

Salvatore Ferragamo

Salvatore Ferragamo Group

Interim Report as at 30 September 2019

Salvatore Ferragamo S.p.A.

Florence

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

General information

Registered office of the Parent company

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

Legal information about the Parent company

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

Corporate boards

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 27 April 2017 and serving for the 2017-2019 period

(3) Appointed for the 2011-2019 period

(4) Executive director

(5) Non-executive director

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

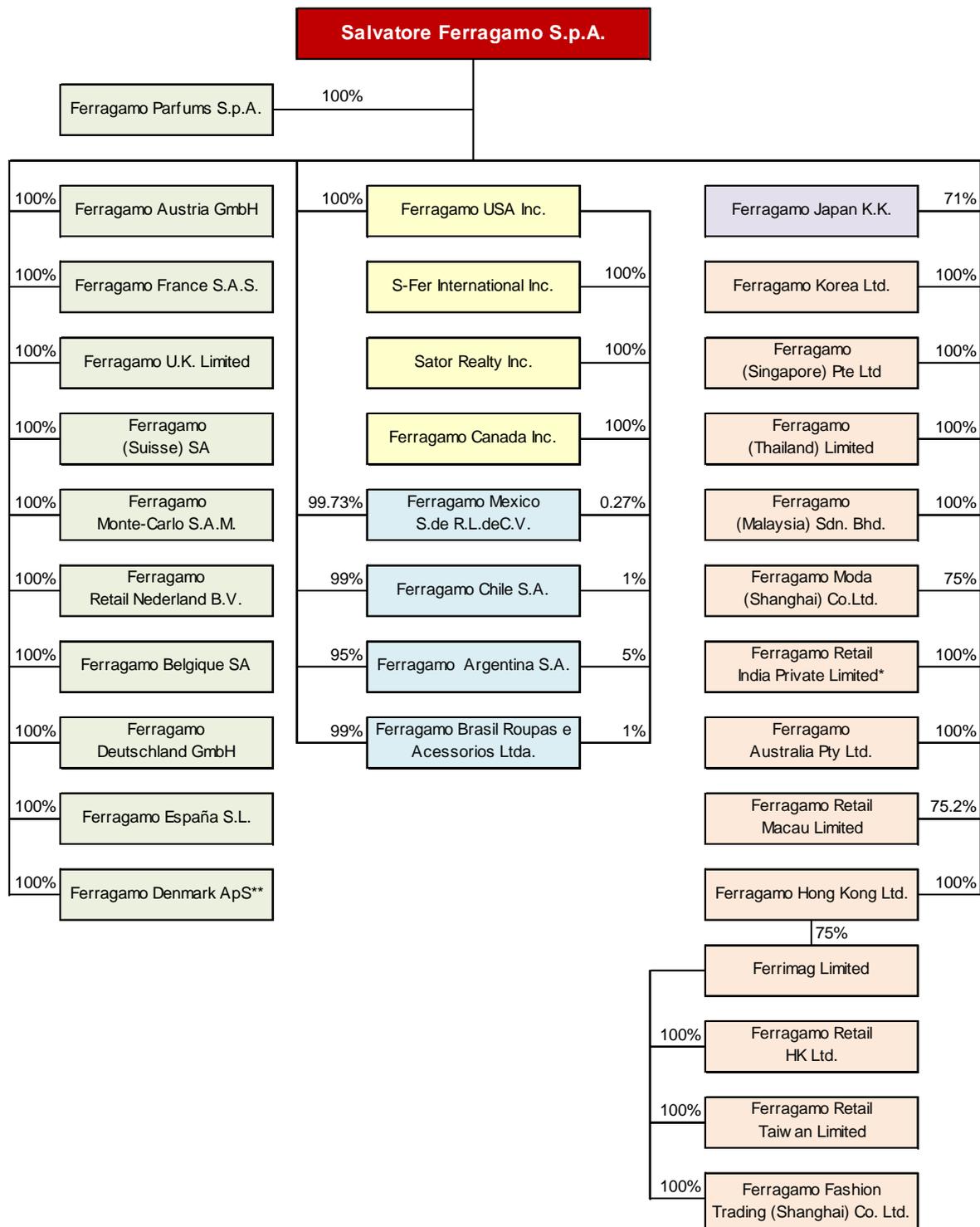
(7) Appointed by the Board of Directors on 13 December 2018 effective as from 11 January 2019

(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 effective as from 19 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

Group description

As at 30 September 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.

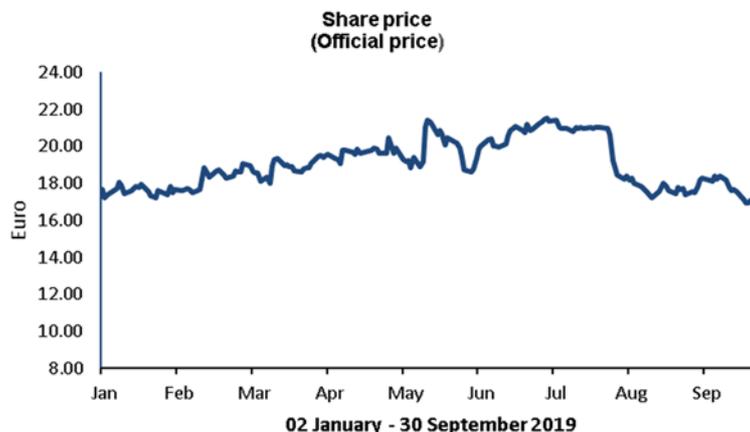
Salvatore Ferragamo S.p.A.	Parent company, owner of the Ferragamo and Salvatore Ferragamo brands, as well as of numerous other figurative and shape-based trademarks; it undertakes production activities and manages the retail distribution channel in Italy as well as the wholesale channel in Italy and 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
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 Mexico
Ferragamo Chile S.A.	It manages directly operated stores (DOS) in Chile
Ferragamo Argentina S.A.	It manages directly operated stores (DOS) in Argentina
Ferragamo Brasil Roupas e Acessorios Ltda.	It manages directly operated stores (DOS) in Brazil
Asia Pacific	
Ferragamo Hong Kong Ltd.	It distributes and promotes products in Asia and acts as a sub-holding for the Chinese area (Hong Kong, Taiwan, PRC)
Ferragamo Australia Pty Ltd.	It manages directly operated stores (DOS) in Australia
Ferrimag Limited	Sub-holding company for the Chinese area (Hong Kong, Taiwan, PRC)
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	It manages directly operated stores (DOS) and the wholesale channel in the People's Republic of China
Ferragamo Moda (Shanghai) Co. Ltd.	It manages directly operated stores (DOS) in the People's Republic of China
Ferragamo Retail HK Limited	It manages directly operated stores (DOS) in Hong Kong
Ferragamo Retail Taiwan Limited	It manages directly operated stores (DOS) in Taiwan
Ferragamo Retail Macau Limited	It manages directly operated stores (DOS) in Macau
Ferragamo Retail India Private Limited	Non-operating company
Ferragamo Korea Ltd.	It manages directly operated stores (DOS) and the wholesale channel in South Korea
Ferragamo (Singapore) Pte Ltd.	It manages directly operated stores (DOS) in Singapore
Ferragamo (Thailand) Limited	It manages directly operated stores (DOS) in Thailand
Ferragamo (Malaysia) Sdn. Bhd.	It manages directly operated stores (DOS) in Malaysia
Japan	
Ferragamo Japan K.K.	It manages directly operated stores (DOS) in Japan

Interim Directors' report on operations

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

Official price as at 30 September 2019 in Euro	17.0259
Stock Market capitalization as at 30 September 2019 in Euro	2,873,801,661
Number of shares making up the share capital as at 30 September 2019	168,790,000
Number of outstanding shares net of treasury shares (free float)	48,979,090

Below is the trend in Salvatore Ferragamo's share price during the first nine months of 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 measurement basis 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 Interim 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 Interim 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 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*.

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).

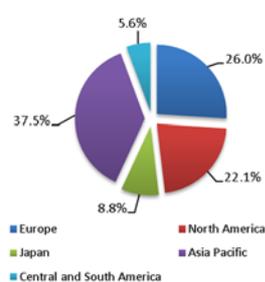
Adjusted net financial debt/ (surplus): it is *Net financial debt/(surplus)* net of *Current and non current lease liabilities*.

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*).

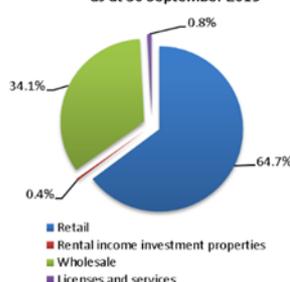
Income and financial highlights for the first nine months of 2019

(In millions of Euro)	Period ended 30 September				% change 2019 excl. IFRS16 vs 2018	% change 2018 vs. 2017
	2019	2019 excl. IFRS16	2018	2017		
Revenues	994.4	994.4	971.9	1,004.9	2.3%	(3.3%)
Gross profit	644.2	644.2	618.0	645.1	4.2%	(4.2%)
Gross profit %	64.8%	64.8%	63.6%	64.2%		
EBITDA	242.7	146.8	149.0	161.8	(1.5%)	(7.9%)
EBITDA %	24.4%	14.8%	15.3%	16.1%		
Operating profit	105.2	96.3	102.1	115.2	(5.7%)	(11.4%)
Operating profit %	10.6%	9.7%	10.5%	11.5%		
Net profit/(loss) for the period	61.4	64.8	65.1	78.9	(0.5%)	(17.5%)
Net profit/(loss) – Group	60.0	63.1	64.1	82.3	(1.5%)	(22.1%)
Net profit/(loss) – minority interests	1.5	1.7	1.0	(3.4)		

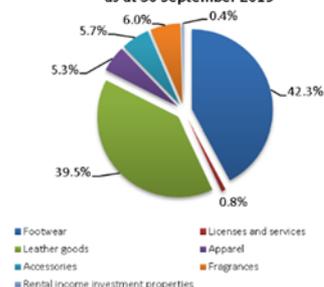
Revenue by geographic area as at 30 September 2019



Revenue by distribution channel as at 30 September 2019



Revenue by product category as at 30 September 2019



(In millions of Euro)	30 September 2019	31 December 2018	30 September 2018
Investments in tangible/intangible assets	40.2	71.0	45.5
Net working capital	335.3	293.6	295.2
Shareholders' equity	760.7	780.3	754.9
Adjusted net financial debt/(surplus)	(150.4)	(169.0)	(140.0)
Adjusted cash flow generated from operating activities	97.5	186.3	128.5

	30 September 2019	31 December 2018	30 September 2018
Staff as at the reporting date	4,193	4,228	4,106
Number of DOS	394	409	407
Number of TPOS	262	263	272

Geographical distribution of monobrand stores (September 30th, 2019)



656 Ferragamo monobrand stores

Disclaimer

This document contains forward-looking statements, in particular in the sections headed “Outlook” and “Significant events occurred after 30 September 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.

Introduction

In order to promote open and continuous dialog with the financial community and in light of the sector’s best practices followed by the main companies included in the FTSE MIB 30 – where Salvatore Ferragamo S.p.A. is listed – the Salvatore Ferragamo Group has decided, as from 14 November 2017, to publish its interim reports on a voluntary basis, although Leg. Decree no. 25 of 15 February 2016 has abolished the obligation to publish them.

This Interim report has not been audited.

The market in which the Salvatore Ferragamo Group operates is characterized by seasonal events that are typical of the retail and wholesale sales and which result in an uneven monthly breakdown in the sales flow and in operating costs. Therefore, it is important to remember that the financial performance for the first nine months of the year cannot be considered as proportional to the year as a whole. The figures are affected by seasonal events also in terms of equity and financial position as well as in terms of taxation.

The Interim report, 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 30 September 2019 comparable with the same period in 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. This Interim report must be read together with the Annual Report as at 31 December 2018, which provides full details on the issues addressed.

The Salvatore Ferragamo Group's activities

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

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, under license, the Ungaro brand, sales are managed by distributors of the Salvatore Ferragamo Group as well as third party distributors which serve a network of selected multibrand stores belonging to the specific fragrances channel. The Salvatore Ferragamo Group is also active in the licensing of the Salvatore Ferragamo brand and in real estate management.

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.

The Euro's depreciation against the dollar that began in early 2018 continued into the first nine months of 2019, largely because of the European economy's lagging recovery as well as the new expansionary measures announced by the European Central Bank, including an additional rate cut and a new round of Quantitative Easing. EUR/USD fell from a high of approximately 1.15 in early 2019 to below 1.10 at the end of September. During May, the Chinese Renminbi and South Korean Won depreciated sharply relative to both the single currency and the dollar as the US-China trade war that started in 2018 dragged on. The EUR/CNY exchange rate initially shifted to 7.5 in May and then peaked at around 7.9 in August, while EUR/KRW climbed from around 1,280 at the start of the year

to 1,360 in August. The international turmoil caused the Japanese Yen, usually considered to be a safe haven, to perform extremely well during the period: EUR/JPY fell from a high of 127 in early 2019 to a low of 116 in September. The Mexican Peso tracked the twists and turns in negotiations with the United States over tariffs; EUR/MXN fluctuated within a narrow corridor between 21 and 22.

For an analysis of the main impacts caused by the above exchange rate movements, please refer to the subsequent comments in this Interim Directors' Report.

Operating performance

The results for the first nine months of 2019 confirmed the positive year-on-year trend in revenues and gross profit (+2.3% and +4.2%, respectively) already seen in the first and second quarters of 2019, despite the weaker performance in the third quarter: 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.

EBITDA, excluding the impact of IFRS 16, slightly fell by 1.5% compared to the first nine months of 2018 and amounted to 14.8% as a percentage of revenues, down from 15.3% in the prior-year period.

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 5.7% and accounted for 9.7% of revenues, compared to 10.5% in the prior-year period.

Net profit for the period, excluding the impact of IFRS 16, totaled 64.8 million Euro, essentially unchanged (-0.5%) year-on-year. Group net profit for the period, excluding the impact of IFRS 16, declined by 1.5% from 64.1 million Euro to 63.1 million Euro.

The Group's financial performance remained solid and caused the cash surplus to rise also in the first nine months of 2019, resulting in a positive adjusted net financial position of 150.4 million Euro as at 30 September 2019 compared to a positive net financial position of 140.0 million Euro as at 30 September 2018 and 169.0 million Euro as at 31 December 2018.

The following table shows the main income statement data.

(In thousands of Euro)	Period ended 30 September							
	2019	% of Revenues	IFRS 16 impact	2019 excl. IFRS16	% of Revenues	2018	% of Revenues	% change 2019 excl. IFRS16 vs 2018
Revenues	994,364	100.0%	-	994,364	100.0%	971,864	100.0%	2.3%
Gross profit	644,164	64.8%	-	644,164	64.8%	617,988	63.6%	4.2%
Style, product development and logistics costs	(37,198)	(3.7%)		(37,198)	(3.7%)	(34,571)	(3.6%)	7.6%
Sales & distribution costs	(349,304)	(35.1%)	(6,888)	(356,192)	(35.8%)	(332,142)	(34.2%)	7.2%
Marketing & communication costs	(55,844)	(5.6%)	(1)	(55,845)	(5.6%)	(51,338)	(5.3%)	8.8%
General and administrative costs	(93,295)	(9.4%)	(2,060)	(95,355)	(9.6%)	(91,120)	(9.4%)	4.6%
Other operating costs	(16,998)	(1.7%)		(16,998)	(1.7%)	(13,094)	(1.3%)	29.8%
Other income and revenues	13,708	1.4%		13,708	1.4%	6,346	0.7%	116.0%
Total operating costs (net of other income)	(538,931)	(54.2%)	(8,949)	(547,880)	(55.1%)	(515,919)	(53.1%)	6.2%
Operating profit	105,233	10.6%	(8,949)	96,284	9.7%	102,069	10.5%	(5.7%)
Net financial income and charges	(22,259)	(2.2%)	13,242	(9,017)	(0.9%)	(10,685)	(1.1%)	(15.6%)
of which Net interest expense on lease liabilities	(13,242)	(1.3%)	13,242	-	-	-	-	-
Profit before taxes	82,974	8.3%	4,293	87,267	8.8%	91,384	9.4%	(4.5%)
Income taxes	(21,548)	(2.2%)	(893)	(22,441)	(2.3%)	(26,240)	(2.7%)	(14.5%)
Net profit/(loss) for the period	61,426	6.2%	3,400	64,826	6.5%	65,144	6.7%	(0.5%)
Net profit/(loss) – Group	59,966	6.0%	3,172	63,138	6.3%	64,097	6.6%	(1.5%)
Net profit/(loss) – minority interests	1,460	0.1%	228	1,688	0.2%	1,047	0.1%	61.2%
EBITDA	242,718	24.4%	(95,948)	146,770	14.8%	149,030	15.3%	(1.5%)

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 30 September 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. As a result of the change in the representation of IFRS 16's impact in this Interim Report as at 30 September 2019 compared to the Half-year Report as at 30 June 2019, to which reference should be made for more details, we will not compare the amounts reported for Operating costs, Operating profit, EBITDA, and Net profit/(loss) for the period between the third quarter of 2019 and the third quarter of 2018.

Revenues in the first nine months of 2019 totaled 994,364 thousand Euro compared to 971,864 thousand Euro in the first nine months of 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 the first nine months of 2019 compared to the same period last year: the US dollar appreciated by 5.9%⁽¹⁾, the Japanese Yen appreciated by 6.4%⁽²⁾ and the Chinese Renminbi appreciated by 0.8%⁽³⁾ against the Euro, the currency in which the amounts in the consolidated financial statements are expressed. In the first nine months of 2019, revenues increased by 1.9% at constant exchange rates (applying the average exchange rate of the first nine months of 2019 to the revenues – not inclusive of the hedging effect – of the first nine months of 2018); in particular, they rose by 3.7% in Europe, 2.7% in Asia Pacific, and 8.4% in Central and South America, while declining by 1.8% in North America and 0.2% in Japan. Asia Pacific contributed the most to Group revenues with 37.5%, followed by Europe (26.0%), North America (22.1%), Japan (8.8%), and Central and South America (5.6%). In the third quarter of 2019, revenues amounted to 289,494 thousand Euro, down 2.9% at current exchange rates and 3.6% at constant exchange rates compared to the third quarter of 2018 – partly because of the political tensions in Hong Kong.

Gross profit for the period ended 30 September 2019 amounted to 644,164 thousand Euro (accounting for 64.8% of revenues), up 4.2% compared to the prior-year period, when it totaled 617,988 thousand Euro (accounting for 63.6% of revenues). Margins were positively affected by the higher proportion of sales through the primary channel relative to the secondary one (outlets and commercial initiatives) in the retail chain. In the third quarter of 2019, gross profit amounted to 187,269 thousand Euro, up 0.7% compared to the prior-year period, and accounted for 64.7% of revenues compared to 62.4% in the third quarter of 2018.

Total operating costs (net of other income) amounted to 538,931 thousand Euro for the first nine months of 2019, up 4.5% compared to the first nine months of 2018, and totaled 54.2% as a percentage of revenues. Total operating costs (net of other income), excluding the impact of IFRS 16, amounted to 547,880 thousand Euro, up 6.2% year-on-year, and 55.1% as a percentage of revenue, compared to 53.1% in the first nine months of 2018.

As a result of the rise in gross profit (positive) and operating costs (negative), **EBITDA**, excluding the impact of IFRS 16, slightly fell by 1.5% from 149,030 thousand Euro to 146,770 thousand Euro and amounted to 14.8% as a percentage of revenues, compared to 15.3% in the first nine months of 2018.

In the period ended 30 September 2019, **adjusted operating profit**, excluding the impact of IFRS 16, totaled 96,284 thousand Euro, down 5.7% from 102,069 thousand Euro in the period ended 30 September 2018. As a percentage of revenues, it declined from 10.5% as at 30 September 2018 to 9.7% as at 30 September 2019.

Net financial income and charges shifted from 10,685 thousand Euro in charges in the first nine months of 2018 to 22,259 thousand Euro in charges in the first nine months of 2019, largely because of the impact of the net interest expense on lease liabilities (amounting to 13,242 thousand Euro) recognized as of 1 January 2019 under the new accounting standard IFRS 16.

	Period ended 30 September				% change 2019 excl. IFRS16 vs 2018
	2019	IFRS 16 impact	2019 excl. IFRS16	2018	
Net interest	382		382	(1,031)	(137.1%)
Other net income/(charges)	(1,023)		(1,023)	(1,436)	(28.8%)
Net interest expense on lease liabilities	(13,242)	13,242	-	-	-
Net gains/(losses) on exchange rate differences	8,940		8,940	(917)	(1074.9%)
Net financial income/(charges) for fair value adjustment of derivatives	(17,316)		(17,316)	(7,301)	137.2%
Total	(22,259)	13,242	(9,017)	(10,685)	(15.6%)

¹ With reference to the average Euro/USD exchange rate in the first nine months of 2019 1.124; 2018: 1.194

² With reference to the average Euro/Yen exchange rate in the first nine months of 2019 122.57; 2018: 130.93

³ With reference to the average Euro/Cny exchange rate in the first nine months of 2019 7.713; 2018 7.779

Net gains and losses on exchange rate differences mainly reflect the impact of commercial transactions in foreign currency, and went from 917 thousand Euro in net losses in the first nine months of 2018 to 8,940 thousand Euro in net gains in the first nine months of 2019. Changes in net gains and losses should be correlated with the item “Net financial income/(charges) for fair value adjustment of derivatives”, which refers to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company and the changes in the fair value of non-hedging derivatives. This item went from 7,301 thousand Euro in net charges in the first nine months of 2018 to 17,316 thousand Euro in net charges in the first nine months of 2019. In the third quarter of 2019, the Group reported 2,786 thousand Euro in net financial charges, excluding the impact of IFRS 16 – an improvement compared to 4,810 thousand Euro in charges in the third quarter of 2018.

Income taxes

(In thousands of Euro)	Period ended 30 September				% change 2019 excl. IFRS16 vs 2018
	2019	IFRS 16 impact	2019 excl. IFRS16	2018	
Profit before taxes	82,974	4,293	87,267	91,384	(4.5%)
Income taxes	(21,548)	(893)	(22,441)	(26,240)	(14.5%)
Tax rate	26.0%		25.7%	28.7%	

The estimated effective tax rate for the first nine months of 2019 (the best estimate of the annual tax rate expected for the whole year), excluding the impact of IFRS 16, was 25.7% compared to 28.7% in the prior-year period. As at 30 September 2019, the direct tax expense of the Parent company Salvatore Ferragamo S.p.A. declined thanks to the benefit known as “Patent Box”, with an estimated income tax reduction in the first nine months of 2019 of approximately 11.4 million Euro, compared to an estimated 6.7 million Euro in the first nine months of 2018. For further details on the “Patent Box”, please refer to the Annual Report as at 31 December 2016, 2017, and 2018.

In the first nine months of 2019, the Salvatore Ferragamo Group posted 64,826 thousand Euro in **net profit**, excluding the impact of IFRS 16, compared to 65,144 thousand Euro in the prior-year period. Group net profit, excluding the impact of IFRS 16, amounted to 63,138 thousand Euro, compared to 64,097 thousand Euro in the prior-year period.

Revenues

The following table shows revenues by **geographic area** for the periods ended 30 September 2019 and 2018, and the relevant percentage changes:

(In thousands of Euro)	Period ended 30 September					at constant
	2019	% of Revenues	2018	% of Revenues	% change	exchange rates % change
Europe	258,720	26.0%	248,975	25.6%	3.9%	3.7%
North America	219,718	22.1%	222,523	22.9%	(1.3%)	(1.8%)
Japan	87,118	8.8%	86,324	8.9%	0.9%	(0.2%)
Asia Pacific	373,072	37.5%	363,218	37.4%	2.7%	2.7%
Central and South America	55,736	5.6%	50,824	5.2%	9.7%	8.4%
Total	994,364	100.0%	971,864	100.0%	2.3%	1.9%

Europe saw revenues increase by 3.9% at current exchange rates and 3.7% at constant exchange rates, mainly due to the strong performance of the retail channel.

In North America, revenues were down 1.3% at current exchange rates and 1.8% at constant exchange rates, as revenues from rental income investment properties declined. This was partly offset by the robust performance of the wholesale channel.

In Japan, revenues edged up by 0.9% at current exchange rates (down 0.2% at constant exchange rates), driven by the retail channel.

In the Asia Pacific region, revenues rose by 2.7% at current and constant exchange rates across the wholesale and retail channels even though the political turmoil in Hong Kong negatively affected the third quarter of 2019. Nevertheless, Asia Pacific contributed once again the most to Group revenues, accounting for 37.5% of the total compared to 37.4% in the prior-year period.

The Central and South American market saw revenues jump by 9.7% at current exchange rates (+8.4% at constant exchange rates), rising to 5.6% as a percentage of total revenues compared to 5.2% in the prior-year period. It should be noted that the revenues reported as at 30 September 2019 by Ferragamo Argentina S.A. (operating in a country considered to be a hyperinflationary economy) were adjusted, pursuant to IAS 29 (see note 2 Basis of presentation of the consolidated financial statements as at 31 December 2018) with a positive residual effect of 152 thousand Euro.

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

(In thousands of Euro)	Period ended 30 September					at constant
	2019	% of Revenues	2018	% of Revenues	% change	exchange rates % change
Retail	643,336	64.7%	627,005	64.5%	2.6%	2.0%
Wholesale	338,748	34.1%	329,032	33.9%	3.0%	3.1%
Licenses and services	8,310	0.8%	6,978	0.7%	19.1%	19.1%
Rental income investment properties	3,970	0.4%	8,849	0.9%	(55.1%)	(57.8%)
Total	994,364	100.0%	971,864	100.0%	2.3%	1.9%

Retail sales refer to revenues generated by sales in directly operated stores (DOS) as well as through the direct e-commerce channel.

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

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

In the first nine months of 2019, retail sales increased by 2.6% at current exchange rates and by 2.0% at constant exchange rates, mainly thanks to the European market (+5.5% at current exchange rates), Japan (+2.2%), and Asia Pacific (+2.1%), while the North American market was essentially flat (+0.7%). In the first nine months of 2019, the retail channel accounted for 64.7% of total revenues, compared to 64.5% in the prior-year period.

As at 30 September 2019, the number of directly operated stores (DOS) decreased by 15 units compared to the situation as at 31 December 2018 and by 13 units compared to 30 September 2018.

The wholesale channel grew by 3.0% at current exchange rates and 3.1% at constant exchange rates, driven largely by Asia Pacific (+4.2% at current exchange rates), Europe (+1.8% at current exchange rates), and North America (+1.4% at current exchange rates).

In the first nine months of 2019, revenues from licenses and services increased by 19.1% at current and constant exchange rates; 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 decreased by 55.1% at current exchange rates (-57.8% at constant exchange rates) compared to the prior-year period following the end of a major lease contract for real estate management in February 2019.

The following table shows revenues by **product category** for the periods ended 30 September 2019 and 2018, indicating the relevant percentage of total revenues.

(In thousands of Euro)	Period ended 30 September					at constant exchange rates
	2019	% of Revenues	2018	% of Revenues	% change	% change
Footwear	419,974	42.3%	405,623	41.7%	3.5%	3.4%
Leather goods	392,314	39.5%	374,542	38.6%	4.7%	4.4%
Apparel	53,009	5.3%	54,625	5.6%	(3.0%)	(3.2%)
Accessories	56,821	5.7%	54,833	5.7%	3.6%	3.2%
Fragrances	59,966	6.0%	66,414	6.8%	(9.7%)	(11.0%)
Licenses and services	8,310	0.8%	6,978	0.7%	19.1%	19.1%
Rental income investment properties	3,970	0.4%	8,849	0.9%	(55.1%)	(57.8%)
Total	994,364	100.0%	971,864	100.0%	2.3%	1.9%

Footwear (+3.5% at current exchange rates), leather goods (+4.7% at current exchange rates) and accessories (+3.6% at current exchange rates) delivered a strong performance at both current and constant exchange rates.

Statement of financial position and Investments

Below is the statement of financial position as at 30 September 2019, reclassified by sources and uses compared to the position as at 31 December 2018 and 30 September 2018:

(In thousands of Euro)	30 September	31 December	30 September	% change	% change
	2019	2018	2018	09.19 vs. 12.18	09.19 vs. 09.18
Property, plant and equipment, investment property, intangible assets with a finite useful life	336,453	308,794	299,917	9.0%	12.2%
Right-of-use assets	587,193	-	-	na	na
Net working capital	335,265	293,559	295,243	14.2%	13.6%
Other non current assets/(liabilities), net	68,392	2,758	15,117	2379.8%	352.4%
Other current assets/(liabilities), net	(28,607)	6,231	4,623	(559.1%)	(718.8%)
Net invested capital	1,298,696	611,342	614,900		
Group shareholders' equity	737,210	753,691	729,078	(2.2%)	1.1%
Minority interests	23,446	26,647	25,864	(12.0%)	(9.3%)
Shareholders' equity (A)	760,656	780,338	754,942	(2.5%)	0.8%
Net financial debt/(surplus) (B)	538,040	(168,996)	(140,042)		
Total sources of financing (A+B)	1,298,696	611,342	614,900	112.4%	111.2%
Net financial debt/(surplus) (B)	538,040	(168,996)	(140,042)		
Lease liabilities (C)	688,407	-	-	na	na
Adjusted net financial debt (B-C)	(150,367)	(168,996)	(140,042)	(11.0%)	7.4%
Adjusted net financial debt/Shareholders' equity	(19.8%)	(21.7%)	(18.6%)		

(In thousands of Euro)	30 September 2019	31 December 2018	30 September 2018	% change 09.19 vs. 12.18	% change 09.19 vs. 09.18
Net invested capital (a)	1,298,696	611,342	614,900		
Right-of-use assets recognized under Investment property (b)	35,303	-	-		
Right-of-use assets (c)	587,193	-	-		
Adjusted net invested capital (a-b-c)	676,200	611,342	614,900	10.6%	10.0%

Investments in fixed assets

During the period ended 30 September 2019, the Salvatore Ferragamo Group made investments in tangible and intangible assets for a total amount of 40,230 thousand Euro, of which 32,952 thousand Euro in tangible assets and 7,278 thousand Euro in intangible assets, compared to a total of 45,472 thousand Euro in the first nine months of 2018.

The most important investments in tangible assets were made in the opening and refurbishment of stores (17.6 million Euro, approximately 53.3% 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 – including the construction of a new women's footwear production plant (manovia), and the renovation/refurbishment of the showrooms at the Parent company's offices, which was completed in the third quarter of 2019. The main investments in intangible assets refer to the so-called "Marlin Project", aimed at standardizing the Group's information systems – Ferragamo Japan K.K. recently implemented the SAP system (accounting/logistics) and POS systems (retail) – developing the e-commerce platform, and purchasing software licenses (for a total amount of 3.5 million Euro, i.e. around 47.6% of investments in intangible assets incurred in the first nine months of 2019).

Investments in tangible assets under construction, amounting to 6.4 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 construction amounted to 5.7 million Euro and largely referred to the investment in the development of software to support business processes (mainly represented by the "Project Life Cycle Management-PLM" scheme for the integrated management of the product life cycle, which involves all the manufacturing categories, in which product development is optimized in terms of timing and synergies with the Merchandising and Production divisions, as a high value-added process in the luxury sector, integrating and improving all the internal activities, such as design, research, costing and industrialization), and the e-commerce project by the Parent company Salvatore Ferragamo S.p.A..

Amortization and depreciation (excluding depreciation of the Right-of-use assets) amounted to 50,393 thousand Euro in the first nine months of 2019, up 7.3% from 46,961 thousand Euro in the prior-year period.

During the first nine months of 2019, the Group did not make any investments in financial assets.

Right-of-use assets

This line item, amounting to 587,193 thousand Euro as at 30 September 2019, refers to the recognition of "Right-of-use assets" against "Lease liabilities" following the application of IFRS 16 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 and amounted to 35,303 thousand as at 30 September 2019.

Net working capital

Below is the breakdown of, and changes in, net working capital as at 30 September 2019 compared with 31 December 2018 and 30 September 2018.

(In thousands of Euro)	30 September 2019	31 December 2018	30 September 2018	% change 09.19 vs. 12.18	% change 09.19 vs. 09.18
Inventories and Right of return assets	407,556	365,779	362,825	11.4%	12.3%
Trade receivables	110,564	142,905	107,768	(22.6%)	2.6%
Trade payables and Refund Liabilities	(182,855)	(215,125)	(175,350)	(15.0%)	4.3%
Total	335,265	293,559	295,243	14.2%	13.6%

Net working capital increased by 14.2% compared to 31 December 2018 and by 13.6% compared to 30 September 2018. The change from 31 December 2018 was largely attributable to the rise in Inventories and Right of return assets (+11.4%) and the decline in Trade payables and Refund Liabilities (-15.0%), which were offset by the decrease in Trade receivables (-22.6%). The change compared to 30 September 2018 was driven by the increase in both Inventories and Right of return assets (+12.3%) and, to a lesser extent, Trade receivables (+2.6%). Specifically, inventories of finished products were up 33,554 thousand Euro from 31 December 2018 (+11.0%)

and 42,359 thousand Euro from 30 September 2018 (+14.4%). Raw materials for production were up 11.2% from 31 December 2018 and 0.9% from 30 September 2018.

Trade receivables, down 22.6% from 31 December 2018 and up 2.6% from 30 September 2018, largely referred to wholesale sales.

Trade payables mainly refer to purchases of production materials, finished products, and costs relating to outsourced manufacturing. The item Trade payables was down 16.3% compared to 31 December 2018 and up 3.0% compared to 30 September 2018.

Net financial debt/(surplus)

The following table shows net financial debt as at 30 September 2019, 31 December 2018, and 30 September 2018:

(In thousands of Euro)	30 September	31 December	30 September	Change	Change
	2019	2018	2018	09.19 vs. 12.18	09.19 vs 09.18
Cash	1,131	1,506	1,176	(375)	(45)
Other cash equivalents	197,001	206,204	185,821	(9,203)	11,180
Cash and cash equivalents (A)	198,132	207,710	186,997	(9,578)	11,135
Derivatives – non-hedging component	75	120	206	(45)	(131)
Other financial assets	283	960	408	(677)	(125)
Current financial receivables (B)	358	1,080	614	(722)	(256)
Current bank payables	45,149	20,939	29,609	24,210	15,540
Derivatives – non-hedging component	653	790	611	(137)	42
Other current financial payables	2,321	2,169	2,080	152	241
Current lease liabilities	119,736	-	-	119,736	119,736
Current financial debt (C)	167,859	23,898	32,300	143,961	135,559
Current financial debt, net (D=-A-B+C)	(30,631)	(184,892)	(155,311)	154,261	124,680
Non current bank payables	-	15,892	15,240	(15,892)	(15,240)
Derivatives – non-hedging component	-	4	29	(4)	(29)
Non current lease liabilities	568,671	-	-	568,671	568,671
Non current financial debt (E)	568,671	15,896	15,269	552,775	553,402
Net financial debt/(surplus) (F= D+E)	538,040	(168,996)	(140,042)	707,036	678,082

Net financial debt as at 30 September 2019, including lease liabilities, amounted to 538,040 thousand Euro, of which 688,407 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 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 30 September 2019 was restated as follows:

(In thousands of Euro)	30 September	31 December	30 September	Change	Change
	2019	2018	2018	09.19 vs. 12.18	09.19 vs 09.18
Net financial debt/(surplus) (a)	538,040	(168,996)	(140,042)	707,036	678,082
Non current lease liabilities	568,671	-	-	568,671	568,671
Current lease liabilities	119,736	-	-	119,736	119,736
Lease liabilities (b)	688,407	-	-	688,407	688,407
Adjusted net financial debt/(surplus) (a-b)	(150,367)	(168,996)	(140,042)	18,629	(10,325)

In the period ended 30 September 2019, the adjusted net financial position amounted to a positive 150,367 thousand Euro, down 18,629 thousand Euro from 168,996 thousand Euro as at 31 December 2018. The change was largely attributable to the dividend payout approved by the Parent and other Group companies, totaling 62,566 thousand Euro overall, and 44,112 thousand Euro in cash flows used in investing activities during the period, net of the positive adjusted cash flow generated from operating activities (97,515 thousand Euro).

Compared to 30 September 2018, the Group's adjusted net financial position increased by 10,325 thousand Euro from a positive net financial position of 140,042 thousand Euro to a positive adjusted net financial position of 150,367 thousand Euro.

Significant events occurred during the first nine months of 2019

For information on significant events occurred in the first six months of the year, reference should be made to the Half-year report as at 30 June 2019. Below are the main events occurred during the third quarter of 2019.

Ferragamo Denmark ApS voluntary 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. Following the liquidation, as mentioned in the report as at 30 June 2019, as at 30 September 2019 the Danish entity's assets and liabilities, which further declined during the third quarter, were measured by accounting for the change in the future time horizons: since the resulting amounts were immaterial, they were not reported as Assets and Liabilities held for sale or held for distribution to owners (IFRS5). For further details reference should be made to the section "Significant events occurred during the first half of 2019" in the Half-year report as at 30 June 2019.

Treasury share repurchase

On 1 August 2019, Salvatore Ferragamo S.p.A. bought back 100,000 ordinary treasury shares, equal to 0.06% of the share capital, on the Mercato Telematico Azionario (an electronic stock market), organized and managed by Borsa Italiana S.p.A., or a total outlay of around 1,887 thousand Euro, including banking fees and other tax charges.

Long Term Incentive Plan (update)

As already mentioned in the Half-year report as at 30 June 2019, to which reference should be made for more details, on 18 June 2019 the Board of Directors approved the Long-Term Incentive Plan of the Group's Management for the three years from 2019 through 2021 (so-called 2019-2021 Long Term Incentive Plan). The plan was executed on 1 October 2019 and its estimated overall cost from 2019 through 2021 was revised to 5.2 million Euro.

Tax and customs disputes and audits

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, as already disclosed in the 2018 Annual Report, 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 will resist in court. With respect to 2013, on 17 May 2019 the Company appealed against the notice assessing an additional 65,000 Euro corporate income tax liability, plus approximately 30,000 Euro in interest and penalties. As for 2014, the dispute with the Regional Unit of the Tuscany Inland Revenue Office ended with a final request for documentation, which the Company responded to in early October 2019.

With reference to the tax dispute involving Ferragamo France S.A.S. and which is now pending before the Council of State for the final stage of proceedings, as well as regarding the tax audit started in September 2018, reference should be made to the 2018 Annual Report, as there were no new developments during the first nine months of 2019.

As for the ongoing tax audit involving Ferragamo Deutschland GmbH, relating to the tax years 2011-2014, that was started in 2016 and previously described in the 2018 Annual Report, 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.

With reference to the request submitted on 23 March 2017 by the Regional Unit of the Tuscany Inland Revenue Office to Salvatore Ferragamo S.p.A. related to the filing of documents concerning 4 separate export transactions that were canceled, reference should be made to the 2018 Annual Report, as there were no new developments during the first nine months of 2019.

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

As for the tax audit of Ferragamo Parfums S.p.A. started on 14 March 2018 by the Florence Economic-Financial Department of the Italian Tax Police concerning direct income taxes, VAT and other taxes for the 2015 tax year and costs incurred with entities resident in blacklisted countries for the years 2013-2014, reference should be made to the 2018 Annual Report, as there were no new developments during the first nine months of 2019. On 6 September 2019, Ferragamo Parfums S.p.A. held an initial meeting with the Inland Revenue Office's Florence

Provincial Unit (which has jurisdiction over the tax years 2015, 2016, and 2017) to review the outcome of the dispute with the Regional Unit and reiterated its stance on an objection concerning exclusively the year 2015. The dispute will go ahead in the coming months.

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. No penalties apply thanks to the so-called penalty protection guaranteed by the Transfer Pricing documentation that the Company prepares every year. In addition, the tax assessment report includes a warning (which is not an objection) concerning the fact that the pass-through mechanism of taxation for Ferragamo Hong Kong Ltd. was not applied for the year 2015, as already discussed in the 2018 Annual Report. 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.

During the year, the Company continued the dispute with the Office on both the objection and the warning, eventually filing a request for assessment with acceptance on 14 October 2019 in an attempt to reach a settlement upholding the Company's observations.

Patent Box and Research and Development Tax Credit (update)

As for the tax benefits (Patent Box and R&D Tax Credit), reference should be made to the 2018 Annual Report, as there were no new developments during the first nine months of 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. In its application, the Company asked to extend the Agreement to the tax years from 2020 through 2024.

International standard ruling on transfer pricing (update)

As for the international standard ruling between Salvatore Ferragamo S.p.A. and the Inland Revenue Office – Central Assessment Department – International Ruling Office, concerning the determination of the transfer pricing policy Salvatore Ferragamo S.p.A. applies to its foreign subsidiaries that perform distribution operations, reference should be made to the 2018 Annual Report, as there were no new developments during the first nine months of 2019.

Other information

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 resolution), 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 the first nine months of 2019, the other Group companies approved the distribution of 5,315 thousand Euro in dividends to their third-party minority Shareholders, of which 5,194 thousand Euro had been paid out as at 30 September 2019.

Financial reporting and Investor relations

Salvatore Ferragamo S.p.A., in order to maintain a constant dialog with its Shareholders, potential investors and financial analysts, and in compliance with the recommendation of CONSOB (Italy's stock market watchdog), has set up the Investor Relator function, which ensures a continuous exchange of information between the Company and financial market participants. Financial data, corporate presentations, interim reports, official press releases, and real-time share price information are available on the Group's website <http://group.ferragamo.com>.

Stakes in Salvatore Ferragamo S.p.A.

As at 30 September 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.

Treasury shares and shares or stakes in parent companies

As at 30 September 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. Salvatore Ferragamo S.p.A.'s subsidiaries did not hold shares in the Company as at the same date. 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.

Staff

Here below is the Salvatore Ferragamo Group's staff divided by category as at 30 September 2019, 31 December 2018, and 30 September 2018.

Staff	30 September 2019	31 December 2018	30 September 2018
Top managers, middle managers and store managers	760	729	765
White collars	3,130	3,197	3,040
Blue collars	303	302	301
Total	4,193	4,228	4,106

Basis of presentation

This Interim report was approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 12 November 2019 and, on the same date, the Board authorized its release to the public.

For comparative purposes, the consolidated financial statements show the comparison with the consolidated statement of financial position as at 31 December 2018 and 30 September 2018 and the consolidated income statement as at 30 September 2018.

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

The **accounting standards** used to prepare the equity, income and financial data as at 30 September 2019 were the International Financial Reporting Standards (IFRS) and the related interpretations, issued by the International Accounting Standards Board (IASB) and adopted by the European Union, in force at the reporting date.

In preparing the Interim report, the same accounting standards have been applied as adopted in drawing up the Consolidated Annual Report of the Salvatore Ferragamo Group for the year ended 31 December 2018, to which reference should be made, except for the adoption of the new or revised standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), which have been applied as from 1 January 2019.

In particular, the Salvatore Ferragamo Group has applied IFRS 16, IFRIC 23, Amendments to IFRS 9, Annual improvements cycle 2015-2017 for the first time as from 1 January 2019; for further details on their application, reference should be made to the Explanatory notes to the condensed consolidated half-year report as at 30 June 2019.

The first-time application of IFRS 16 at 1 January 2019 had a significant impact as summarized in the following table.

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

Consolidation area

During the first nine months of 2019 the Group structure underwent no changes.

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 as from 2018 in the reporting of the financial position, financial performance, and cash flows of Ferragamo Argentina S.A. for consolidated purposes. For further details, reference should be made to note 2 Basis of presentation in the Explanatory notes to the Consolidated financial statements as at 31 December 2018. The impact of the application of the new standard as at 30 September 2019 is not to be considered material at the Group level.

In addition, Ferragamo Denmark ApS was placed in liquidation effective 1 July 2019 and, as such, it shall be classified according to IFRS 5. However, since the amounts associated with the company were immaterial, its assets and liabilities were not reclassified out of the various line items into Assets and Liabilities held for sale or held for distribution to owners. For more details, please see the paragraph “Events occurred during the first half of 2019” in the Directors’ report on operations included in the condensed consolidated half-year report as at 30 June 2019.

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

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

	Average exchange rates		Exchange rates at the end of the reporting period		
	30 September 2019	30 September 2018	30 September 2019	31 December 2018	30 September 2018
US Dollar	1.1236	1.1942	1.0889	1.1450	1.1576
Swiss Franc	1.11788	1.16114	1.0847	1.1269	1.1316
Japanese Yen	122.570	130.925	117.59	125.85	131.23
Pound Sterling	0.8835	0.8840	0.8857	0.8945	0.8873
Danish Krone	7.4644	7.4503	7.4662	7.4673	7.4564
Australian Dollar	1.6077	1.5762	1.6126	1.6220	1.6048
South Korean Won	1,306.37	1,303.12	1,304.84	1,277.92	1,285.74
Hong Kong Dollar	8.8074	9.3628	8.5368	8.9675	9.0579
Mexican Peso	21.634	22.738	21.4522	22.4921	21.7800
New Taiwanese Dollar	34.874	35.7055	33.8631	34.9976	35.3108
Singapore Dollar	1.5332	1.6003	1.5060	1.5591	1.5839
Thai Baht	35.1732	38.3982	33.3150	37.0520	37.4480
Malaysian Ringgit	4.6463	4.7645	4.5592	4.7317	4.7890
Indian Rupee	78.8301	80.1905	77.1615	79.7298	83.9160
Macau Pataca	9.062	9.628	8.7902	9.2208	9.3371
Chinese Renminbi	7.7135	7.7789	7.7784	7.8751	7.9662
Chilean Peso	770.46	750.64	794.15	792.343	765.50
Argentine Peso	49.961	29.772	60.534	43.057	47.282
Brazilian Real	4.3646	4.2966	4.5288	4.4440	4.6535
Canadian Dollar	1.4935	1.5372	1.4426	1.5605	1.5064

Transactions with related parties

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. As at 30 September 2019, 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 Salvatore Ferragamo Group has not set aside any provision for bad debt in relation to amounts due from related parties.

Significant non-recurring events and transactions

During the first nine months of 2019, the Salvatore Ferragamo Group did not carry out significant non-recurring transactions.

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 Interim report, conflicts of interest, the safeguarding of the company's equity, and the protection of minority interests.

Significant events occurred after 30 September 2019

No significant events occurred after 30 September 2019.

Outlook

After 2018, which once again saw an increase in global GDP – albeit with a gradual deceleration as from April – in 2019 the International Monetary Fund cut its growth forecasts from +3.5% to +3.3%. The cut concerns all major countries, with the Euro Area down from +1.8% to +1.3% and the USA from +2.5% to +2.3% compared to 2018. The main concerns remain the widespread geopolitical uncertainties, trade negotiations mainly between the United States and China, and developments on Brexit.

Despite the above macroeconomic uncertainty, luxury industry analysts expect another year of sustained growth, driven especially by Chinese demand – mainly in the domestic market – as well as the travel retail channel. Against a persistently complex macroeconomic and market backdrop, and based on currently available information, the slowdown in the Salvatore Ferragamo Group's Revenues and Operating Margins observed in the third quarter of 2019 could potentially continue into the final part of the year.

Florence, 12 November 2019

On behalf of the Board of Directors

The Chairman
Ferruccio Ferragamo

Financial Statements

Consolidated Statement of Financial Position – Assets

(In thousands of Euro)	30 September 2019	<i>of which with related parties</i>	31 December 2018	<i>of which with related parties</i>	30 September 2018	<i>of which with related parties</i>
NON CURRENT ASSETS						
Property, plant and equipment	254,517		259,821		252,968	
Investment property	41,446		6,094		6,111	
Right-of-use assets	587,193	123,705	-		-	
Intangible assets with a finite useful life	40,490		42,879		40,838	
Other non current assets	3,177		3,331		3,853	
Other non current financial assets	17,180	5,407	16,646	5,106	16,649	5,053
Deferred tax assets	98,435		76,869		83,746	
TOTAL NON CURRENT ASSETS	1,042,438	129,112	405,640	5,106	404,165	5,053
CURRENT ASSETS						
Inventories	403,120		362,948		360,165	
Right of return assets	4,436		2,831		2,660	
Trade receivables	110,564	110	142,905	143	107,768	244
Tax receivables	19,941		21,851		19,819	
Other current assets	32,008	2,123	42,166	10,389	39,922	7,597
Other current financial assets	358		1,080		614	
Cash and cash equivalents	198,132		207,710		186,997	
TOTAL CURRENT ASSETS	768,559	2,233	781,491	10,532	717,945	7,841
TOTAL ASSETS	1,810,997	131,345	1,187,131	15,638	1,122,110	12,894

Consolidated Statement of Financial Position – Liabilities and Shareholders' Equity

(In thousands of Euro)	30 September 2019	<i>of which with related parties</i>	31 December 2018	<i>of which with related parties</i>	30 September 2018	<i>of which with related parties</i>
SHAREHOLDERS' EQUITY						
GROUP SHAREHOLDERS' EQUITY						
Share capital	16,879		16,879		16,879	
Reserves	660,365		648,451		648,102	
Net profit/(loss) – Group	59,966		88,361		64,097	
TOTAL GROUP SHAREHOLDERS' EQUITY	737,210		753,691		729,078	
MINORITY INTERESTS						
Share capital and reserves – minority interests	21,986		24,821		24,817	
Net profit/(loss) – minority interests	1,460		1,826		1,047	
TOTAL MINORITY INTERESTS	23,446		26,647		25,864	
TOTAL SHAREHOLDERS' EQUITY	760,656		780,338		754,942	
NON CURRENT LIABILITIES						
Non current interest-bearing loans & borrowings	-		15,892		15,240	
Provisions for risks and charges	20,377		19,491		12,466	
Employee benefit liabilities	12,280		11,392		11,762	
Other non current liabilities	12,056		57,681		58,678	
Non current lease liabilities	568,671	102,433	-		-	
Other non current financial liabilities	-		4		29	
Deferred tax liabilities	5,687		5,524		6,225	
TOTAL NON CURRENT LIABILITIES	619,071	102,433	109,984	-	104,400	-
CURRENT LIABILITIES						
Trade payables	176,007	1,307	210,293	342	170,812	3,632
Refund liabilities	6,848		4,832		4,538	
Interest-bearing loans & borrowings	45,149		20,939		29,609	
Tax payables	13,833		19,507		13,671	
Other current liabilities	66,723	16,246	38,279	1,084	41,447	2,849
Current lease liabilities	119,736	23,332	-		-	
Other current financial liabilities	2,974		2,959		2,691	
TOTAL CURRENT LIABILITIES	431,270	40,885	296,809	1,426	262,768	6,481
TOTAL LIABILITIES	1,050,341	143,318	406,793	1,426	367,168	6,481
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,810,997	143,318	1,187,131	1,426	1,122,110	6,481

Consolidated Income Statement

(In thousands of Euro)	Period ended 30 September			
	2019	of which with related parties	2018	of which with related parties
Revenues from contracts with customers	990,394	327	963,015	432
Rental income investment properties	3,970		8,849	
Revenues	994,364		971,864	
Cost of goods sold	(350,200)		(353,876)	
Gross profit	644,164		617,988	
Style, product development and logistics costs	(37,198)	(531)	(34,571)	(580)
Sales & distribution costs	(349,304)	(18,311)	(332,142)	(17,787)
Marketing & communication costs	(55,844)	(68)	(51,338)	(27)
General and administrative costs	(93,295)	(5,778)	(91,120)	(7,652)
Other operating costs	(16,998)	(154)	(13,094)	(55)
Other income and revenues	13,708	12	6,346	86
Operating profit	105,233		102,069	
Financial charges	(49,938)	(2,518)	(43,102)	
Financial income	27,679	-	32,417	
Profit before taxes	82,974		91,384	
Income taxes	(21,548)		(26,240)	
Net profit/(loss) for the period	61,426		65,144	
Net profit/(loss) – Group	59,966		64,097	
Net profit/(loss) – minority interests	1,460		1,047	

(In Euro)	Period ended 30 September	
	2019	2018
Basic earnings per share – ordinary shares	0.355	0.380
Diluted earnings per share – ordinary shares	0.355	0.379

Consolidated Statement of Comprehensive Income

(In thousands of Euro)	Period ended 30 September	
	2019	2018
Net profit/(loss) for the period (A)	61,426	65,144
<i>Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period</i>		
- Currency translation differences of foreign operations	(332)	24,647
- Net gain/(loss) from cash flow hedge	(4,618)	(22,545)
- Income taxes	1,108	5,411
	<u>(3,510)</u>	<u>(17,134)</u>
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)	(3,842)	7,513
<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	(923)	(47)
- Income taxes	247	1
	<u>(676)</u>	<u>(46)</u>
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)	(676)	(46)
Total other income/(losses) for the period, net of taxes (B1+B2 = B)	(4,518)	7,467
Total comprehensive income for the period, net of taxes (A+B)	56,908	72,611
Group	55,217	71,156
Minority interests	1,691	1,455

Consolidated Statement of Cash Flows

(In thousands of Euro)	Period ended 30 September			
	2019	of which with related parties	2018	of which with related parties
NET PROFIT/(LOSS) FOR THE PERIOD	61,426		65,144	
Adjustments to reconcile net profit (loss) to net cash from (used in) operating activities:				
Amortization, depreciation and write-downs of tangible and intangible assets, inv. property, and right-of-use assets	137,485	16,708	46,961	
Income taxes*	21,548		26,240	
Provision for employee benefit plans	645		581	
Allocation to/(use of) the provision for obsolete inventory	9,585		11,809	
Losses and provision for bad debt	508		734	
Losses/(gains) on disposal of tangible/intangible assets	1,086		243	
Interest expense and interest expense on lease liabilities*	13,633	2,518	1,492	
Interest income*	(697)		(461)	
Other non-monetary items	979		1,370	
Changes in operating assets and liabilities:				
Trade receivables	42,770	33	33,786	(128)
Inventories and Right of return assets	(47,394)		(25,382)	
Trade payables and Refund Liabilities	(31,056)	965	(26,722)	3,192
Other receivables and tax payables*	(5,330)		(5,867)	
Employee benefits payments	(834)		(473)	
Other assets and liabilities*	3,327	2,015	4,627	446
Other – net	(611)		(693)	
Income taxes paid*	(12,861)	21,112	(3,868)	14,518
Interest expense and interest expense on lease liabilities paid*	(11,994)	(1,942)	(1,492)	
Interest income received*	697		461	
NET CASH FROM (USED IN) OPERATING ACTIVITIES	182,912	41,409	128,490	18,028
Cash flow from investing activities:				
Purchase of tangible assets	(36,748)		(42,243)	
Purchase of intangible assets	(7,364)		(7,462)	
Proceeds from the sale of tangible and intangible assets	174		78	
NET CASH FROM (USED IN) INVESTING ACTIVITIES	(43,938)	-	(49,627)	-
Cash flow from financing activities:				
Net change in financial receivables	688		(403)	
Net change in financial payables	5,672		(38,867)	
Repayment of lease liabilities	(85,397)	(16,409)	-	
Dividends paid to shareholders of the Parent company	(57,372)	(40,685)	(64,140)	(47,716)
Dividends paid to minority shareholders	(5,194)	(5,194)	(2,777)	(2,777)
Purchase of minority interests in companies consolidated on a line-by-line basis	-		(24)	
Treasury share repurchase	(2,525)		-	
NET CASH FROM (USED IN) FINANCING ACTIVITIES	(144,128)	(62,288)	(106,211)	(50,493)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,154)		(27,348)	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	207,707		212,088	
Increase/(decrease) in cash and cash equivalents	(5,154)		(27,348)	
Effect of exchange rate translation differences	(4,421)		2,238	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	198,132		186,978	

*In order to provide a better presentation, the additional information (interest paid, income taxes paid, interest received, and dividends received) previously included in a specific table following the statement of cash flows was included within the cash flow from (used in) operating activities, adjusting the comparative data as at 30 September 2018 accordingly.

Statement of changes in consolidated shareholders' equity

(In thousands of Euro)	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	-	-	-	-	-	-	-	-	-	-	59,966	59,966	1,460	61,426
Other comprehensive income/(loss)	-	-	-	-	-	(3,510)	(797)	234	-	(676)	-	(4,749)	231	(4,518)
Total comprehensive income (loss)	-	-	-	-	-	(3,510)	(797)	234	-	(676)	59,966	55,217	1,691	56,908
Distribution of dividends	-	-	-	-	-	-	-	(57,372)	-	-	-	(57,372)	(5,315)	(62,687)
Purchase of min. interests in companies consolidated on a line-by-line basis and accounting of options on min. interests	-	-	-	-	-	-	-	(575)	-	-	-	(575)	423	(152)
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	-	-	-	-	-	-	-	-	535	-	-	535	-	535
As at 30.09.2019	16,879	(2,776)	2,995	4,188	504,319	(6,559)	(9,811)	166,459	5,042	(3,492)	59,966	737,210	23,446	760,656

(In thousands of Euro)	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Net profit/(loss) for the period	Group shareholders' equity	Minority interests	Total shareholders' equity
As at 01.01.2018	16,879	2,995	4,188	429,505	14,140	(33,129)	155,626	16,395	(2,990)	118,641	722,250	26,181	748,431
Allocation of results	-	-	-	48,872	-	-	69,769	-	-	(118,641)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	64,097	64,097	1,047	65,144
Other comprehensive income/(loss)	-	-	-	-	(17,134)	24,495	(254)	-	(48)	-	7,059	408	7,467
Total comprehensive income (loss)	-	-	-	-	(17,134)	24,495	(254)	-	(48)	64,097	71,156	1,455	72,611
Distribution of dividends	-	-	-	-	-	-	(64,140)	-	-	-	(64,140)	(2,777)	(66,917)
Purchase of min. interests in companies consolidated on a line-by-line basis and accounting of options on min. interests	-	-	-	-	-	23	(1,057)	-	-	-	(1,034)	1,005	(29)
Stock Grant Reserve	-	-	-	-	-	-	-	846	-	-	846	-	846
As at 30.09.2018	16,879	2,995	4,188	478,377	(2,994)	(8,611)	159,944	17,241	(3,038)	64,097	729,078	25,864	754,942

Statement pursuant to paragraph 2, article 154 bis of Leg. Decree no. 58/98 (Consolidated Law on Finance)

The Manager charged with preparing Company's Financial Reports states, pursuant to paragraph 2, article 154 bis of the Consolidated Law on Finance, that the accounting information contained in this document is in line with accounting books and records.

Florence, 12 November 2019

Manager charged with preparing Company's Financial Reports
Marco Fortini