Salvatore Ferragamo Group

Interim report as at 30 September 2018

Salvatore Ferragamo S.p.A.

Florence

CONTENTS

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

General information

Registered office of the Parent company

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

Legal information about the Parent company

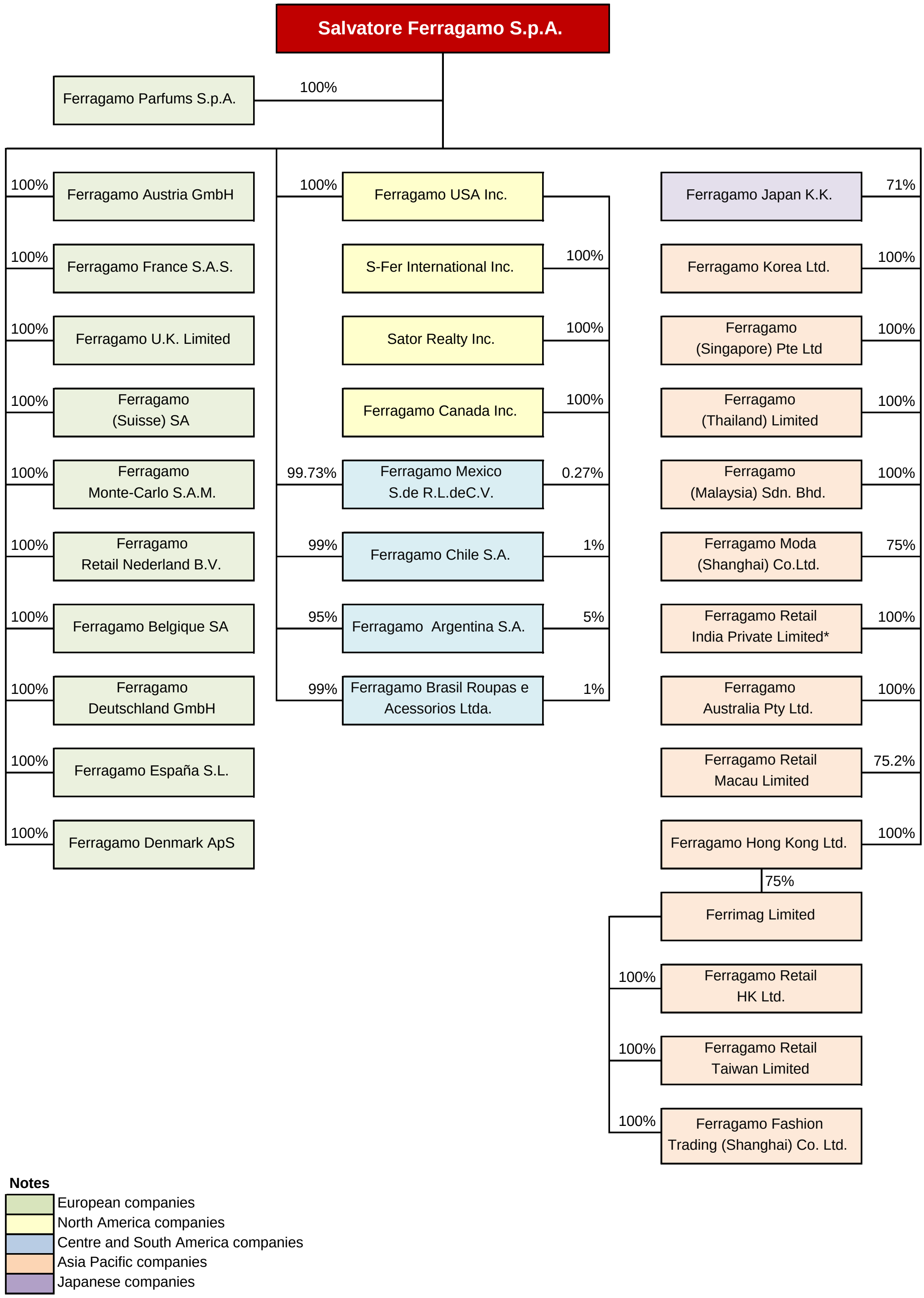
Authorized share capital 16,939,000 Euro
Subscribed and paid-up share capital 16,879,000 Euro
Tax code and Florence Company Register no.: 02175200480
Registered with the Florence Chamber of Commerce under REA (Economic and Administrative Register) no. 464724
Corporate website www.ferragamo.com

Corporate boards

Honorary Chairman (1)	Wanda Miletti Ferragamo	
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	
Nomination and Remuneration Committee	Umberto Tombari	Chairman
	Marzio Alessandro Alberto Saà	
	Lidia Fiori	
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)	Ugo Giorcelli	

(1) Appointed by the Shareholders' Meeting on 20 April 2018 and serving for the 2018-2020 period. Honorary Chairman in office until 19 October 2018
(2) Appointed by the Shareholders' Meeting on 27 April 2017 and serving for the 2017-2019 period
(3) Appointed for the 2011-2019 period
(4) Executive director
(5) Non-executive director
(6) Independent director pursuant to art. 148, paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code
(7) Appointed by the Board of Directors on 14 March 2017
(8) Appointed by the Shareholders' Meeting on 20 April 2018 and serving for the 2018-2019 period
(9) Appointed by the Board of Directors on 31 July 2018 by means of co-optation and in office until the next Shareholders' Meeting.

Group structure



* Non-operating company

Group description

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

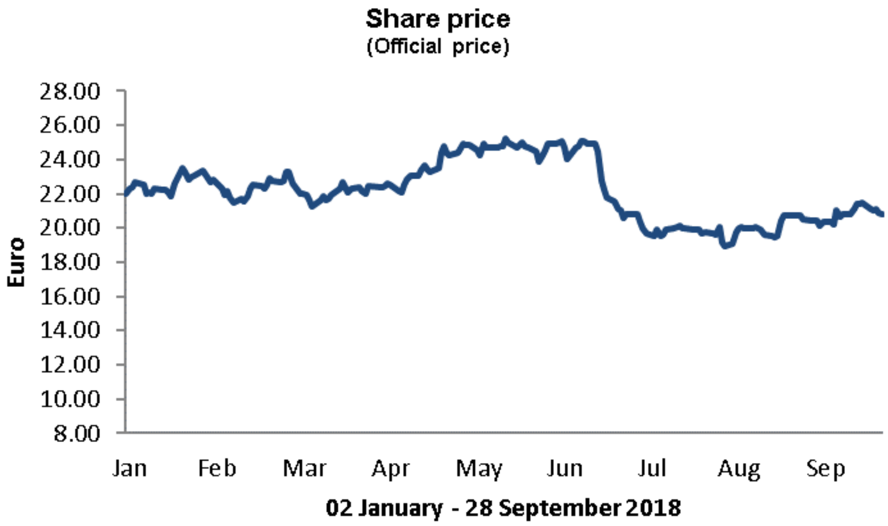
Salvatore Ferragamo S.p.A.	Parent company, owner of the Ferragamo and Salvatore Ferragamo brands, as well as of numerous other figurative and shape-based trademarks; it undertakes production activities and manages the retail distribution channel in Italy as well as the wholesale channel in Italy and 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	It manages directly operated stores (DOS) in Denmark
Ferragamo Parfums S.p.A.	Licensee of the Ferragamo and Ungaro brands for the production and distribution of the fragrances product category
North America	
Ferragamo USA Inc.	It distributes and promotes products in the USA and acts as a sub-holding for North America (USA and Canada)
Ferragamo Canada Inc.	It manages the retail and wholesale channels in Canada
S-Fer International Inc.	It manages directly operated stores (DOS) in the USA
Sator Realty Inc.	It manages directly operated stores (DOS) in the USA and real estate assets
Central and South America	
Ferragamo Mexico S. de R.L. de C.V.	It manages directly operated stores (DOS) and the wholesale channel in Mexico
Ferragamo Chile S.A.	It manages directly operated stores (DOS) in Chile
Ferragamo Argentina S.A.	It manages directly operated stores (DOS) in Argentina
Ferragamo Brasil Roupas e Acessorios Ltda.	It manages directly operated stores (DOS) in Brazil
Asia Pacific	
Ferragamo Hong Kong Ltd.	It distributes and promotes products in Asia and acts as a sub-holding for the Chinese area (Hong Kong, Taiwan, PRC)
Ferragamo Australia Pty Ltd.	It manages directly operated stores (DOS) in Australia
Ferrimag Limited	Sub-holding company for the Chinese area (Hong Kong, Taiwan, PRC)
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	It manages directly operated stores (DOS) and the wholesale channel in the People’s Republic of China
Ferragamo Moda (Shanghai) Co. Ltd.	It manages directly operated stores (DOS) in the People’s Republic of China
Ferragamo Retail HK Limited	It manages directly operated stores (DOS) in Hong Kong
Ferragamo Retail Taiwan Limited	It manages directly operated stores (DOS) in Taiwan
Ferragamo Retail Macau Limited	It manages directly operated stores (DOS) in Macau
Ferragamo Retail India Private Limited	Non-operating company
Ferragamo Korea Ltd.	It manages directly operated stores (DOS) and the wholesale channel in South Korea
Ferragamo (Singapore) Pte. Ltd.	It manages directly operated stores (DOS) in Singapore
Ferragamo (Thailand) Limited	It manages directly operated stores (DOS) in Thailand
Ferragamo (Malaysia) Sdn. Bhd.	It manages directly operated stores (DOS) in Malaysia
Japan	
Ferragamo Japan K.K.	It manages directly operated stores (DOS) in Japan

Interim Directors' report on operations

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

Official price as at 28 September 2018 in Euro	20.7892
Stock Market capitalization as at 30 September 2018 in Euro	3,509,009,068
Number of shares making up the share capital as at 30 September 2018	168,790,000
Number of outstanding shares (free float)	49,129,090

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



Alternative performance measures

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

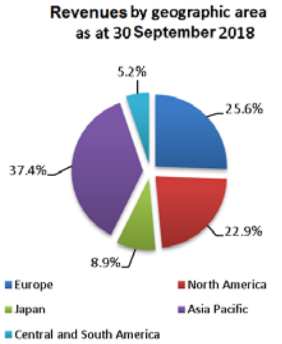
Net working capital: it is *Inventories*, plus *Right of return assets* and *Trade receivables* net of *Trade payables* and *Refund Liabilities*.

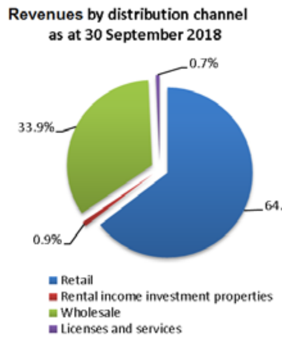
Net invested capital: it is the total amount of *Non current assets*, *Current assets* and *Assets held for sale*, excluding financial assets (*Other current financial assets* and *Cash and cash equivalents*) net of *Non current liabilities*, *Current liabilities* and *Liabilities held for sale*, excluding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

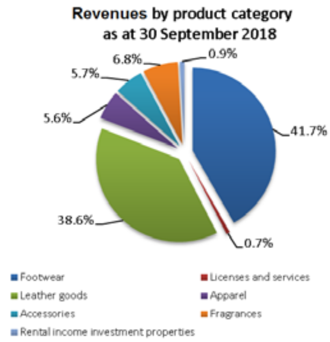
Net financial debt: it is calculated as *Current and non current interest-bearing loans & borrowings* plus *Other current and non current financial liabilities* including the negative fair value of derivatives (non-hedge component), net of *Cash and cash equivalents* and *Other current financial assets*,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

Income and financial highlights for the first nine months of 2018

(In millions of Euro)	Period ended 30 September 2018	2017	2016	% change 2018 vs. 2017	% change 2017 vs. 2016
Revenues	971.9	1,004.9	1,013.9	(3.3%)	(0.9%)
Gross profit	618.0	645.1	679.5	(4.2%)	(5.1%)
Gross profit %	63.6%	64.2%	67.0%		
EBITDA	149.0	161.8	216.1	(7.9%)	(25.1%)
EBITDA %	15.3%	16.1%	21.3%		
Operating profit	102.1	115.2	170.0	(11.4%)	(32.2%)
Operating profit %	10.5%	11.5%	16.8%		
Net profit/(loss) for the period	65.1	78.9	110.1	(17.5%)	(28.3%)
Net profit/(loss) – Group	*64.1*	*82.3*	*112.5*	*(22.1%)*	*(26.8%)*
Net profit/(loss) – minority interests	*1.0*	*(3.4)*	*(2.4)*		







(In millions of Euro)	30 September 2018	31 December 2017	30 September 2017
Investments in tangible/intangible assets	45.5	88.4	51.0
Net working capital	295.2	270.5	272.1
Shareholders' equity	754.9	748.4	714.9
Net financial debt/(surplus)	(140.0)	(127.5)	(94.6)
Cash flow generated from operating activities*	128.5	278.9	218.5

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

	30 September 2018	31 December 2017	30 September 2017
Staff as at the reporting date	4,106	4,183	4,095
Number of DOS	407	410	407
Number of TPOS	272	275	280

Geographical distribution of monobrand stores (30 September 2018)

679 *Ferragamo* monobrand stores

Disclaimer

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

Introduction

In order to promote open and continuous dialogue 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 subject to audit.

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 income statement results 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.

This Interim report must be read together with the Annual Report as at 31 December 2017 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 for the fragrances product category, which involves the creation, development and production (completely outsourced) of fragrances and related products under the Salvatore Ferragamo brand and, on license, the Ungaro brand, sales are managed by 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 both to settlement and translation risk.

In the first nine months of 2018, the euro reversed its trend relative to the US dollar. The upward trend in the single currency, which had already started in 2017 and continued into the first four months of 2018, came to a halt in late April, marking the beginning of a new bear channel; the EUR/USD exchange rate fell from a high of 1.25 in February to a low of 1.13 August, and then stabilized within the 1.14-1.18 range. This was due to, among other things, the improved US macroeconomic environment and the monetary policy tightening by the Federal Reserve, which raised interest rates three times during the year up to 2.25%. On the other hand, the depreciation of the euro was driven by the following factors: the accommodating stance of the ECB, which confirmed that its Quantitative Easing will end in late 2018 and interest rates will remain unchanged until mid-2019, the political turmoil in Italy and Spain and the US tariffs placed on several European imports. The Chinese renminbi had been appreciating against the Euro and the US dollar since late 2017, but in June it suddenly reversed course – largely because of the escalating trade war between the United States and China. The EUR/CNY exchange rate gradually shifted to 7.4 at the end of May and then peaked at around 8.09 in late September. Consistently with the slow rise in inflation, the Bank of Japan left its key interest rates on hold and confirmed its strongly expansionary monetary policy, aimed at weakening the yen. During the first nine months of 2018, the USD/JPY exchange rate fluctuated between 104 and 114, and the EUR/JPY exchange rate between 125 and 137. In June, the widespread instability in emerging markets, the declining exports of intermediate goods and the tensions over tariffs, the rising US interest rates, and the reduced geopolitical risk between the two Koreas caused the South Korean Won to depreciate sharply relative to both the greenback and the single currency. Since the start of the year, the EUR/KRW exchange rate has been trading between 1250 and 1358, and the USD/KRW exchange rate between 1054 and 1137. After benefiting in early 2018 from rising oil prices, the Mexican peso lost momentum because of the uncertainty surrounding the NAFTA renegotiations and the imposition of retaliatory tariffs against US imports, gradually going back to where it was at the start of the year. The EUR/MXN pair has been trading between 21 and 25, and the USD/MXN exchange rate between 18 and 21.

Operating performance

In the first nine months of 2018, sales volumes fell by 3.3% (-6.2% in the first half of 2018), partly due to the reduced liquidation of inventories in end-of-season sales as well as the negative exchange rate impact. Remarkably, the third-quarter performance was up 3.9% compared to the prior-year period, driven especially by the wholesale channel. The lower sales volumes and adverse foreign exchange movements resulted in a 4.2% contraction in the gross sales margin (-7.7% in the first half of 2018) which, combined with the positive impact of the reduction in operating costs (-2.6%), caused the Group's financial performance to slow down year-over-year. The Group's EBITDA was down 7.9%, accounting for 15.3% of revenues compared to 16.1% in the first nine months of 2017 (in the first six months of 2018 it was down 14.5%). Operating profit fell by 11.4% to 10.5% as a proportion of revenues, compared to 11.5% in the first nine months of 2017. Net profit for the period totaled 65.1 million Euro, down by 17.5% compared to the prior-year period. Group net profit for the period fell by 22.1% from 82.3 million Euro to 64.1 million Euro. As at 30 September 2018, the Group reported a net financial surplus of 140.0 million Euro, up from 127.5 million Euro as at 31 December 2017 – largely thanks to cash flows from operating activities in the first nine months of 2018 – and up from 94.6 million Euro as at 30 September 2017 (including 5.8 million Euro in net financial debt associated with Ferragamo Retail India Private Limited, whose liabilities had been classified as held for sale pursuant to IFRS 5 as at 30 September 2017).

The following table shows the main income statement data.

(In thousands of Euro)	**Period ended 30 September**				
	2018	**% of revenues**	**2017**	**% of revenues**	**% change**
Revenues	**971,864**	100.0%	**1,004,897**	100.0%	**(3.3%)**
Gross profit	**617,988**	63.6%	**645,102**	64.2%	**(4.2%)**
Style, product development and logistics costs	(34,571)	(3.6%)	(32,144)	(3.2%)	7.6%
Sales & distribution costs	(332,142)	(34.2%)	(353,446)	(35.2%)	(6.0%)
Marketing & communication costs	(51,338)	(5.3%)	(48,145)	(4.8%)	6.6%
General and administrative costs	(91,120)	(9.4%)	(86,269)	(8.6%)	5.6%
Other operating costs	(13,094)	(1.3%)	(17,199)	(1.7%)	(23.9%)
Other income and revenues	6,346	0.7%	7,347	0.7%	(13.6%)
Total operating costs (net of other income)	**(515,919)**	(53.1%)	**(529,856)**	(52.7%)	**(2.6%)**
Operating profit	**102,069**	10.5%	**115,246**	11.5%	**(11.4%)**
Net financial income and charges	(10,685)	(1.1%)	(8,849)	(0.9%)	20.7%
Profit before taxes	**91,384**	9.4%	**106,397**	10.6%	**(14.1%)**
Income taxes	(26,240)	(2.7%)	(27,472)	(2.7%)	(4.5%)
Net profit/(loss) for the period	**65,144**	6.7%	**78,925**	7.9%	**(17.5%)**
Net profit/(loss) – Group	64,097	6.6%	82,333	8.2%	(22.1%)
Net profit/(loss) – minority interests	1,047	0.1%	(3,408)	(0.3%)	(130.7%)
Amortization, depreciation and write-downs of tangible/intangible assets	46,961	4.8%	46,545	4.6%	0.9%
EBITDA	**149,030**	15.3%	**161,791**	16.1%	**(7.9%)**

Revenues in the first nine months of 2018 totaled 971,864 thousand Euro compared to 1,004,897 thousand Euro in the first nine months of 2017, down by 3.3%. 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 2018 compared to the same period last year: the US dollar depreciated by 7.2%([1]), the Japanese Yen depreciated by 5.0%([2]) and the Chinese Renminbi depreciated by 2.7%([3]) against the

[1] With reference to the average Euro/USD exchange rate in the first nine months of 2018: 1.194; 2017: 1.114
[2] With reference to the average Euro/Yen exchange rate in the first nine months of 2018: 130.93; 2017: 124.68
[3] With reference to the average Euro/Cny exchange rate in the first nine months of 2018: 7.779; 2017: 7.577

Euro, the currency in which the figures in the consolidated financial statements are expressed. In the first nine months of 2018, revenues decreased by 1.6% at constant exchange rates (applying to the revenues – not inclusive of the hedging effect – of the first nine months of 2017 the average exchange rate of the first nine months of 2018); in particular, they decreased by 5.2% in Europe, 1.2% in North America, 1.7% in Japan, they were unchanged in Asia Pacific while they increased by 3.3% in Central and South America. Asia Pacific contributed the most to Group revenues with 37.4%, followed by Europe (25.6%), North America (22.9%), Japan (8.9%), and Central and South America (5.2%). In the third quarter of 2018, revenues amounted to 298,175 thousand Euro, up 3.9% at current exchange rates and 2.5% at constant exchange rates compared to the third quarter of 2017.

Gross profit for the period ended 30 September 2018 amounted to 617,988 thousand Euro (accounting for 63.6% of revenues), down compared to the prior-year period, when it amounted to 645,102 thousand Euro (accounting for 64.2% of revenues). Margins were negatively affected by the adverse exchange rate trend. In the third quarter of 2018, gross profit was 185,969 thousand Euro, up by 5.1% compared to the prior-year period, accounting for 62.4% of revenues compared to 61.6% in the third quarter of 2017.

Total operating costs (net of other income) amounted to 515,919 thousand Euro for the first nine months of 2018. They were down by 2.6% compared to the first nine months of 2017, and the ratio to revenues increased from 52.7% to 53.1% due to the combined effect of the cost rationalization initiatives adopted by management in the first nine months of 2018 and the depreciation of the main currencies – other than the Euro – in which the Group incurs its operating costs compared to the first nine months of 2017. As at 30 September 2017, the item included 3,058 thousand Euro for the impairment of the net assets of the company Ferragamo Retail India Private Limited, since at said date they were classified as held for sale pursuant to IFRS 5; for more details, reference should be made to the section "Assets and liabilities held for sale" as well as "Significant events occurred during the first nine months of 2018" in this Interim Report. In the third quarter of 2018, total net operating costs were 169,375 thousand Euro, up by 1.8% compared to the third quarter of 2017 (when they amounted to 166,447 thousand Euro).

EBITDA decreased from 161,791 thousand Euro to 149,030 thousand Euro (-7.9%), due to the reduction in volumes and gross profit, with the offsetting impact of lower operating costs. The ratio to revenues amounted to 15.3%, down from 16.1% in the first nine months of 2017. In the third quarter of 2018, EBITDA totaled 32,430 thousand Euro compared to 25,460 thousand Euro in the third quarter of 2017 (+27.4%), and the ratio to revenues increased from 8.9% to 10.9%.

In the period ended 30 September 2018 **operating profit** totaled 102,069 thousand Euro compared to 115,246 thousand Euro in the period ended 30 September 2017, down by 11.4%. Its ratio to revenues decreased from 11.5% as at 30 September 2017 to 10.5% as at 30 September 2018. In the third quarter of 2018, operating profit totaled 16,594 thousand Euro compared to 10,423 thousand Euro in the third quarter of 2017 (+59.2%), and the ratio to revenues increased from 3.6% to 5.6%.

Net financial income and charges shifted from 8,849 thousand Euro in charges in the first nine months of 2017 to 10,685 thousand Euro in charges in the first nine months of 2018, largely because of the rise in net financial charges for fair value adjustment of derivatives – partly offset by the reduction in net losses on exchange rate differences and net interest.

(In thousands of Euro)	**Period ended 30 September**		
	2018	**2017**	**% change**
Net interest	(1,031)	(2,116)	(51.3%)
Other net income/(charges)	(1,436)	(1,654)	(13.2%)
Net gains/(losses) on exchange rate differences	(917)	(10,712)	(91.4%)
Net financial income/(charges) for fair value adjustment of derivatives	(7,301)	5,648	(229.3%)
Gains/(losses) on disposal of available-for-sale financial assets	-	(15)	na
Total	**(10,685)**	**(8,849)**	**20.7%**

Net gains and losses on exchange rate differences mainly reflect the impact of commercial transactions in foreign currency, and went from 10,712 thousand Euro in net losses in the first nine months of 2017 to 917 thousand Euro in net losses. 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 5,648 thousand Euro in net income in the first nine months of 2017 to 7,301 thousand Euro in net charges in the first nine months of 2018. In the third quarter of 2018, net financial income and charges totaled 4,810 thousand Euro in charges deteriorating from charges of 2,000 thousand Euro in the third quarter of 2017.

Income taxes

(In thousands of Euro)	Period ended 30 September		
	2018	2017	% change
Profit before taxes	**91,384**	**106,397**	**(14.1%)**
Income taxes	(26,240)	(27,472)	(4.5%)
Tax rate	**28.7%**	**25.8%**	

The estimated effective tax rate for the first nine months of 2018 (the best estimate of the annual tax rate expected for the whole year) was 28.7% compared to 25.8% in the prior-year period. This increase was mainly due to the reduced tax benefits for Salvatore Ferragamo S.p.A in relation to the so-called “Patent Box”, with an estimated income tax reduction in the first nine months of 2018 of approximately 6.7 million Euro compared to 10.5 million Euro in the first nine months of 2017, and to the reduction in the US federal income tax rate (from 35% to 21%) as from 1 January 2018, resulting in a decrease in the deferred tax assets of the US entities in the first nine months of 2018 compared to the prior-year period. In addition, it was due to the impact of higher income taxes recognized for the period as a result of the tax audit of Ferragamo Korea Ltd. For further information, reference should be made to the paragraph “Tax and customs disputes and audits” in the section “Significant events occurred during the first nine months of 2018” of this report.

In the first nine months of 2018, the Salvatore Ferragamo Group posted 65,144 thousand Euro in **net profit**, compared to 78,925 thousand Euro in the prior-year period. The Group share of net profit amounted to 64,097 thousand Euro, down from 82,333 thousand Euro in the prior-year period. In the third quarter of 2018, net profit totaled 6,531 thousand Euro compared to 2,692 thousand Euro in the third quarter of 2017; Group net profit amounted to 6,634 thousand Euro compared to 3,923 thousand Euro in the third quarter of 2017.

Revenues

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

(In thousands of Euro)	Period ended 30 September					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Europe	248,975	25.6%	263,515	26.2%	(5.5%)	(5.2%)
North America	222,523	22.9%	231,875	23.1%	(4.0%)	(1.2%)
Japan	86,324	8.9%	86,651	8.6%	(0.4%)	(1.7%)
Asia Pacific	363,218	37.4%	370,123	36.8%	(1.9%)	0.0%
Central and South America	50,824	5.2%	52,733	5.3%	(3.6%)	3.3%
Total	**971,864**	**100.0%**	**1,004,897**	**100.0%**	**(3.3%)**	**(1.6%)**

Europe saw a decrease in revenues of 5.5% at current exchange rates (-5.2% at constant exchange rates); it was negatively affected by the wholesale channel (-3.7% at current exchange rates and -3.6% at constant exchange rates) and by the retail channel (-6.9% at current exchange rates and -6.4% at constant exchange rates).
The North American market saw a decrease in revenues of 4.0% at current exchange rates (-1.2% at constant exchange rates), which was negatively impacted by the trend in the wholesale channel (-10.1% at current exchange rates, -7.3% at constant exchange rates).
In Japan, revenues were slightly down 0.4% at current exchange rates (-1.7% at constant exchange rates), negatively affected by the decrease in revenues in the wholesale channel (-32.2% at constant exchange rates). This was attributable to the strategic restructuring of the channel in Japan, which had already begun in 2017 and it was offset by the good performance of the retail channel (+4.2% at current exchange rates and +2.4% at constant exchange rates).
Asia Pacific saw a decrease in revenues of 1.9% at current exchange rates (unchanged at constant exchange rates), recording an improvement in the wholesale channel (+8.3% at current exchange rates and +9.7% at constant exchange rates) while it recorded a decrease in the retail channel (-5.7% at current exchange rates and -3.6% at constant exchange rates); Asia Pacific contributed once again the most to Group revenues with 37.4% compared to 36.8% in the prior-year period.
The Central and South American market saw a decrease of 3.6% at current exchange rates (+3.3% at constant exchange rates), with the ratio to total revenues mostly unchanged compared to the previous year (5.2% compared to 5.3% in the first nine months of 2017).

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

(In thousands of Euro)	Period ended 30 September					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Retail	627,005	64.5%	647,662	64.4%	(3.2%)	(1.5%)
Wholesale	329,032	33.9%	339,514	33.8%	(3.1%)	(1.6%)
Licenses and services	6,978	0.7%	8,060	0.8%	(13.4%)	(13.4%)
Rental income investment properties	8,849	0.9%	9,661	1.0%	(8.4%)	(1.8%)
Total	**971,864**	**100.0%**	**1,004,897**	**100.0%**	**(3.3%)**	**(1.6%)**

Retail revenues refer to revenues generated by sales in directly operated stores (DOS).
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 2018 retail sales decreased by 3.2% at current exchange rates and by 1.5% at constant exchange rates, mainly due to the negative impact of Europe (-6.9% at current exchange rates) and Asia Pacific (-5.7% at current exchange rates). In the first nine months of 2018, the retail channel accounted for 64.5% of total revenues compared to 64.4% in the prior-year period.
As at 30 September 2018 the number of directly operated stores (DOS) decreased by 3 units compared to the situation as at 31 December 2017, while it is unchanged compared to 30 September 2017.
Wholesale sales decreased by 3.1% at current exchange rates and by 1.6% at constant exchange rates; it should be noted that excluding the positive performance of Asia (+8.3% at constant exchange rates, +9.7% at current exchange rates), all other markets recorded a decline.

In the first nine months of 2018, revenues from licenses and services decreased by 13.4% (at both current and constant exchange rates) compared to the prior-year period; 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 8.4% at current exchange rates (-1.8% at constant exchange rates) compared to the prior-year period.

The following table shows revenues by **product category** for the periods ended 30 September 2018 and 30 September 2017, indicating the relevant percentage of total revenues.

(In thousands of Euro)	Period ended 30 September					at constant exchange rates
	2018	% of revenues	2017	% of revenues	% change	% change
Footwear	405,623	41.7%	432,424	43.0%	(6.2%)	(4.3%)
Leather goods	374,542	38.6%	367,395	36.6%	1.9%	3.4%
Apparel	54,625	5.6%	61,814	6.1%	(11.6%)	(10.8%)
Accessories	54,833	5.7%	60,817	6.1%	(9.8%)	(8.4%)
Fragrances	66,414	6.8%	64,726	6.4%	2.6%	4.2%
Licenses and services	6,978	0.7%	8,060	0.8%	(13.4%)	(13.4%)
Rental income investment properties	8,849	0.9%	9,661	1.0%	(8.4%)	(1.8%)
Total	**971,864**	**100.0%**	**1,004,897**	**100.0%**	**(3.3%)**	**(1.6%)**

A good performance was recorded by fragrances, up by 2.6% at current exchange rates and by 4.2% at constant exchange rates, and by leather goods, up by +1.9% and 3.4% at current and constant exchange rates, respectively.

Statement of financial position and Investments

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

(In thousands of Euro)	30 September 2018	31 December 2017	30 September 2017	% change 09.18 vs. 12.17	% change 09.18 vs. 09.17
Property, plant and equipment, investment property, intangible assets with a finite useful life	299,917	299,332	279,421	0.2%	7.3%
Net working capital	295,243	270,486	272,081	9.2%	8.5%
Other non current assets/(liabilities), net	15,117	7,963	32,582	89.8%	(53.6%)
Other current assets/(liabilities), net	4,623	42,169	35,290	(89.0%)	(86.9%)
Assets/(liabilities) held for sale, net	-	990	(4,886)	na	na
Net invested capital	**614,900**	**620,940**	**614,488**	**(1.0%)**	**0.1%**
Group shareholders' equity	729,078	722,250	688,667	0.9%	5.9%
Minority interests	25,864	26,181	26,195	(1.2%)	(1.3%)
Shareholders' equity (A)	**754,942**	**748,431**	**714,862**	**0.9%**	**5.6%**
Net financial debt/(surplus) (B)	**(140,042)**	**(127,491)**	**(100,374)**	**9.8%**	**39.5%**
Total sources of financing (A+B)	**614,900**	**620,940**	**614,488**	**(1.0%)**	**0.1%**
Net financial debt(surplus)/shareholders' equity	(18.6%)	(17.0%)	(14.0%)		

Investments in fixed assets

During the period ended 30 September 2018, the Salvatore Ferragamo Group made investments in tangible and intangible assets for a total amount of 45,472 thousand Euro, of which 39,396 thousand Euro in tangible assets and 6,076 thousand Euro in intangible assets, compared to a total of 50,954 thousand Euro in the first nine months of 2017.

The most important investments in tangible assets were made in the opening and refurbishment of stores (19.5 million Euro, approximately 50% of total investments in tangible assets in the first nine months of 2018) and the works carried out at the Osmannoro facility, which are part of the broader project undertaken by the Parent company to expand and renovate the whole industrial complex. The main investments in intangible assets refer to completion of the so-called "Old Replacement" project of the Parent company Salvatore Ferragamo S.p.A.: the aim was introducing a new SAP-based distribution system integrated with the logistic shipping and billing system, which has become operational from early 2018. In addition, these investments were aimed at developing the e-commerce platform and the purchase of software licenses (for a total amount of 2.62 million Euro, i.e. around 43% of investments in intangible assets incurred in the first nine months of 2018).

Investments in tangible assets under construction amounted to 53.7 million Euro and mainly concerned the investments made in the Osmannoro-Sesto Fiorentino facility for the construction of the new logistics center by the Parent company Salvatore Ferragamo S.p.A. (for a total amount of 49.2 million Euro as at 30 September 2018, of which 12.3 million Euro relating to the first nine months of 2018), and, to a minor extent, the refurbishment and opening of new stores which were not yet operational as at the reporting date.

Amortization and depreciation amounted to 46,961 thousand Euro in the first nine months of 2018 and 46,545 thousand Euro in the prior-year period, up by 0.9%.

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

Net working capital

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

(In thousands of Euro)	30 September 2018	31 December 2017	30 September 2017	% change 09.18 vs. 12.17	% change 09.18 vs. 09.17
Inventories and Right of return assets	362,825	325,516	334,742	11.5%	8.4%
Trade receivables	107,768	148,583	100,235	(27.5%)	7.5%
Trade payables and Refund Liabilities	(175,350)	(203,613)	(162,896)	(13.9%)	7.6%
Total	**295,243**	**270,486**	**272,081**	**9.2%**	**8.5%**

Net working capital increased by 9.2% compared to 31 December 2017 and by 8.5% compared to 30 September 2017. The change from 31 December 2017 was largely due to the increase in Inventories and Right of return assets (+11.5%) and the decline in Trade payables and Refund Liabilities (-13.9%), which was offset by the drop in Trade receivables (-27.5%); the change from 30 September 2017 was attributable to the increase in Inventories and Right of return assets (+8.4%) as well as Trade Payables (+7.5%). Specifically, inventories of finished products were up 23,718 thousand Euro from 31 December 2017 (+8.7%) and 22,736 thousand Euro

from 30 September 2017 (+8.4%). Raw materials for production were up 20.2% from 31 December 2017 and 4.3% from 30 September 2017.
Trade receivables, decreasing 27.5% from 31 December 2017 and increasing 7.5% from 30 September 2017, largely referred to wholesale sales.
Trade payables are mainly due to purchases of production materials, finished products and costs relating to outsourced manufacturing, in addition to outstanding payables relating to the construction work at the new logistics hub at Osmannoro. The item "Trade payables and Refund Liabilities" (of which Refund Liabilities amounting to 4,538 thousand Euro as at 30 September 2018) decreased compared to 31 December 2017 (-13.9%) and increased compared to 30 September 2017 (+7.6%).
The items "Right of return assets" and "Refund Liabilities" are two new items which are strictly interconnected and arise from the coming into force of the new international accounting standard IFRS 15 "Revenue from Contracts with Customers" as from 1 January 2018. For further details on application, reference should be made to note 2 "Basis of presentation" to the condensed consolidated half-year financial statements as at 30 June 2018.

Net financial debt

Net financial debt as at 30 September 2018, 31 December 2017 and 30 September 2017 was as follows:

(In thousands of Euro)	30 September 2018	31 December 2017	30 September 2017	Change 09.18 vs. 12.17	Change 09.18 vs. 09.17
A. Cash	1,176	1,909	1,001	(733)	175
B. Other cash equivalents	185,821	210,179	196,635	(24,358)	(10,814)
C. Cash and cash equivalents (A)+(B)	**186,997**	**212,088**	**197,636**	**(25,091)**	**(10,639)**
Derivatives – non-hedging component	206	341	311	(135)	(105)
Other financial assets	408	-	-	408	408
D. Current financial receivables	**614**	**341**	**311**	**273**	**303**
E. Current bank payables	29,609	66,529	79,022	(36,920)	(49,413)
F. Derivatives – non-hedging component	611	226	233	385	378
G. Other current financial payables	2,080	3,276	3,260	(1,196)	(1,180)
H. Current financial debt (E)+(F)+(G)	**32,300**	**70,031**	**82,515**	**(37,731)**	**(50,215)**
I. Current financial debt, net (H)-(C)-(D)	**(155,311)**	**(142,398)**	**(115,432)**	**(12,913)**	**(39,879)**
J. Non current bank payables	15,240	14,814	15,058	426	182
K. Derivatives – non-hedging component	29	93	-	(64)	29
M. Other non current payables	-	-	-	-	-
N. Non current financial debt (J)+(K)+(M)	**15,269**	**14,907**	**15,058**	**362**	**211**
O. Net financial debt/(surplus) (I)+(N)	**(140,042)**	**(127,491)**	**(100,374)**	**(12,551)**	**(39,668)**
Net financial debt – subsidiary held for sale	-	-	**5,766**	-	(5,766)

As at 30 September 2018 **net financial position** amounted to 140,042 thousand Euro compared to a net financial position of 127,491 thousand Euro as at 31 December 2017. The change was largely attributable to the positive cash flows from operating activities (128,490 thousand Euro), net of the 66,917 thousand Euro dividend payout approved by the Parent company and other Group companies, and cash absorption attributable to investments in tangible and intangible assets for the period amounting to 49,705 thousand Euro. Compared to 30 September 2017, the net financial position was up 45,434 thousand Euro, rising to a positive 140,042 thousand Euro as at 30 September 2018 from a positive 94,608 thousand Euro (including 5,766 thousand Euro in net financial debt associated with Ferragamo Retail India Private Limited, whose liabilities had been classified as held for sale pursuant to IFRS 5 as at 30 September 2017).

Assets and liabilities held for sale

As at 30 September 2017, all Ferragamo Retail India Private Limited's assets and liabilities had been classified as held for sale, as they met the criteria in IFRS 5 (negotiations in progress to sell the company to third parties). Subsequently, the sale of the entire business unit corresponding to the Indian company to third parties did not occur; instead, the Group disposed of the directly operated retail stores and streamlined distribution operations in India, transferring Indian retail operations to third parties by having Ferragamo Retail India Private Limited sell inventories as well as store equipment and furnishings. Ferragamo Retail India Private Limited currently remains non-operational within the Group. For more details, reference should be made to the Half-year report as at 30 June 2018, section "Significant events occurred during the first half of 2018", as well as the section "Significant events occurred during the first nine months of 2018" below.

Significant events occurred during the first nine months of 2018

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 2018. Here below are the main events occurred during the third quarter of 2018.

Board of Directors

On 31 July 2018, the Board of Directors of Salvatore Ferragamo S.p.A., following the resignation of Director Raffaela Pedani, co-opted Micaela Le Divelec Lemmi as Director in accordance with article 2386 of the Italian Civil Code. Ms. Micaela Le Divelec Lemmi will remain in office until the next Shareholders' Meeting. She was appointed also Managing Director of the company and member of the Product and Brand Strategy Committee as well as Director responsible for the Internal Control and Risk Management System. Subsequently, on 1 November 2018 Ms. Micaela le Divelec Lemmi resigned by mutual consent from the office of General Manager, retaining the position of Managing Director. In this capacity, Ms. Micaela le Divelec Lemmi will continue performing and exercising all duties and powers previously granted to her, therefore the Company does not plan to appoint a new General Manager.

Ferragamo Retail India Private Limited

On 4 July 2018, Salvatore Ferragamo S.p.A., in accordance with the resolution of the Board of Directors dated 21 June 2018, acquired 49.0% of Ferragamo Retail India Private Limited from the local partner (Mr. Akshay Chudasama) for INR 114,294,369, equal to approximately 1,442 thousand Euro. The acquisition of the non-controlling interests in Ferragamo Retail India Private Limited is part of the process to sell the directly operated retail stores and streamline distribution operations in India (see the Directors' Report on Operations in the Annual Report as at 31 December 2017). Always as part of the streamlining of distribution operations in India, on 25 July 2018 the Shareholders' Meeting of Ferragamo Retail India Private Limited approved a capital increase of 600 million Indian Rupees, equal to approximately 7.5 million Euro, that Salvatore Ferragamo S.p.A. fully subscribed and paid up. The capital increase is intended to repay all the company's outstanding bank loans, which amounted to 600 million Indian Rupees as at 30 June 2018.

Tax and customs disputes and audits

Updates on ongoing audits

- The Holding Company Ferragamo Finanziaria S.p.A. was subject to a tax audit for the 2011 tax year. The process ended with a Tax assessment report notified on 15 July 2015 that included some findings concerning the tax liability of Salvatore Ferragamo S.p.A. with reference to the pass-through mechanism of taxation for Ferragamo Hong Kong Ltd. for the year 2011, partially rejecting the credit for taxes paid abroad. Ferragamo Finanziaria S.p.A. is a so-called 1st-level reporting agent as far as the income of the CFC is concerned. On 23 December 2016, the Regional Unit served an assessment notice on both companies, assessing an additional 633 thousand Euro corporate income tax liability plus interest and penalties on top of the penalties assessed against both firms as part of the proceeding concerning the year 2010. On 22 May 2017, the Company appealed against the assessment notice, after the unsuccessful outcome of the assessment with acceptance process. On 22 October, the Regional Unit of the Tuscany Inland Revenue Office canceled in full the assessment notice pursuant to Resolution No. 112/E/2017, which was issued when the Regional Unit raised a query with the Regulatory Central Unit in relation to this case, which recognized the claims of the Company. Therefore, the proceeding will end since the case has become devoid of purpose, as announced at the hearing held on 29 October 2018.
- On 23 March 2017, the Regional Unit of the Tuscany Inland Revenue Office requested Salvatore Ferragamo S.p.A. to file documents concerning 4 separate export transactions that were canceled, and the company replied on 12 April 2017. The Regional Unit of the Tuscany Inland Revenue Office issued to Salvatore Ferragamo S.p.A. an assessment notice concerning one of the transactions, assessing an additional 67 thousand Euro VAT liability for the year 2013 plus interest and penalties. The company previously received another assessment notice from the Regional Unit of the Tuscany Inland Revenue Office for a similar case dating back to 2006 and appealed against it. The first- and second-instance courts have sided with Salvatore Ferragamo S.p.A., and the case is currently pending with the Court of Cassation. Therefore, on 21 March 2018, the company also appealed against this assessment notice, making reference to the outcome of the previous dispute.
- On 31 August 2017, the Regional Unit of the Tuscany Inland Revenue Office asked Salvatore Ferragamo S.p.A. for information and documents on the pass-through mechanism for CFCs for the years 2012, 2013, and 2014. This topic was addressed in the previous paragraph. On 21 December 2017, the Regional Unit of the Tuscany Inland Revenue Office issued to the company an assessment notice for the year 2012, assessing an approximately 130 thousand Euro additional corporate income tax liability (IRES), of which 125 thousand Euro related to the rejection of the credit claimed for taxes paid

abroad, plus interest and penalties. Once again, Salvatore Ferragamo S.p.A. denies any wrongdoing and it lodged an appeal with the competent court in accordance with the law. The Regional Unit of the Tuscany Inland Revenue Office is continuing the audit of the years 2013 and 2014, asking for additional information.

- On 27 November 2017, tax authorities started an audit of Ferragamo Japan K.K. concerning the company's income and consumption tax for the year 2016 as well as withholding taxes for the years between 2013 and 2017. The audit resulted in a JPY 7.3 million (approximately Euro 50 thousand) reduction in past losses, with no additional tax due, and the recognition of the right to an approximately JPY 2.7 million (nearly 20 thousand Euro) consumption tax refund.
- On 6 December 2017, tax authorities started an audit of Ferragamo Korea Ltd. concerning the company's income tax, withholding taxes, and VAT for the year 2015, which was subsequently extended to the years 2013, 2014, 2016 and 2017 in relation to intragroup transactions. The audit ended in June 2018 with the assessment of a KRW 9,216 million (approximately 6.9 million Euro) increase in taxable income, giving rise to KRW 2,696 million (nearly 2.0 million Euro) in additional income tax and penalties, due to the adjustment of the tax-deductible amount of the service fee Ferragamo Korea Ltd. paid in the years concerned to Ferragamo Hong Kong Ltd.. Subsequently, Ferragamo Hong Kong Ltd. returned the disputed service fee to Ferragamo Korea, deducting it from the taxable income of the Hong Kong entities for the years 2015, 2016, and 2017, thus reducing the audit's impact on the Group by approximately 700 thousand Euro to nearly 1.3 million Euro in net additional tax and penalties.
- As for the still ongoing tax audit involving Ferragamo Deutschland GmbH, reference should be made to the Annual Report as at 31 December 2017, as there were no new developments during the first nine months of 2018. The next meeting with the auditors is scheduled for 28 November 2018.
- With reference to the tax audit carried out on Ferragamo France S.A.S., relating to the tax years 2008-2010 that was started in 2011, and which was referred to in the Directors' report on operations of the 2013, 2014, 2015, 2016 and 2017 Consolidated Annual Report, it is recalled that the audit ended with an objection to the transfer pricing policy applied by the Parent company Salvatore Ferragamo S.p.A.. On 12 December 2012, after declining to change their position in order to reach a settlement, French tax authorities issued to the company two assessment notices, confirming their claims as redetermined during the proceeding. For Ferragamo France S.A.S. these claims would entail the payment of around 900 thousand Euro due to higher taxes on the company, penalties and interest for 2009 and 2010, as well as the redetermination of the taxable income for the years from 2011 to 2014 as a consequence of the cancellation of previous tax losses (amounting to around 8,925 thousand Euro), with a higher tax of 2,135 thousand Euro. After the administrative appeal was rejected, Ferragamo France S.A.S. filed an appeal with the administrative tax court. The ruling issued on 28 March 2017 dismissed all claims by French tax authorities, canceling the assessment notices for the years 2009 and 2010 and ordering them to pay 1,500 Euro in legal costs. On 26 July 2017, French tax authorities appealed against the decision to the Paris Administrative Court of Appeal, which on 13 September 2018 upheld the first-instance ruling. French tax authorities may appeal the ruling to the Council of State. On 27 September 2018, French tax authorities launched a new audit into Ferragamo France S.A.S. concerning the income tax and VAT for the fiscal years 2015-2017.

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

New tax inspections in 2018

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

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

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

Other information

Dividends
Pursuant to the resolution of the Shareholders' Meeting of 20 April 2018, the Parent company Salvatore Ferragamo S.p.A. paid Shareholders a single dividend of 0.38 Euro per share, relating to the profit for 2017, for a total amount of 64,140,200 Euro, with coupon detachment on 21 May 2018 and payment of the dividend as from 23 May 2018.
Other Group companies, during the first nine months of 2018, paid third-party shareholders dividends amounting to 2,777 thousand Euro.

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 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 2018, Ferragamo Finanziaria S.p.A. held a majority stake in the share capital of Salvatore Ferragamo S.p.A., i.e. 54.276% as per the communication of Ferragamo Finanziaria S.p.A. pursuant to form 120/A in Attachment 4 to the CONSOB Issuers' Regulation. This majority stake shrunk by 3.5% compared to 31 December 2017.

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

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

Staff	30 September 2018	31 December 2017	30 September 2017
Top managers, middle managers and store managers	765	762	765
White collars	3,040	3,143	3,058
Blue collars	301	278	272
Total	**4,106**	**4,183**	**4,095**

Basis of presentation
This Interim report was approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 8 November 2018 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 2017 and 30 September 2017 and the consolidated income statement as at 30 September 2017.
All amounts are expressed in Euro and are rounded to the nearest thousand Euro, unless otherwise indicated.

The equity, income and financial data as at 30 September 2018 have been prepared according to 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 end of the reporting period.
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 2017, 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 2018. In particular, the Salvatore Ferragamo Group has applied IFRS 15 and IFRS 9 for the first time as from 1 January 2018; for further details on application, reference should be made to the Explanatory notes to the condensed consolidated half-year financial statements as at 30 June 2018.

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 2018 the Group structure underwent the following change: on 4 July 2018, Salvatore Ferragamo S.p.A., in accordance with the resolution of the Board of Directors dated 21 June 2018, acquired 49.0% of Ferragamo Retail India Private Limited from the local partner (Mr. Akshay Chudasama) for INR 114,294,369, equal to approximately 1,442 thousand Euro. This event did not affect the scope of consolidation, as Ferragamo Retail India Private Limited had already been considered 100%-owned by the Group because of the put & call option on the minority interest in the company, which already transferred all risks and rewards to Salvatore Ferragamo S.p.A.. For further details, reference should be made to the paragraph "Significant events occurred during the first nine months of 2018".

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 2018	30 September 2017	30 September 2018	31 December 2017	30 September 2017
US Dollar	1.1942	1.1140	1.1576	1.1993	1.1806
Swiss Franc	1.16114	1.09510	1.1316	1.1702	1.1457
Japanese Yen	130.925	124.681	131.23	135.01	132.82
Pound Sterling	0.8840	0.8732	0.8873	0.8872	0.8818
Danish Krone	7.4503	7.4373	7.4564	7.4449	7.4423
Australian Dollar	1.5762	1.4539	1.6048	1.5346	1.5075
South Korean Won	1,303.12	1,268.10	1,285.74	1,279.61	1,351.83
Hong Kong Dollar	9.3628	8.6771	9.0579	9.3720	9.2214
Mexican Peso	22.738	21.008	21.7800	23.6612	21.4614
New Taiwanese Dollar	35.705	33.9929	35.3108	35.5658	35.8118
Singapore Dollar	1.6003	1.5470	1.5839	1.6024	1.6031
Thai Baht	38.3982	38.1357	37.4480	39.1210	39.3380
Malaysian Ringgit	4.7645	4.8377	4.7890	4.8536	4.9827
Indian Rupee	80.1905	72.6449	83.9160	76.6055	77.0690
Macau Pataca	9.628	8.930	9.3371	9.6220	9.4829
Chinese Renminbi	7.7789	7.5766	7.9662	7.8044	7.8534
Chilean Peso	750.64	728.14	765.50	736.513	753.86
Argentine Peso	29.772	18.121	47.282	22.624	20.685
Brazilian Real	4.2966	3.5352	4.6535	3.9729	3.7635
Canadian Dollar	1.5372	1.4546	1.5064	1.5039	1.4687

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. Bank guarantees were issued in favor of Palazzo Feroni Finanziaria S.p.A. (1,329 thousand Euro), in favor of

Lungarno Alberghi S.r.l. (488 thousand Euro) and in favor of Ferragamo Finanziaria S.p.A. (23 thousand Euro) as at 30 September 2018: 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 2018, 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 2018

No significant events occurred after 30 September 2018.

Outlook

In 2018 global economy is performing well, with favorable growth forecasts in all major areas worldwide. After remaining strong until April, the Euro subsequently declined, eventually stabilizing at 1.14/1.16 against the US Dollar. On the other hand, the Chinese renminbi is depreciating: currently it is trading at around 8.0 against the Euro. Financial market volatility is on the rise compared to the start of the year – mainly as a result of persistent trade tensions, with the imposition of tariffs between several global markets, and tensions in Europe and in Italy, in particular. Tourist flows remained strong, even showing slight growth. Overall, global demand for luxury goods remains robust, driven especially by the Chinese domestic market. The Salvatore Ferragamo Group maintains a cautious outlook on sales, margins, and the results for the year 2018.

Florence, 8 November 2018

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 2018	*of which with related parties*	31 December 2017	*of which with related parties*	30 September 2017	*of which with related parties*
NON CURRENT ASSETS						
Property, plant and equipment	252,968		249,600		237,026	
Investment property	6,111		6,139		6,318	
Intangible assets with a finite useful life	40,838		43,593		36,077	
Other non current assets	3,853		4,963		5,979	
Other non current financial assets	16,649	*5,053*	15,981	*4,716*	16,380	*1,512*
Deferred tax assets	83,746		79,624		103,434	
TOTAL NON CURRENT ASSETS	**404,165**	***5,053***	**399,900**	***4,716***	**405,214**	***1,512***
CURRENT ASSETS						
Inventories	360,165		325,516		334,742	
Right of return assets	2,660		-		-	
Trade receivables	107,768	*244*	148,583	*116*	100,235	*94*
Tax receivables	19,819		27,654		23,018	
Other current assets	39,922	*7,597*	67,556	*21,576*	59,530	*13,475*
Other current financial assets	614		341		311	
Cash and cash equivalents	186,997		212,088		197,636	
TOTAL CURRENT ASSETS	**717,945**	***7,841***	**781,738**	***21,692***	**715,472**	***13,569***
Assets held for sale	-		990		3,490	
TOTAL ASSETS HELD FOR SALE	**-**		**990**		**3,490**	
TOTAL ASSETS	**1,122,110**	***12,894***	**1,182,628**	***26,408***	**1,124,176**	***15,081***

Consolidated statement of financial position – liabilities and shareholders' equity

(In thousands of Euro)	30 September 2018	*of which with related parties*	31 December 2017	*of which with related parties*	30 September 2017	*of which with related parties*
SHAREHOLDERS' EQUITY						
GROUP SHAREHOLDERS' EQUITY						
Share capital	16,879		16,879		16,879	
Reserves	648,102		586,730		589,455	
Net profit/(loss) – Group	64,097		118,641		82,333	
TOTAL GROUP SHAREHOLDERS' EQUITY	**729,078**		**722,250**		**688,667**	
MINORITY INTERESTS						
Share capital and reserves – minority interests	24,817		30,539		29,603	
Net profit/(loss) – minority interests	1,047		(4,358)		(3,408)	
TOTAL MINORITY INTERESTS	**25,864**		**26,181**		**26,195**	
TOTAL SHAREHOLDERS' EQUITY	**754,942**		**748,431**		**714,862**	
NON CURRENT LIABILITIES						
Non current interest-bearing loans & borrowings	15,240		14,814		15,058	
Provisions for risks and charges	12,466		13,794		13,743	
Employee benefit liabilities	11,762		11,509		11,431	
Other non current liabilities	58,678		59,067		58,234	
Other non current financial liabilities	29		93		-	
Deferred tax liabilities	6,225		8,235		9,803	
TOTAL NON CURRENT LIABILITIES	**104,400**	**-**	**107,512**	**-**	**108,269**	**-**
CURRENT LIABILITIES						
Trade payables	170,812	*3,632*	203,613	*440*	162,896	*2,012*
Refund Liabilities	4,538		-		-	
Interest-bearing loans & borrowings	29,609		66,529		79,022	
Tax payables	13,671		19,772		11,721	
Other current liabilities	41,447	*2,849*	33,269	*1,527*	35,537	*6,530*
Other current financial liabilities	2,691		3,502		3,493	
TOTAL CURRENT LIABILITIES	**262,768**	***6,481***	**326,685**	***1,967***	**292,669**	***8,542***
Liabilities held for sale	-		-		8,376	
TOTAL LIABILITIES HELD FOR SALE	**-**		**-**		**8,376**	
TOTAL LIABILITIES	**367,168**	***6,481***	**434,197**	***1,967***	**409,314**	***8,542***
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,122,110**	***6,481***	**1,182,628**	***1,967***	**1,124,176**	***8,542***

Consolidated income statement

(In thousands of Euro)	**Period ended 30 September**			
	2018	*of which with related parties*	**2017**	*of which with related parties*
Revenues from contracts with customers	963,015	*432*	995,236	*197*
Rental income investment properties	8,849		9,661	
Revenues	**971,864**		**1,004,897**	
Cost of goods sold	(353,876)		(359,795)	
Gross profit	**617,988**		**645,102**	
Style, product development and logistics costs	(34,571)	*(580)*	(32,144)	*(1,148)*
Sales & distribution costs	(332,142)	*(17,787)*	(353,446)	*(17,705)*
Marketing & communication costs	(51,338)	*(27)*	(48,145)	*(37)*
General and administrative costs	(91,120)	*(7,652)*	(86,269)	*(7,402)*
Other operating costs	(13,094)	*(55)*	(17,199)	*(106)*
Other income and revenues	6,346	*86*	7,347	*17*
Operating profit	**102,069**		**115,246**	
Financial charges	(43,102)		(41,183)	
Financial income	32,417	-	32,334	
Profit before taxes	**91,384**		**106,397**	
Income taxes	(26,240)		(27,472)	
Net profit/(loss) for the period	**65,144**		**78,925**	
Net profit/(loss) – Group	64,097		82,333	
Net profit/(loss) – minority interests	1,047		(3,408)	

(In Euro)	**Period ended 30 September**	
	2018	**2017**
Basic earnings per share – ordinary shares	0.380	0.488
Diluted earnings per share – ordinary shares	0.379	0.488

Consolidated statement of comprehensive income

(In thousands of Euro)	**Period ended 30 September**	
	2018	**2017**
Net profit/(loss) for the period (A)	**65,144**	**78,925**
Other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period		
- Currency translation differences of foreign operations	24,647	(33,718)
- Net gain/(loss) from cash flow hedge	(22,545)	31,319
- Income taxes	5,411	(7,517)
	(17,134)	23,802
Total other income/(losses) that will be subsequently reclassified to net profit/(loss) for the period, net of taxes (B1)	**7,513**	**(9,916)**
Other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period		
- Net gain/(loss) from recognition of defined-benefit plans for employees	(47)	401
- Income taxes	1	(93)
	(46)	308
Total other income/(losses) that will not be subsequently reclassified to net profit/(loss) for the period, net of taxes (B2)	**(46)**	**308**
Total other income/(losses) for the period, net of taxes (B1+B2 = B)	**7,467**	**(9,608)**
Total comprehensive income for the period, net of taxes (A+B)	**72,611**	**69,317**
Group	71,156	74,779
Minority interests	1,455	(5,462)

Consolidated statement of cash flows

(In thousands of Euro)	Period ended 30 September			
	2018	*of which with related parties*	2017	*of which with related parties*
NET PROFIT / (LOSS) FOR THE PERIOD	**65,144**		**78,925**	
Adjustments to reconcile net profit (loss) to net cash from (used in) operating activities:				
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	46,961		46,545	
Allocation / (use) of deferred taxes	193		(2,251)	
Provision for employee benefit plans	581		622	
Allocation to / (use of) the provision for obsolete inventory	11,809		9,214	
Losses and provision for bad debt	734		499	
Losses / (gains) on disposal of tangible/intangible assets	243		523	
Impairment of net assets held for sale	-		3,058	
Other non-monetary items	1,370		1,583	
Changes in operating assets and liabilities:				
Trade receivables	33,786	(128)	78,110	(25)
Inventories and Right of return assets	(25,382)		529	
Trade payables and Refund Liabilities	(26,722)	3,192	(17,796)	1,499
Tax receivables	7,925		6,450	
Tax payables	(6,132)		(8,746)	
Employee benefits payments	(473)		(746)	
Other assets and liabilities*	19,146	14,964	22,377	21,745
Other – net	(693)		(385)	
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**128,490**	**18,028**	**218,511**	**23,219**
Cash flow from investing activities:				
Purchase of tangible assets	(42,243)		(40,525)	
Purchase of intangible assets	(7,462)		(7,189)	
Net change in available-for-sale financial assets	-		5	
Proceeds from the sale of tangible and intangible assets	78		30	
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**(49,627)**	**-**	**(47,679)**	**-**
Cash flow from financing activities:				
Net change in financial receivables*	(403)		-	
Net change in financial payables*	(38,867)	-	(13,312)	-
Dividends paid to shareholders of the Parent company	(64,140)	(47,716)	(77,643)	(56,934)
Dividends paid to minority shareholders	(2,777)	(2,777)	-	
Purchase of minority interests in companies consolidated on a line-by-line basis	(24)		(804)	
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(106,211)**	**(50,493)**	**(91,759)**	**(56,934)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(27,348)**		**79,073**	
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**212,088**		**117,249**	
Increase/(decrease) in cash and cash equivalents	(27,348)		79,073	
Effect of exchange rate translation differences	2,238		2,796	
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**186,978**		**199,118**	

ADDITIONAL INFORMATION				
Interest paid	1,492		2,585	
Income taxes paid	3,868		7,224	
Interest received	461		469	
Dividends received	-		-	

*For a better explanation, the changes in derivatives – non hedge component (formerly shown in the cash flow from financing activities) have been included in the cash flow from operating activities, adjusting the comparative data relating to the first nine months of 2017 by 819 thousand Euro accordingly.

Statement of changes in consolidated shareholders' equity

(In thousands of Euro)	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Net profit/(loss) for the period	Group shareholders' equity	Minority interests	Total shareholders' equity
As at 01.01.2018	**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 minority interests in companies consolidated on a line-by-line basis and accounting of options on minority 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**

(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 01.01.2017	**16,879**	**2,995**	**4,188**	**316,082**	**(6,884)**	**(4,035)**	**149,570**	**15,525**	**(3,166)**	**201,984**	**693,138**	**29,476**	**722,614**
Allocation of results	-	-	-	113,423	-	-	88,561	-	-	(201,984)	-	-	-
Net profit/(loss) for the period	-	-	-	-	-	-	-	-	-	82,333	82,333	(3,408)	78,925
Other comprehensive income/(loss)	-	-	-	-	23,802	(31,650)	(13)	-	307	-	(7,554)	(2,054)	(9,608)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**23,802**	**(31,650)**	**(13)**	**-**	**307**	**82,333**	**74,779**	**(5,462)**	**69,317**
Distribution of dividends	-	-	-	-	-	-	(77,643)	-	-	-	(77,643)	-	(77,643)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	-	(2,746)	-	-	-	(2,746)	2,181	(565)
Stock Grant Reserve	-	-	-	-	-	-	-	1,139	-	-	1,139	-	1,139
As at 30.09.2017	**16,879**	**2,995**	**4,188**	**429,505**	**16,918**	**(35,685)**	**157,729**	**16,664**	**(2,859)**	**82,333**	**688,667**	**26,195**	**714,862**

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, 8 November 2018

Manager charged with preparing Company’s Financial Reports
Ugo Giorcelli