the integrity of corporate assets. In addition, there were no atypical or unusual transactions;

Specifically, the Board of Statutory Auditors

- reports that the following significant transactions and events occurred in 2019:
 - on 18 April 2019, the Shareholders' Meeting appointed Micaela Le Divelec Lemmi (previously co-opted pursuant to art. 2386 of the Italian Civil Code) to the Board of Directors until the date of approval of the financial statements for the year 2020;
 - on 18 April 2019, the Board of Directors appointed Micaela Le Divelec Lemmi as the Company's Managing Director, as well as Director Responsible for the Internal Control and Risk Management System, confirming the powers already granted to her at the previous Board meeting held on 31 July 2018;
 - on 18 June 2019, the Board of Directors: (i) resolved to strengthen the Nomination and Remuneration Committee as well as the Control and Risk Committee, expanding the number of members from 3 to 4, (ii) resolved to close the 1st Cycle of the 2016-2020 Stock Grant Plan without granting any shares, (iii) approved the 2019-2021 management incentive plan, so-called "Long Term Incentive Plan", and the relevant Rules, (iv) approved the adoption of the Inclusion Policy to protect values such as diversity and inclusion;
 - on 30 July 2019, the Board of Directors appointed Paolo La Morgia as Internal Audit Manager, replacing Lorenzo Velardo, appointed as CFO of the America Region, effective 1 October 2019;
 - on 13 December 2019, the Board of Directors approved (i) the 2020 Audit Plan and (ii) the 2020 Budget;
- reports that the following significant transactions and events occurred in 2020 up to the reporting date:
 - on 28 January 2020, the Board of Directors (i) presented an update to the 2020 Budget, (ii) approved the Impairment Test procedure, and (iii) presented the results of the Self-Assessment of the Board of Directors;
 - on 10 March 2020, the Board of Directors: (i) approved the draft separate and consolidated financial statements as at 31 December 2019, (ii) approved the Non-

Financial Statement as at 31 December 2019, pursuant to Italian Leg. Decree 254/2016, (iii) appointed Alessandro Corsi, who was already serving as the Group's CFO, as Manager charged with preparing Company's Financial Reports pursuant to art. 154-bis, paragraph 1, TUF, effective 1 April 2020, replacing Marco Fortini, who served in the role for the entire year 2019;

- following the inquiries and due diligence already launched in December 2019, the Company approved the acquisition of Arts Srl, an exclusive supplier to the Group since 1984 that is of strategic interest as part of the men's footwear manufacturing value chain.

In addition, the Board of Statutory Auditors:

- pursuant to art. 151, paragraphs 1 and 2 of Italian Leg. Decree no. 58/1998, exchanged information with the Board of Statutory Auditors of the subsidiary Ferragamo Parfums S.p.A. on the work carried out in 2019;
- in its capacity as Supervisory Body pursuant to Italian Leg. Decree 231/2001, examined the matters addressed by said decree and found no significant reprehensible issues or events;
- held regular meetings with representatives of the audit firm to mutually exchange data and information material to the discharge of its duties in accordance with art. 150, paragraph 3 of the TUF. In this regard, there was no material data or information to be disclosed in this report;
- did not receive complaints as per art. 2408 of the Italian Civil Code;
- issued an opinion on the remuneration of directors holding specific positions in accordance with art. 2389, paragraph 3 of the Italian Civil Code;
- issued a favorable opinion on the appointment of the Manager charged with preparing Company's Financial Reports;
- issued opinions on the so-called “non-audit fees” for services other than auditing, in accordance with the Company's internal procedure.

In addition, concerning the Company's bodies and functions, the Board of Statutory Auditors reports that:

- the Board of Directors held 10 meetings in 2019;
- the Control and Risk Committee held 9 meetings in 2019;
- the Nomination and Remuneration Committee held 7 meetings in 2019;
- the Supervisory Body as per Italian Leg. Decree 231/2001 held 7 meetings in 2019.

Supervision of adherence to the principles of sound management and the adequacy of the organizational structure

The Board of Statutory Auditors:

- obtained information on and supervised, within the scope of its responsibilities, the adequacy of the Company's organizational structure and adherence to the principles of sound management through direct observation as well as by gathering information from the heads of corporate departments and meeting with the audit firm to mutually exchange material data and information. The Board of Statutory Auditors has nothing to report in this regard and considers the Company's organizational structure to be essentially suitable for its needs as well as for ensuring adherence to the principles of sound management;
- assessed and supervised the adequacy of the administrative-accounting system, as well its reliability in presenting fairly the Company's operations, by obtaining information from the heads of the relevant departments, examining business documents, and analyzing the work of the audit firm. The Board of Statutory Auditors has nothing to report in this regard.

The Board of Statutory Auditors has ascertained that directors and statutory auditors receive adequate supporting documents about the items on the agenda of Board of Directors' meetings with reasonable advance notice.

Based on the acquired information, the Board of Statutory Auditors acknowledges that management makes decisions in an informed and reasonable manner and directors are aware of the risks and impacts of the transactions carried out.

The Board of Statutory Auditors did not find any significant atypical and/or unusual transactions, including intragroup transactions as well as intragroup and non-intragroup related party transactions. In addition, the Board of Statutory Auditors also assessed the adequacy of the information disclosed in the Directors' report on operations on the lack of significant atypical and/or unusual transactions.

Supervision of the actual implementation of corporate governance rules

Pursuant to art. 149, paragraph 1, lett. c-bis of the TUF concerning the supervision by the Board of Statutory Auditors of "*the actual implementation of the corporate governance rules set out in the codes of conduct issued by regulated market operators or trade associations that the company has formally adopted through public disclosures*", the Board of Statutory Auditors supervised:

- the actual implementation of the corporate governance rules set out in codes of conduct that the Company has formally adopted through public disclosures. In accordance with art. 123-bis of the TUF, the Company prepared the annual Report on Corporate Governance and Ownership Structure for 2019, approved on 10 March 2020, which includes information about (i) the Company's actual corporate governance practices; (ii) the key characteristics of the existing risk management and internal control systems, including as far as the separate and consolidated financial reporting process is concerned; (iii) the functioning of the Shareholders' Meeting, its main powers, the rights of Shareholders, and how they can exercise them; and (iv) the composition and functioning of the administration and control bodies and the relevant committees, as well as the other disclosures required by art. 123-bis of the TUF;
- the adoption of the Remuneration Policy for Directors and Managers with strategic responsibilities, in accordance with the Corporate Governance Code for listed companies issued by Borsa Italiana S.p.A. as well as the Remuneration Report pursuant to art. 123-ter of the TUF;
- the implementation of the procedure for the commissioning of services to the audit firm within the Ferragamo Group during the year.

In addition, the Board of Statutory Auditors acknowledges that: (i) in accordance with the requirements in art. 148, paragraph 3 of the TUF and the guidance provided by the Italian National Board of Accountants and Auditors as well as the Corporate Governance Code of Borsa Italiana S.p.A., it verified whether its members met the independence, professional expertise, competence and honesty requirements as per applicable laws; (ii) it found that the criteria and procedures adopted by the Board of Directors for the annual assessment of the independence of its independent directors were properly implemented, and that the Board of Directors conducted an analysis based on substantiated evidence and consistent with the decisions concerning the identification of Ferragamo's related parties. The Board of Statutory Auditors has nothing to report in this regard.

Supervision of the adequacy of the instructions the company gives to subsidiaries

Pursuant to art. 114, paragraph 2 of the TUF: (i) listed issuers give the instructions necessary for the subsidiaries to disclose all information required to meet disclosure requirements in accordance with the law; (ii) the subsidiaries provide the requested disclosures in a timely manner.

The Board of Statutory Auditors supervised the adequacy of the instructions given to subsidiaries, and found that the Company is able to promptly and regularly meet disclosure requirements in accordance with the law – including by gathering information from the heads of organizational functions and

regularly meeting with the audit firm to mutually exchange material data and information. The Board of Statutory Auditors has nothing to report in this regard.

In addition, the Boards of Directors of the subsidiaries include among their members Directors and/or Managers of the Parent company vested with executive powers, thus ensuring a coordinated management and an adequate flow of information supported by appropriate accounting records.

Intragroup or related-party transactions

In accordance with art. 2391-bis of the Italian Civil Code as well as Consob resolution no. 17221 of 12 March 2010 containing “Regulations on related-party transactions”, as amended by Consob resolution no. 17389 of 23 June 2010, on 30 March 2011 Ferragamo’s Board of Directors, with the favorable opinion of the Committee responsible for transactions with related parties – which consists only of independent directors (and is appointed for this purpose with a specific resolution of the Board of Directors in accordance with art. 4, paragraph 1 of said Regulations), adopted the “Procedure governing transactions with related parties”, which was subsequently updated on 13 November 2014 and 31 July 2018.

Pursuant to art. 4 of said Regulations, we certify that the Procedure adopted by the Company (i) is consistent with the principles set out in the Regulations, and (ii) is published on the Company’s website (www.ferragamo.com).

Based on the acquired information, in 2019 several transactions with related parties were carried out both within the Group and with third parties. As far as we know, based also on our supervisory work, transactions with related parties were carried out essentially in accordance with said procedure and the Regulations. The intragroup transactions we examined appear to be part of the ordinary course of business, as they concern commercial services as well as the exchange of administrative, financial and organizational services. These transactions were carried out on arm’s length terms, determined in accordance with standard parameters reflecting the actual use of the services concerned, and were in the interest of the Company. The transactions with non-intragroup related parties we examined also appear to be part of the ordinary course of business (as they fall within day-to-day operating activities or the relevant financing activities) and were concluded on arm’s length or standard terms. The transactions with related parties are disclosed in the Explanatory notes to the separate and consolidated financial statements along with the relevant economic impact.

In our opinion, all said transactions were carried out in the interest of the Company.

Supervisory Activities in accordance with the Consolidated Law on Statutory Audit

Pursuant to the Consolidated Law on Statutory Audit (art. 19 of Italian Leg. Decree no. 39/2010 as amended by Italian Leg. Decree 135/2016), the Board of Statutory Auditors (referred to as the “Audit Committee” in the Consolidated Law) shall:

- (i) notify the audited entity’s administrative body of the audit findings, as well as submit the additional report as per art. 11 of Regulation (EU) no. 537/2014 to said body along with any observations;
- (ii) monitor the financial reporting process;
- (iii) monitor the effectiveness of the internal control, internal audit and risk management systems;
- (iv) monitor the statutory audit of the annual and consolidated financial statements;
- (v) verify and monitor the independence of statutory auditors or audit firms pursuant to arts. 10, 10-bis, 10-ter, 10-quater, and 17 of said decree as well as art. 6 of the EU Regulation, concerning especially the adequacy of non-audit services provided to the audited entity, in accordance with art. 5 of said Regulation;
- (vi) oversee the procedure for the selection of statutory auditors or audit firms and recommend the statutory auditors or audit firms to be appointed pursuant to art. 16 of the EU Regulation.

The Board of Statutory Auditors has worked with the Control and Risk Committee of the Board of

Directors to coordinate their respective duties and avoid potential overlaps.

In this regard, Ferragamo invites all the members of the Board of Statutory Auditors to participate in the activities of the Control and Risk Committee concerning the topics specifically set out in Italian Leg. Decree no. 39/2010 as well as the above matters to be supervised, allowing for a seamless relationship and facilitating the coordination and exchange of information between the two bodies.

Concerning specifically the activities set out in the Consolidated Law on Statutory Audit, we report the following.

Disclosure of the audit findings and the Additional Report as per art. 11 of the EU Regulation to the Administrative Body

Pursuant to art. 19 of Italian Leg. Decree 39/2010, the Board of Statutory Auditors notified the administrative body of the audit findings as well as submitted the additional report as per art. 11 of the EU Regulation no. 537/2014, issued by the audit firm on 26 March 2020.

Supervision of the financial reporting process

The Board of Statutory Auditors has ascertained the existence of rules and procedures concerning the preparation and disclosure of financial information. In this regard, the Report on Corporate Governance and Ownership Structure defines the guidelines of the internal control and risk management system as well as appropriate financial reporting methods and procedures.

The Board of Statutory Auditors, with the help of the Manager charged with preparing Company's Financial Reports, examined the procedures concerning the preparation of the Company's financial statements and the consolidated financial statements as well as the other interim financial reports. In addition, the Board of Statutory Auditors obtained evidence of the process allowing the Manager charged with preparing Company's Financial Reports as well as the competent Director to issue the certifications required by art. 154-bis of the TUF.

The Board of Statutory Auditors learned that the administrative/accounting procedures for the preparation of the financial statements and any other financial disclosures are overseen by the Manager charged with preparing Company's Financial Reports, who, together with the Managing Director, certifies their adequacy and actual implementation for the purposes of preparing the separate and consolidated financial statements as well as the half-year report.

The Internal Audit Department verifies the adequacy of the design and operation of the controls on entities and processes based on a plan approved by the Board of Directors.

Therefore, the Board of Statutory Auditors considers the financial reporting process to be adequate and has nothing to report to the Shareholders' Meeting.

Supervision of the effectiveness of the internal control, internal audit and risk management systems

The Board of Statutory Auditors, including together with the Control and Risk Committee, regularly met with the Internal Audit Manager and was informed about both the findings of the audits aimed at verifying the adequacy and operation of the internal control system – in accordance with the law as well as corporate procedures and processes – and the implementation of the relevant plans for improvement. In addition, the Board of Statutory Auditors received the 2019 Audit Plan approved by the Board of Directors on 13 December 2018 (on which the Control and Risk Committee and the Board of Statutory Auditors issued a favorable opinion at the meeting held on 11 December 2018) as well as regular updates on the progress on the Plan and any potential corrective actions. In addition, it received the Report of the Internal Audit Manager for the year 2019

as well as the Control and Risk Committee's six-monthly report.

Concerning the update to the Organization, Management and Control Model, the Board of Statutory Auditors, as the Supervisory Body pursuant to Italian Leg. Decree 231/2001, steered and monitored the

design of said update, which was approved by the Company's Board of Directors on 14 March 2017. The Supervisory Body is monitoring additional updates to the Model in light of regulatory changes. In this regard, to comply with the changes made by lawmakers, the Company considered whether to implement a project to update the Model (to be completed by 2020) and, in this sense, launched a selection process to identify a specialist advisor, which will work alongside a legal advisor. Therefore, the Board of Statutory Auditors considers the overall internal control system to be essentially adequate and has nothing to report to the Shareholders' Meeting.

* * *

Finally, the Board of Statutory Auditors notes that in late 2019 a new coronavirus known as Covid-19 was found in China. As at the date of preparation of this Report, the virus has already infected, and continues infecting, thousands of individuals around the world. To date, one of the hardest hit countries is Italy, which has taken major precautionary steps to contain the outbreak—adopting rules and measures that have disrupted social and economic life.

The World Health Organization has declared the coronavirus a pandemic. The consequences of the above in terms of impact on the world economy and, specifically, the Company's operations are significant, especially with respect to sales across all geographies and the various channels, the organization of work, logistics, and procurement.

As at the date of preparation of this Report, given the fast-moving outbreak and its economic and social impacts as well as the objective difficulty in estimating its length and scope, the Company has stated it still cannot reliably estimate the actual impacts on the Group's financial performance, financial position, and cash flows.

Faced with the above developments, however, the Company promptly (i) prepared a contingency plan listing all initiatives already implemented and/or to be implemented to curb costs, investments, limit the Company's financial exposure, guarantee the flow of products, and identify solution to ensure business continuity, and (ii) took all necessary strategic and operational steps in accordance with internal company protocols appropriate to the type of risk identified by the Company to manage the crisis by activating the dedicated internal structures.

Supervision of the statutory audit of the annual and consolidated financial statements

- Accounting procedures have been audited in accordance with the law by the audit firm EY S.p.A. (“EY”), which the Shareholders' Meeting of 30 March 2011 appointed as independent auditors for the years 2011-2019;
- The Board of Statutory Auditors held regular meetings with the audit firm EY and did not find material issues to report concerning auditing activities or significant deficiencies in the integrity of the internal control system as far as specifically the financial reporting process is concerned;
- Today, EY issued its report on the separate financial statements (hereinafter also referred to as “Financial Statements”) and the consolidated financial statements prepared in accordance with the International Financial Reporting Standards adopted by the European Union and the legislation enacting art. 9 of Italian Leg. Decree no. 38/05, as well as its opinion on the consistency of the Directors' report on operations and the Report on Corporate Governance and Ownership Structure with the financial statements. This report did not include objections or requests for additional disclosures.

Independence of the audit firm, specifically concerning the provision of non-audit services

Concerning the annual review of independence requirements, the Board of Statutory Auditors states it received a written confirmation from the audit firm with the submission of the Additional Report issued today in accordance with art. 11 of the EU Regulation.

The Board of Statutory Auditors supervised the independence of the audit firm and received evidence on a regular basis of the non-audit services to be assigned (or assigned pursuant to specific regulatory provisions) to the independent auditors.

As the Ferragamo Group's consolidated financial statements show, in 2019 EY rendered the following services to the Group, including through its network:

Entity and reference period <i>Euro 000</i>	Audit services	Non-audit services	Total
Salvatore Ferragamo SpA 2019	203	204	407
Ferragamo Group 2019	923	175	1,098
Total	1,126	379	1,505

The Board of Statutory Auditors believes the above fees are proportionate to the extent, complexity, and characteristics of the work carried out, and that the non-audit services (and the relevant fees) are not such to compromise the independence of the audit firm. The Board of Statutory Auditors also ensured that the duties assigned to the audit firm are not among those that cannot be assigned to it pursuant to the mentioned EU Regulation.

Concerning the audit firm, the Board of Statutory Auditors notes that the mentioned Additional Report did not reveal significant deficiencies in the internal financial control system and/or in the accounting system.

Consolidated Non-Financial Statement (NFS)

As a public-interest entity (PIE) and large Group, Ferragamo must provide the non-financial disclosures required by Italian Leg. Decree 254/2016 transposing Directive 2014/95/EU into Italian Law, which became effective on 25 January 2017.

In accordance with said regulations, the Ferragamo Group prepared its NFS for the year ended 31 December 2019, approved as a separate document by means of a resolution of the Board of Directors held on 10 March 2020, in order to ensure an understanding of its operations, performance, results, and impact, addressing the topics considered material and set out in art. 3 of Italian Leg. Decree 254/2016 in accordance with the "Global Reporting Initiative Sustainability Standards", issued in 2016 by the GRI – Global Reporting Initiative.

In this sense, the NFS includes a description of topics concerning: corporate governance, company policies, the management and organizational business model, and the results achieved by the company relating to environmental matters, social and employee-related matters, respect for human rights, and anti-corruption and bribery matters.

Concerning specifically the examination of the consolidated non-financial statement, the Board of Statutory Auditors supervised compliance with the provisions in Italian Leg. Decree 254/2016 within the responsibilities assigned to it by law. In this regard, the Board of Statutory Auditors states that:

- pursuant to art. 3, paragraph 10 of Italian Leg. Decree 254/2016 and art. 5 of Consob Regulation no. 20267/2018, the Company appointed Deloitte & Touche S.p.A. to perform a limited audit of the Ferragamo Group's consolidated non-financial statement;
- the Board of Statutory Auditors received regular updates on the groundwork for the preparation of the NFS;
- today, Deloitte & Touche S.p.A. issued its report on the consolidated non-financial statement, certifying the compliance of the information disclosed in the NFS with the relevant laws and the reporting standards used;
- today, EY issued its report on the conformity of the separate and consolidated financial statements, stating it ensured that the non-financial statement has been prepared.

The Board of Statutory Auditors did not find any violations of the relevant regulatory provisions, and therefore considers the non-financial reporting process to be adequate and has nothing to report to the Shareholders' Meeting.

Separate financial statements, consolidated financial statements, and Directors' report on operations

Ferragamo's draft financial statements, approved by resolution of the Company's Board of Directors on 10 March 2020, were prepared in accordance with the IAS/IFRS international accounting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the legislation enacting art. 9 of Italian Leg. Decree no. 38/2005.

Concerning specifically the separate financial statements for the year ended 31 December 2019, the consolidated financial statements as at 31 December 2019, and the Directors' report on operations for the year 2019, the Board of Statutory Auditors reports that:

- the Company's financial statements and the consolidated financial statements were prepared in accordance with the structure and reporting formats required by applicable laws;
- the financial statements are accompanied by the Directors' report on operations, which summarizes the main risks and uncertainties as well as describes the Company's outlook. This report complies with applicable laws and is consistent with the resolutions of the administrative body as well as the information in the financial statements. In addition, it includes adequate disclosures of the operations carried out during the year as well as intragroup transactions. In accordance with IFRS, the section containing related-party transaction disclosures was included in the Explanatory notes to the financial statements;
- the Company prepared also the Report on Corporate Governance and Ownership Structure, pursuant to art. 123-bis of the TUF, and the Remuneration Report pursuant to art. 123-ter of the TUF;
- the Board of Directors received the financial statements in time for filing them at the Company's registered office along with this report;
- it verified the rationality of the assessments made and their consistency with international accounting standards;
- it verified the consistency of the financial statements with the events and information it is aware of as a result of the work carried out; therefore, it has nothing to report in this regard;
- as far as the Board of Statutory Auditors knows, the Directors did not depart from the provisions as per art. 2423 of the Italian Civil Code in preparing the financial statements;
- Ferragamo's Board of Directors, in accordance with the joint document issued by the Bank of Italy/Consob/ISVAP on 3 March 2010, independently approved the procedure and results of the impairment test ahead of the approval of the draft financial statements, ensuring their compliance with IAS 36. The information and findings of the assessments carried out are reported in the Explanatory notes to the financial statements.

Proposal to the Shareholders' Meeting

1. Financial Statements as at 31 December 2019

In conclusion, the Board of Statutory Auditors—within the scope of its responsibilities, having noted the information in the Financial Statements as at 31 December 2019, and considering the observations included in this report—proposes that the Shareholders' Meeting approve the Financial Statements as presented by the Board of Directors.

2. Group Remuneration Policy

The Board of Statutory Auditors raises no objection to the Remuneration Policy submitted to the Shareholders' Meeting.

Final Remarks

The Board of Statutory Auditors has no issues to report concerning the information obtained and the supervisory activities performed; the Board of Statutory Auditors did not find any omissions, reprehensible events, irregularities or circumstances to be reported in this document or to the Supervisory Authority.

Florence, 26 March 2020

THE BOARD OF STATUTORY AUDITORS

Andrea Balelli (Chairman)

Paola Caramella (Acting Statutory Auditor)

Fulvio Favini (Acting Statutory Auditor)



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Salvatore Ferragamo S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2019, and the statement of income, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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We identified the following key audit matters:

Key Audit Matter	Audit Response
<p>Risk of inventory obsolescence The Company is subject to the risk that the unsold products at the end of the season, quickly become obsolete and that, therefore, the inventories of these products are subject to impairment; to account for such risk, the financial statements include an obsolescence reserve of 18.2 million of euro recorded as a reduction in inventories of finished products and goods. In addition, the financial statements include an obsolescence reserve of Euro 4.2 million recorded as a reduction to inventories of raw materials to account for the risk posed by slow-moving items.</p> <p>The estimate of the inventories' recoverable amount for the risk of obsolescence was considered a key audit matter as it requires the application of judgment by the management, particularly in defining the key assumptions on which the assessment is based, either endogenous (disposal or disposal policies on secondary sales channels / markets) and exogenous (market demand and expected sales forecasts in the future).</p> <p>The disclosure relating to the estimation of the inventories' obsolescence reserve is included in Note 2 in the paragraph "Discretionary valuations, and significant accounting estimates".</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) assessment of the processes and key controls implemented by the Company surrounding the estimate of the inventories' obsolescence reserve; ii) testing key controls in place at the Company; iii) the assessment of the key assumptions used by the management to calculate the estimated recoverable amount of slow moving, excess or obsolete items, such as the ageing of items and sales or production forecasts; iv) the assessment of the consistency of the assumptions used by management in the actual estimate with respect to the final figures and the corresponding assumptions of the previous year and, where discrepancies are noted, the assessment of the appropriateness of the estimate change; v) testing of the data used by the Management to estimate the inventories obsolescence reserve, on a sample basis; and vi) verification of the mathematical accuracy of the calculations performed by management. <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements</p>
<p>Accounting and valuation of right of use assets As of January 1, 2019 the new International Financial Reporting Standard 16 - Leasing ("IFRS 16") related to the accounting of lease agreements was implemented. The new standard provides that, for a lease agreement, the lessee accounts a right of use asset and a lease liability measured at the present value of future non-variable lease payments. The right of use assets are subsequently measured at cost less depreciation and impairment losses.</p> <p>As of January 1, 2019, the Company recognized</p>	<p>Our audit procedures in response to this key audit matter included, among others:</p> <ul style="list-style-type: none"> i) the analysis of accounting policies and assumptions used by the management for the implementation of the new standard, including the definition of the lease term; ii) assessment of the documentation prepared by the Company in the determination of the implementation impacts as of January 1, 2019; iii) testing of the discount rate assumed by management;



Euro 90.8 million of right of use assets and Euro 91.7 million of lease liabilities. The Company, in accordance with IFRS 16, has provided information on the effects related to the implementation of the new standard starting from January 1, 2019 in Note 2, in the paragraph "Changes in international accounting standards".

In addition, the Management also assesses at least annually impairment indicators on right of use assets and, if present, perform an impairment test on such assets.

The implementation of IFRS 16 was considered a key audit matter as it requires a high degree of judgment in: (i) the estimation of the value of rights of use assets, with particular reference to the definition of the lease term and the discount rate and (ii) the assessments of their recoverability, also in consideration of the magnitude of the implementation impacts on the Company's financial statements.

The Company has provided the disclosure related to the assessment of the recoverability of rights of use assets in Note 2 "Basis of presentation" and 7 "Right-of-use assets" to the financial statements.

iv) assessment of the procedure and the key controls in place at the Company related to management and accounting of lease agreements;

v) testing of key controls in place at the Company related to management and accounting of lease agreements, including application controls within the Company's information technology system, tested with the assistance of our IT specialists;

vi) testing of the changes in the account balances from the prior year, and in the agreements' portfolio;

vii) assessment of the impairment process adopted by the Company.

Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements

Accounting for exchange rate risk hedging instruments and related disclosures

In order to mitigate its exposure to exchange rate risk, the Company enters into a significant number of derivative financial instruments (forward currency) in connection to transactions with foreign countries carried out in the ordinary course of business.

These financial instruments are recorded at fair value as other current assets for Euro 1.5 million and as other current liabilities for Euro 5.6 million as of December 31, 2019, and accounted for as hedging instruments (hedge accounting).

In addition, the Company recorded net financial charges for the fair value adjustment of derivatives for Euro 17.7 million in the year 2019.

The application of the hedge accounting, including the valuation of hedging instruments, was considered a key audit matter due to the

Our audit procedures in response to this key audit matter included, among others:

i) assessment of the processes and key controls implemented by the Company to determine the effectiveness of the hedging policy, necessary for the application of hedge accounting techniques, and to determine the fair value of derivatives, with the assistance of our experts in valuation of financial instruments;

ii) testing key controls in place at the Company, including application controls within the company's information technology system, also with the assistance of our IT specialists;

iii) testing of the validity of the input data in the valuation models for contracts referred to transactions completed during the year, as well as transactions still ongoing as at December 31, 2019, on a sample basis;



fact that (i) the Company holds a significant amount of financial instruments, in terms of population and dollar value, managed through a specific module of the company's information technology system to record each contract and calculate its valuation at the balance sheet date, (ii) the assessment of the effectiveness of the hedging policy affects the accounting of such instruments and (iii) the performance of the variables underlying these contracts is influenced by the market conditions that are not controlled by the management.

The disclosure relating to the exchange risk management is included in Note 3 "Management of financial risks (IFRS 7)", and the disclosure relating the assumptions underlying the calculation of the fair value is included in Note 29 "Financial instruments and fair value measurement".

iv) testing of the calculation of fair value for derivatives instrument in place at December 31, 2019 on sample basis;

v) testing of the effectiveness of the hedging policy in order to verify the accounting treatment, on a sample basis;

vi) obtaining written confirmation from contractual counterparties for derivative financial instruments.

Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Salvatore Ferragamo S.p.A., in the general meeting held on 30 March 2011, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2011 to December 31, 2019.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.



We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated January 27, 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998

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 Ownership Structure of Salvatore Ferragamo S.p.A. as at December 31, 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated February 24, 1998, with the financial statements of Salvatore Ferragamo S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Salvatore Ferragamo S.p.A. as at December 31, 2019 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated January 27, 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated December 30, 2016

The Directors of Salvatore Ferragamo S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated December 30, 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated December 30, 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Florence, March 26, 2020

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

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