GEOX

# ANNUAL REPORT
2016

# CONTENTS

**Geox S.p.A.**
Registered Offices in Italy - Via Feltrina Centro 16, Biadene di Montebelluna (Treviso)
Share Capital - Euro 25,920,733.1 fully paid
Tax Code and Treviso Companies Register No. 03348440268


BREATHES

# DIRECTORS' REPORT

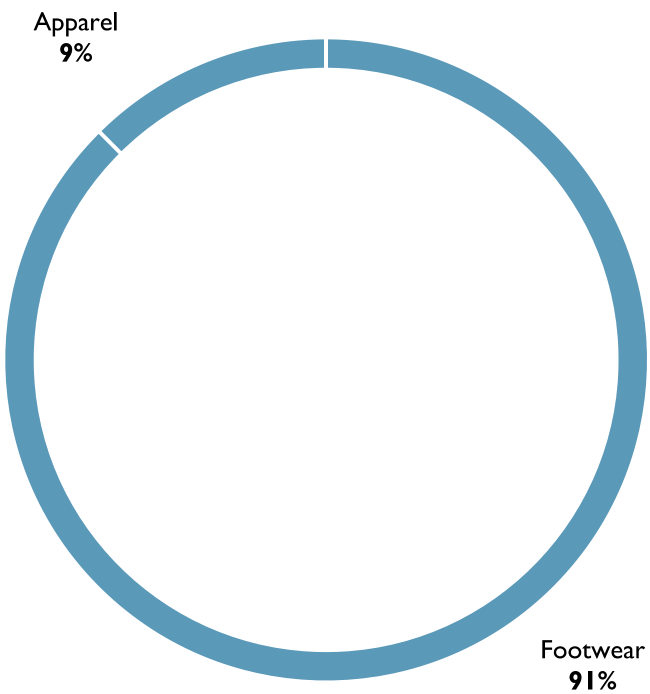
## Profile

The Geox Group creates, produces, promotes and distributes Geox-brand footwear and apparel, the main feature of which is the use of innovative and technological solutions that can guarantee the ability to breathe and remain waterproof at the same time.

The extraordinary success that Geox has achieved is due to the technological characteristics of its shoes and apparel. Thanks to a technology that has been protected by 35 different patents and by 10 more recent patent applications, "Geox" products ensure technical characteristics that improve foot and body comfort in a way that consumers are able to appreciate immediately.

Geox's innovation stems essentially from the creation and development of special outsoles: thanks to a special membrane that is permeable to vapour but impermeable to water, rubber outsoles are able to breathe and leather outsoles remain waterproof. In the apparel sector the innovation increases the expulsion of body's internal humidity thanks to hollow spaces and aerators.

Geox is market leader in Italy in its own segment and is one of the leading brands world-wide in the "International Lifestyle Casual Footwear Market" (source: Shoe Intelligence, 2016).



## Strategy

The Geox Group's strategic plan, focused on a sustainable and profitable growth, is based on several key elements, including:

### Product innovation

Product innovation is fundamental for the consolidation of Geox's competitive advantage. The strategic plan provides the constant strengthening of the competitive advantage which comes from the uniqueness of the product and from innovation in footwear and clothing, focusing on the strengths that have always distinguished the Group, such as the physical benefits of transpiration.

### International expansion

The strategic plan provides for a geographic balancing of sales by:

- focusing on core markets;
- developing new markets with high growth potential.

### Sales channels

The strategic plan provides for each distribution channel to have a particular focus and specialization:

- sustainable growth in the wholesale market, mainly through the specialization of a dedicated sales force and increased market penetration and multibrand customer loyalty, by using the formula of corner shops and shop-in-shop;
- rationalization and development of the retail channel, with the closure of shops that are not in line with the expected profitability standards and the opening of new stores with strict profitability criteria;
- growth of the online channel which has significant growth potential.

### Product and supply chain

The strategic plan includes:

- control of the processes and various stages of production with improved delivery times and quality;
- implementation of projects to improve efficiency in the supply chain;
- reduction of complexity in the range of products on offer, both in footwear and clothing, and the development of new products;
- improvement of business processes in order to reduce structural costs and increase the profitability of the Group.

## Critical success factors

Geox owes its success to certain strengths which, taken together, distinguish it from the rest of the footwear sector, both in Italy and abroad, namely:

### Technology

Constant focus on the product with the application of innovative and technological solutions developed by Geox and protected by patents.

### Focus on the consumer

Cross-market positioning for products, with a vast range of shoes for men, women and children in the medium to medium/high price range (family brand).

### Brand recognition

Strong recognition of the Geox brand thanks to an effective communication strategy and its identification by the consumer with the "breathing" concept.

### Distribution

A network of monobrand Geox which has been developed according to each country's distribution structure and calibrated to the widespread network of multibrand clients. The goal of both networks is to optimize market share and, at the same time, to promote the Geox brand to end-consumers on a consistent basis.

### Supply chain

A flexible delocalized business model in outsourcing, capable of efficiently managing the production and logistics cycle while the Company maintains control over critical phases of the value chain, so as to ensure product quality and timely deliveries.

## Research and Development

The applied research carried out by Geox in 2016 was directed to the identification of innovative solutions for improving products and manufacturing processes, through the study of the active breathing element of shoe soles, the development of new products for footwear and apparel and certification of the materials used.

This experimentation has allowed Geox to develop footwear and apparel that combine comfort and well-being with a greater ability to breathe, to be waterproof and to be highly resistant.

During 2016, new solutions were developed for shoes characterized by high flexibility, breathability, lightweight and cushioning. For example, the traditional concept of breathability has been further developed with a number of new models inspired by athletic performance and boasting a dynamic and sophisticated design. The exclusive Net Breathing System® technology and the innovative Inner Breathing System guarantee exceptional breathability for the entire foot, in all directions.

What's more, Geox's philosophy to combine innovation and sustainability is perfectly embodied by the NEW:DO™ shoe, which represents a real revolution in terms of both style and manufacturing. Every single aspect of this shoe, from its design to the materials used to make it, has been studied to guarantee and optimise product sustainability. To name just a few of the features that make this product stand out: the breathable sole made from natural rubber which is 100% recyclable, metal-free leather, use of natural waxes and a simplified design in terms of the number and type of components used.

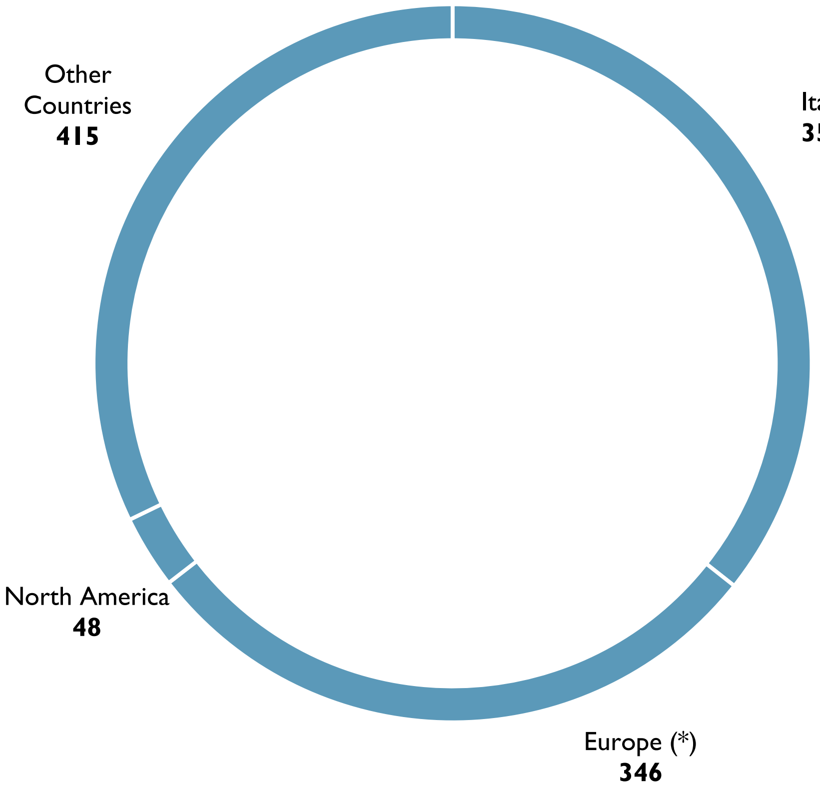
With regard to apparel, a dynamic breathability system has been studied and developed, starting from the original breathability system already used for Geox jackets, with the aim of offering exceptional performance in terms of insulation and breathability.

Geox innovation is protected by 35 patents and 10 recent patent applications.

## The distribution system

Geox distributes its products through over 10,000 multi-brand selling points and also through a Geox shops network (Franchising and DOS – directly operated stores).

As of December 31, 2016, the overall number of "Geox Shops" came to 1,161, of which 706 in franchising and 455 operated directly.




Geox Shops

(*) Europe includes: Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland.

## The production system

Geox's production system is organized so as to ensure the attainment of three strategic objectives:

- maintaining high quality standards;
- continuously improving flexibility and time to market;
- increasing productivity and reducing costs.

Production takes place in selected factories mainly in the Far East. All stages of the production process are strictly under the control and coordination of Geox organization.

Great care is taken by the Group in selecting third-party producers, taking into account their technical skills, quality standards and ability to handle the production volumes which are assigned by the agreed deadlines.

All of the output from these manufacturing locations is consolidated at the Group's distribution centers in Italy for Europe, New Jersey for the North America, Tokyo for Japan, Shanghai for China and Hong Kong for the rest of Asia.

It's to be noted that during 2016 the investment in the Serbian plat was completed.
The plant, co-financed by the Republic of Serbia, is located in Vranje, an area where there is a high level of know-how in the production of footwear, and has been started with a full production capacity at the end of 2016, with a 1,284 employees at December 31, 2016.

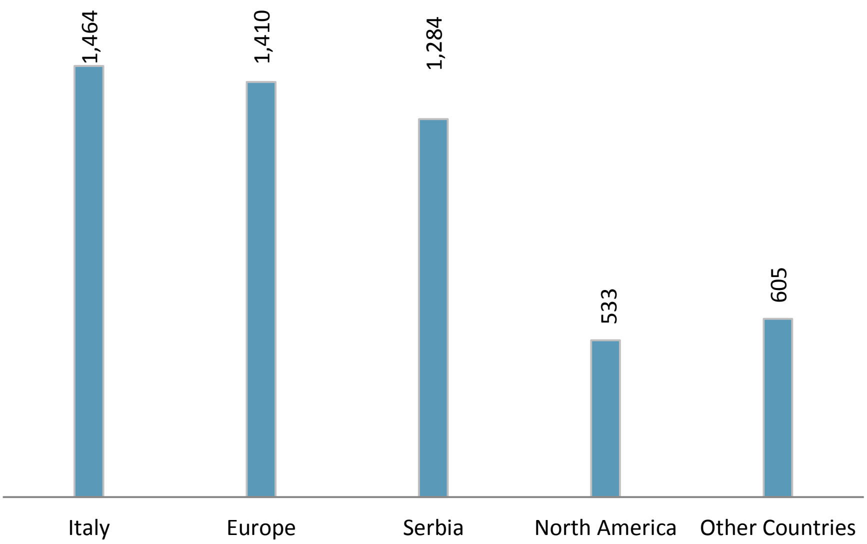
## Human Resources

At December 31, 2016 the Group had 5,296 employees, showing an increase of 1,173 compared with 4,123 employees at 31 December 2015.

As of December 31, 2016 the employees were splitted as follows:

| Level | 31-12-2016 | 31-12-2015 |
|---|---|---|
| Managers | 45 | 49 |
| Middle Managers | 165 | 167 |
| Office Staff | 822 | 815 |
| Shop Employees | 3,021 | 2,834 |
| Factory Workers | 1,243 | 258 |
| **Total** | **5,296** | **4,123** |

The graph shows the employees of the Group at 31 December 2016, broken down by geographic area:



# Shareholders

## Financial communication

Geox maintains a constant dialogue with individual shareholders, institutional investors and financial analysts through its Investor Relations function, which actively provides information to the market to consolidate and enhance confidence and level of understanding of the Group and its businesses.

The Investor Relations section, at www.geox.biz, provides historical financial data and highlights, investor presentations, quarterly publications, official communications and real time trading information on Geox shares.

## Geox on the Stock Exchange

Geox S.p.A. has been listed on the Italian Stock Exchange since December 1, 2004. The following table summarizes the main share prices and stock market values for the last 3 years:

| Share price and stock market information | 2016 | 2015 | 2014 |
|---|---|---|---|
| Earnings per share [Euro] | 0.01 | 0.04 | (0.01) |
| Equity per share [Euro] | 1.39 | 1.43 | 1.44 |
| Dividend per share [Euro] | 0.02 | 0.06 | - |
| Pay-out ratio [%] | 257.92 | 155.40 | - |
| Dividend yield (at 12.31) | 0.90 | 1,47 | - |
| Year-end price [Euro] | 2.21 | 4.08 | 2.70 |
| MTA high [Euro] | 4.08 | 4.36 | 3.49 |
| MTA low [Euro] | 1.80 | 2.57 | 2.22 |
| Price per share/EPS | 285.00 | 105.72 | (270.00) |
| Price per share/Equity per share | 1.59 | 2.85 | 1.87 |
| Stock market capitalization [thousands of Euro] | 572,848 | 1,058,084 | 699,860 |
| Number of shares making up the share capital | 259,207,331 | 259,207,331 | 259,207,331 |

## Control of the Company

LIR S.r.l. holds a controlling interest in the share capital of Geox S.p.A. with a shareholding of 71.10%. LIR S.r.l., with registered offices in Montebelluna (TV), Italy, is an investment holding company that belongs entirely to Mario Moretti Polegato and Enrico Moretti Polegato (who respectively own 85% and 15% of the share capital).

The shareholder structure of Geox S.p.A. based on the number of shares held is as follows:

| Shareholder structure (*) | Number of shareholders | Number of shares |
|---|---|---|
| from 1 to 5.000 shares | 11,615 | 12,546,814 |
| from 5.001 to 10.000 shares | 508 | 3,868,072 |
| 10.001 shares and over | 453 | 242,792,445 |
| **Total** | **12,576** | **259,207,331** |

(*) As reported by Computershare S.p.A. on December 30, 2016.

## Shares held by directors and statutory auditors

As mentioned previously, the directors Mr. Mario Moretti Polegato and Mr. Enrico Moretti Polegato directly hold the entire share capital of LIR S.r.l., the Parent Company of Geox S.p.A..

Directors, statutory auditors and executives with strategic responsibilities have submitted declarations that they hold 100,000 shares of the Company as of December 31, 2016.

# Company officers

### Board of Directors

| Name | Position and independent status (where applicable) |
|---|---|
| Mario Moretti Polegato (1) | Chairman and Executive Director |
| Enrico Moretti Polegato (1) | Vice Chairman and Executive Director |
| Gregorio Borgo (1) | CEO and Executive Director (*) |
| Claudia Baggio | Director |
| Lara Livolsi (3) | Independent Director |
| Alessandro Antonio Giusti (2) (3) | Director |
| Duncan L. Niederauer | Independent Director |
| Francesca Meneghel (2) | Independent Director |
| Manuela Soffientini (2) | Independent Director |
| Ernesto Albanese (3) | Independent Director |

(1) Member of the Executives Committee
(2) Member of the Audit and Risk Committee
(3) Member of the Nomination and Compensation Committee

(*) Powers and responsibilities for ordinary and extraordinary administration, within the limits indicated by law and the Articles of Association, in compliance with the powers of the Shareholders' Meeting, the Board of Directors and the Executive Committee, in accordance with the Board of Directors' resolution of January 12, 2017.

### Board of Statutory Auditors

| Name | Position |
|---|---|
| Sonia Ferrero | Chairman |
| Francesco Gianni | Statutory Auditor |
| Fabrizio Colombo | Statutory Auditor |
| Fabio Buttignon | Alternate Auditor |
| Giulia Massari | Alternate Auditor |

### Independent Auditors

Deloitte & Touche S.p.A.

# Report on corporate governance and ownership structure

## Corporate Governance

The Geox Group has implemented the Code of Conduct for Italian Listed Companies published in March 2006 and updated in July 2015, with suitable amendments and adjustments considering the characteristics of the Group.
In accordance with the regulatory requirements, every year we prepare a "Report on Corporate Governance and Ownership Structure", as per Art. 123-bis of the TUF, which contains a general description of the system of corporate governance adopted by the Group. It also contains information on the ownership structure and implementation of the Code of Conduct with an explanation of the main governance practices applied and the characteristics of the risk management and internal control systems involved in the process of financial reporting. Also explained here are the mechanisms that govern the functioning of the Shareholders' Meeting and the composition and functioning of the board of directors and board of statutory auditors and their sub-committees.
The Report on Corporate Governance and the Ownership Structure is available in the Governance section of the Company's website: www.geox.biz.
The following is a summary of the main aspects relating to this directors' report.

## Main characteristics of the risk management and internal control systems

The internal control system and the company risk management are processes designed by the Board of Directors, management and others in the corporate structure; they consist of a set of rules, procedures and organizational structures designed to identify, measure, manage and monitor the main risks; they ensure that the management of the business is in line with the corporate objectives, and they help protecting the business wealth, the efficiency and effectiveness of the business processes, the reliability, accuracy and promptness of the financial reporting, the compliance with laws and rules as well as with the article of associations and internal procedures.
In compliance with Law n. 262/2005, the Group has therefore put in place procedures aimed to increase the transparency of the company disclosure and to make more effective the internal control system and in particular the controls related to the financial reporting.

In line with this definition, the system for managing the existing risks in relation to Geox's process of financial reporting forms part of the Group's wider system of internal control and Group Risk management.
As part of its supervision and coordination of subsidiaries, Geox S.p.A. establishes the general principles according to which the internal control system is meant to function for the entire Group. Each subsidiary adopts these principles in line with local regulations and applies them to organizational structures and operating procedures that are suitable for their specific context. Geox has introduced tools for supervising and assessing the internal control system, allocating specific responsibilities to certain players who have been clearly identified.

The CEO and the Financial Reporting Manager, in accordance with the principles of operation of the Internal Control System and Risk Management for the financial reporting process, identify the main risks therein levied annually in a prudent and careful way (so-called *scoping activities*). The identifying risks process passes through the identification of the group companies and operating flows subject to material errors or fraud, with reference to the economic variables included in the financial statements of Geox S.p.A. and/or the consolidated financial statement. Companies and significant processes in relation to the financial reporting process are identified through quantitative and qualitative analysis. The identification of risks is operated through a classification based on the main sources of risk identified by the Executive Director in charge of supervising the Internal Control System and Risk Management. Control activities are policies and procedures that ensure the proper implementation of management responses to risk. The control activities are implemented throughout the organization, at every hierarchical and functional level. The assessment of control procedures is made by parsing the appropriate design of the control activities and their effective and efficient implementation of the course of time. In relation to the financial reporting process, control activities are evaluated in two semi-annual sessions followed, where appropriate, as many phases of follow-up if some critical issues are identified.

In summary, the main players of the Internal Control System and Risk Management as it relates to the process of financial reporting are as follows:

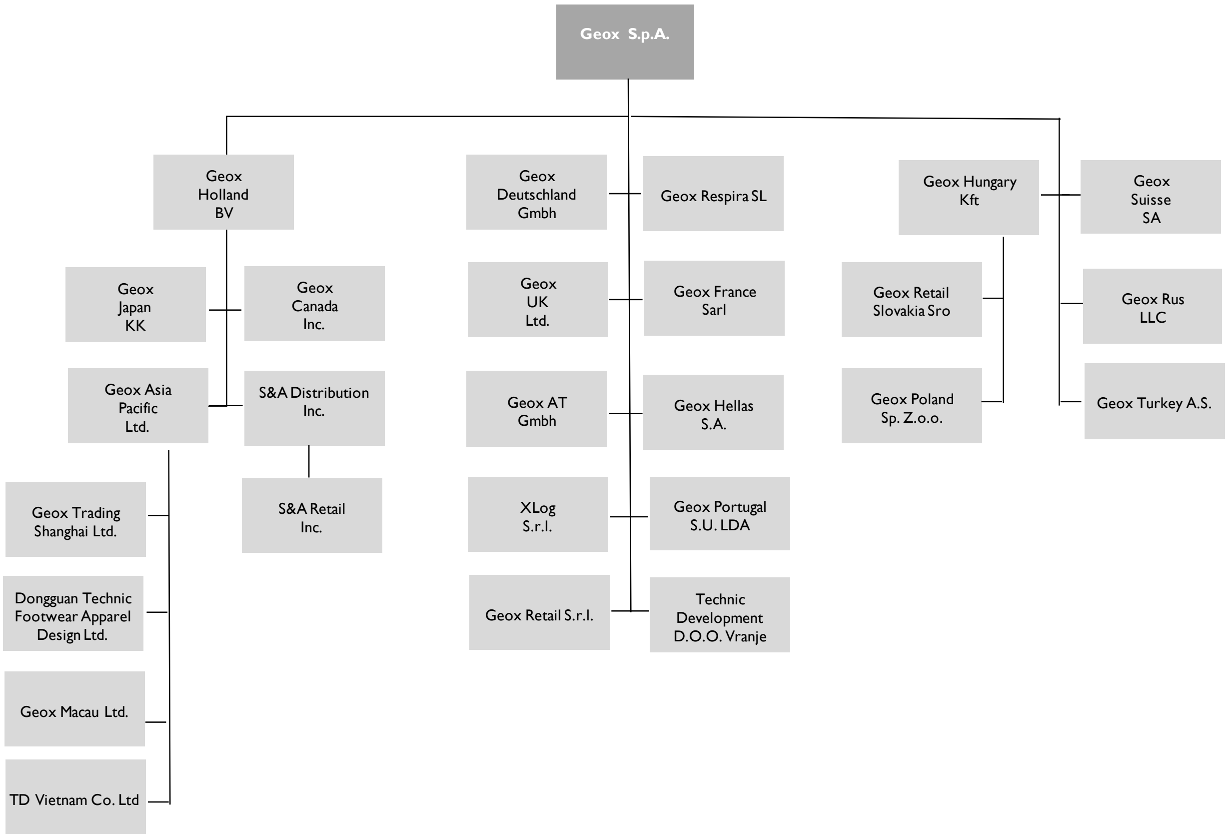
- The Financial Reporting Manager ex Art. 154-bis of the TUF, who has the responsibility for defining and evaluating specific procedures designed to monitor the risks involved in the process of preparing accounting documents;

- The Internal Auditing Department, which remains independent and objective in an advisory role concerning the methods of verifying the adequacy and effective application of the control procedures defined by the Financial Reporting Manager. Moreover, as part of a wider activity that involves evaluating the entire company's Internal Control System and Risk Management, the Internal Auditing Department also has to bring to the attention of the Audit and Risk Committee and of the Financial Reporting Manager any circumstances that might affect the financial reporting process. The task is properly carried out in compliance with the Internal Audit Plan;

- The Director in charge of supervising the Internal Control System and Risk Management, as the main promoter of initiatives designed to evaluate and manage corporate risks;
- The Audit and Risk Committee, which analyses the results of audits on the Internal Control System and Risk Management and reports periodically to the Board of Directors on any action that needs to be taken;
- The Supervisory Body as per D.Lgs 231/01, which intervenes as part of its duties to look out for the corporate crimes envisaged in D.Lgs 231/01, identifying risk scenarios and personally verifying compliance with the control procedures. The Supervisory Body also monitors compliance with and application of the Group's Code of Ethics.

The Group adopted some time ago its own model of organization, management and control as per D.Lgs 231/01, steadily updated to include the new crimes, most recently on November 12, 2015. In particular, financial reporting is protected by a series of controls that are carried out during the various corporate processes that lead to the formation of the figures shown in the financial statements. These control activities apply not only to the areas that are closely linked to the business (sales, purchases, inventory, etc.), but also to those areas that provide support in the processing of accounting entries (closing the accounts, IT systems management, etc.). These control procedures are defined by the Financial Reporting Manager. He also checks periodically that they are being applied properly. The outcome of the assessments made by the Financial Reporting Manager is reported in the certification that he provides in accordance with paras. 5 and 5-bis of art. 154-bis of the TUF.

## Group Structure




The structure of the Group controlled by Geox S.p.A., which acts as an operating holding company, is split into 3 macro-groups:

- **Non-EU trading companies.** Their role is to monitor and develop the business in the various markets. They operate on the basis of licensing or distribution agreements stipulated with the Parent Company.

- **EU companies.** At the beginning their role was to provide commercial customer services and coordinate the sales network in favor of the Parent Company which distributes the products directly on a wholesale basis. Then, they started to manage the Group's own shops in the various countries belonging to the European Union.

- **European trading companies.** They are responsible for developing and overseeing their area in order to provide a better customer service, increasing the presence of the Group through localized direct sales force and investments in showrooms closer to the market. The trading companies in Switzerland, Russia and Turkey also have the need of purchasing a product immediately marketable in the territory, having already complied with the customs.

## Principal risks and uncertainties to which Geox S.p.A. and the Group are exposed

### Business risks

In terms of business risks, the Group is exposed to:

- the impact of the macroeconomic, political and social environment, in terms of changes in the purchasing power of consumers, their level of confidence and their propensity to consume;
- changes in national and international regulations;
- climatic conditions;
- changes in customers' tastes and preferences in different geographical areas in which the Group operates;
- the image, perception and recognition of the Geox brand by its consumers;
- uncertainty about management's ability to define and implement successfully its business, marketing and distribution strategy;
- uncertainty about the ability to maintain the current distribution network, as well as the ability of the Geox Group to further expand its network of brand stores by acquiring new premises;
- uncertainty about the ability to attract, retain and motivate qualified resources;
- policies implemented by competitors and the possible entry of new players into the market.

### Financial risk

The Geox Group constantly monitors the financial risks to which it is exposed in order to evaluate in advance any possible negative impacts and to undertake appropriate corrective action to mitigate or correct such risks. The Group is exposed to a variety of financial risks: credit risk, interest rate risk, exchange rate risk and liquidity risk.

These risks are managed and coordinated at Parent Company level on the basis of hedging policies that also entail the use of derivatives to minimize the effects of exchange rate fluctuations (especially in the U.S. dollar).

*Credit risk*

The Geox Group tends to minimize the risk of insolvency on the part of its customers by adopting credit policies designed to concentrate sales on reliable and creditworthy customers. In particular, the credit management procedures implemented by the Group, which involve the use of contracts with major credit insurance companies, the evaluation of available information on customer solvency, the use of credit limits for each customer and strict control over compliance with the terms of payment, make it possible to reduce credit concentration and the related risk.
Credit exposure is also spread over a large number of counterparties and customers.

*Risks connected to fluctuations in interest rates*

Indebtedness to the banking system exposes the Group to the risk of interest rate fluctuations. Floating rate loans, in particular, run the risk of cash flow variations.
The Group regularly assesses its exposure to the risk of changes in interest rates but, given expectations of lower interest rates in the past few years and the short-term nature of the debt, the Group did not deem it necessary to implement general policies to hedge the risk of interest rate fluctuations, but rather entered into a 3-year Interest Rate Swap (IRS) transaction to hedge the last medium-long term loan for an amount equal to Euro 20 million and at a 0.62% rate.

*Risks connected to fluctuations in exchange rates*

The Geox Group also carries on its activity in countries outside the Euro-zone, which means that exchange rate fluctuations are an important factor to be taken into consideration. The Group initially calculates the amount of exchange risk that is involved in the budget for the coming period. It then gradually hedges this risk during the process of order acquisition to the extent that the orders match the forecasts. These hedges take the form of specific forward contracts and options for the purchase and the sale of the foreign currency. The Group is of the opinion that its policies for handling and limiting this type of risk are adequate. However, it cannot exclude the possibility that sudden fluctuations in exchange rates could have consequences on the results of the Geox Group.

*Liquidity risk*

This risk can arise when a company is unable to obtain the financial resources it needs to support its operational activities in a timely manner and at reasonable economic conditions. The cash flows, funding requirements and liquidity of the Geox Group are constantly monitored at central level under the control of the Group treasury in order to ensure effective and efficient management of financial resources.

## The Group's economic performance

### Economic results summary

The main results are outlined below:

- Net sales of Euro 900.8 million, with a increase of 3.0% compared to Euro 874.3 million in 2015;
- EBITDA of Euro 47.6 million, compared to Euro 61.8 million in 2015, with a 5.3% margin;
- EBIT of Euro 12.8 million, compared to Euro 24.9 million of 2015, with a 1.4% margin;
- Net income of Euro 2.0 million, compared to Euro 10.0 million in 2015.

In the following table a comparison is made between the consolidated income statement for 2016 and 2015:

| **(Thousands of Euro)** | **2016** | **%** | **2015** | **%** |
|---|---|---|---|---|
| **Net sales** | **900,763** | **100.0%** | **874,304** | **100.0%** |
| Cost of sales | (471,314) | (52.3%) | (423,492) | (48.4%) |
| **Gross profit** | **429,449** | **47.7%** | **450,812** | **51.6%** |
| Selling and distribution costs | (49,557) | (5.5%) | (49,378) | (5.6%) |
| General and administrative expenses | (324,987) | (36.1%) | (334,252) | (38.2%) |
| Advertising and promotion | (36,798) | (4.1%) | (42,292) | (4.8%) |
| **Operating result** | **18,107** | **2.0%** | **24,890** | **2.8%** |
| Restructuring charges | (5,273) | (0.6%) | - | 0.0% |
| **EBIT** | **12,834** | **1.4%** | **24,890** | **2.8%** |
| Net financial expenses | (5,556) | (0.6%) | (5,806) | (0.7%) |
| **PBT** | **7,278** | **0.8%** | **19,084** | **2.2%** |
| Income tax | (5,268) | (0.6%) | (9,076) | (1.0%) |
| *Tax rate* | *72.4%* | | *47.6%* | |
| **Net result** | **2,010** | **0.2%** | **10,008** | **1.1%** |
| **EPS (Earnings per shares)** | **0.01** | | **0.04** | |
| **EBITDA** | **47,558** | **5.3%** | **61,829** | **7.1%** |
| Restructuring charges | (5,273) | | - | |
| **EBITDA adjusted** | **52,831** | **5.9%** | **61,829** | **7.1%** |

EBITDA: is the EBIT plus depreciation, amortization and can be directly calculated from the financial statements as integrated by the notes.

**Disclaimer**
This Report, and in particular the section entitled "Outlook for operation and significant subsequent events", contains forward-looking statements. These statements are based on the Group's current expectations and projections about future events and, by their nature, are subject to inherent risks and uncertainties. They relate to events and depend on circumstances that may or may not occur or exist in the future, and, as such, undue reliance should not be placed on them. Actual results may differ materially from those expressed in such statements as a result of a variety of factors, including: volatility and deterioration of capital and financial markets, changes in commodity prices, changes in general economic conditions, economic growth and other changes in business conditions, changes in government regulation (in each case, in Italy or abroad), and many other factors, most of which are outside of the Group's control.

## Sales

2016 consolidated net sales increased by 3.0% to Euro 900.8 million (+3.3% at constant forex). Footwear sales represented 91% of consolidated sales, amounting to Euro 815.5 million, with a 3.9% increase compared to 2015 (+4.2% at constant forex). Apparel sales accounted for 9% of consolidated sales amounting to Euro 85.2 million, compared to Euro 89.3 million of 2015 (-4.6%, -4.5% at constant forex).

| **(Thousands of Euro)** | **2016** | **%** | **2015** | **%** | **Var. %** |
|---|---|---|---|---|---|
| Footwear | 815,538 | 90.5% | 784,983 | 89.8% | 3.9% |
| Apparel | 85,225 | 9.5% | 89,321 | 10.2% | (4.6%) |
| **Net sales** | **900,763** | **100.0%** | **874,304** | **100.0%** | **3.0%** |

Revenues generated in Italy, representing 30% of the Group's total revenues (32% in 2015), amounted to Euro 270.1 million, compared to Euro 281.1 million of the previous year. This performance is a result of the planned rationalization of a number of mono-brand stores, which was partially offset by the positive performance of the wholesale channel, up +5.4%.

Sales in Europe, which accounted for 44% of sales increased by 5.6% to Euro 396.6 million, compared with Euro 375.6 million of 2015.

North American sales amounted to Euro 60.7 million, showing a decrease of 3.4% (-1.1% at constant forex). Sales in Other Countries increased by 12.0% compared to 2015 (+12.8% at constant forex).

| **(Thousands of Euro)** | **2016** | **%** | **2015** | **%** | **Var. %** |
|---|---|---|---|---|---|
| Italy | 270,118 | 30.0% | 281,095 | 32.2% | (3.9%) |
| Europe (*) | 396,565 | 44.0% | 375,647 | 43.0% | 5.6% |
| North America | 60,678 | 6.7% | 62,795 | 7.2% | (3.4%) |
| Other countries | 173,402 | 19.3% | 154,767 | 17.7% | 12.0% |
| **Net sales** | **900,763** | **100.0%** | **874,304** | **100.0%** | **3.0%** |

(*) Europe includes: Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland.

Revenues generated by directly-operated stores, DOS, representing 41% of Group revenues, recorded a 2.0% reduction at Euro 370.8 million (-1.6% at constant forex). This performance is due to the planned rationalization of stores and to the decline (-1.0%) in like-for-like sales of stores that have been open for at least 12 months (*comparable store sales*) (+4.2% in 2015).

Sales of the franchising channel, which account for 15% of Group revenues, amount to Euro 134.6 million, reporting a decline of 5.2% (-5.1% at constant forex). Also the performance of franchising channel is due to the store network rationalization plan and the decline in comparable sales, slightly greater than the one recorded by directly operated stores (compared to a like-for-like growth of +3.9% in 2015).

Wholesale stores representing 44% of Group revenues (41% in 2015) amount to Euro 395.3 million, with an increase of 11.7% (+12.0% at constant forex) compared with last year. This trend is due to a positive performance recorded in the Group's main markets.

| (Thousands of Euro) | 2016 | % | 2015 | % | Var. % |
|---|---|---|---|---|---|
| **Multibrand** | **395,318** | **43.9%** | **353,796** | **40.5%** | **11.7%** |
| Franchising | 134,621 | 14.9% | 142,021 | 16.2% | (5.2%) |
| DOS* | 370,824 | 41.2% | 378,487 | 43.3% | (2.0%) |
| **Geox Shops** | **505,445** | **56.1%** | **520,508** | **59.5%** | **(2.9%)** |
| **Net sales** | **900,763** | **100.0%** | **874,304** | **100.0%** | **3.0%** |

* Directly Operated Store

As of December 31, 2016 the overall number of Geox Shops was 1,161 of which 455 DOS. During 2016, 104 new Geox Shops were opened and 104 have been closed, in line with the rationalization plan of the mono-brand network.

| | 12-31-2016 | | 12-31-2015 | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Geox Shops | of which DOS | Geox Shops | of which DOS | Net Openings | Openings | Closings |
| Italy | 352 | 129 | 360 | 131 | (8) | 13 | (21) |
| Europe (*) | 346 | 173 | 348 | 179 | (2) | 13 | (15) |
| North America | 48 | 48 | 47 | 47 | 1 | 5 | (4) |
| Other countries (**) | 415 | 105 | 406 | 119 | 9 | 73 | (64) |
| **Total** | **1,161** | **455** | **1,161** | **476** | **-** | **104** | **(104)** |

(*) Europe includes: Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland.

(**) Includes Under License Agreement Shops (156 as of December 31 2016, 142 as of December 31 2015). Sales from these shops are not included in the franchising channel.

### Cost of sales and Gross Profit

Cost of sales, as a percentage of sales, was 52.3% compared to 48.4% of 2015, producing a gross margin of 47.7% (51.6% in 2015).

Gross margin dilution is due to the previously announced increase in product costs, mainly caused by the euro's depreciation against the dollar, to a reduction in revenues generated by directly-operated stores and to the increased promotions introduced in order to stimulate consumer purchases amid difficult market conditions.

## Operating expenses and Operating income (EBIT)

Over the course of the fourth quarter, in view of the underperformance of the retail channel compared to original growth expectations, the management adopted incisive measures to improve efficiency, cut costs and reduce business risk.

Selling and distribution expenses as a percentage of sales were 5.5%, showing a slightly decrease compared to last year (5.6% in 2015).

General and administrative expenses were equal to Euro 325.0 million, recording a decrease of Euro 9.3 million compared to the previous year thanks to the actions taken to improve efficiency, reduce structural costs and renegotiate store rents.

Advertising and promotions expenses amounted to Euro 36.8 million, equal to 4.1% of revenues, compared to Euro 42.3 million in 2015. This is mainly the result of an overall optimization of expenses relating to advertising and display material of stores and price trends for adverts across various media.

In 2016, special items were recorded for Euro 5.3 million due to:

1. legal costs, for Euro 1.7 million, mainly relating to the ongoing arbitration with the previous distributor for the Chinese market;
2. the overall organizational review of staff resources for Euro 2.8 million;
3. early closing and rationalization of some directly operated and franchised stores with the aim of increasing the overall profitability of the network, for Euro 0.8 million.

The operating result adjusted, excluding special items mentioned above, was equal to Euro 18.1 million (2.0% on sales) compared to 24.9 million of 2015 (2.8% on sales). The reduction in the operating result adjusted is due to the decrease in Gross margin while other costs recorded a good performance.

The operating result (EBIT) was equal to Euro 12.8 million (1.4% on sales) compared with Euro 24.9 million of 2015 (2.8% on sales).

The table below analyses the EBIT obtained across business segments in which the Group operates:

| | | 2016 | % | 2015 | % |
|---|---|---|---|---|---|
| Footwear | Net sales | 815,538 | | 784,983 | |
| | EBIT | 18,404 | 2.3% | 28,345 | 3.6% |
| Apparel | Net sales | 85,225 | | 89,321 | |
| | EBIT | (5,570) | (6.5%) | (3,454) | (3.9%) |
| **Total** | **Net sales** | **900,763** | | **874,304** | |
| | **EBIT** | **12,834** | **1.4%** | **24,891** | **2.8%** |

## EBITDA

EBITDA was Euro 47.6 million, 5.3% of sales, compared to Euro 61.8 million of 2015 (7.1% on sales).

The EBITDA adjusted, excluding special items mentioned above, was equal to Euro 52.8 million, 5.9% on sales compared to 61.8 million of 2015 (7.1% on sales).

## Income taxes and tax rate

Income taxes were equal to Euro 5.3 million, compared to Euro 9.1 million of 2015.

It is to be noted that Italian Law no. 208 dated 28/12/2015 (the so-called '2016 Stability Law') introduced a reduction in the IRES (Italian Corporate Income Tax) rate from 27.5% to 24%, valid from the 2017 tax year onwards. As a result, adjustments were made to deferred tax assets and liabilities relating to 2017 and following tax years. The effect of this tax rate alteration has led the company's tax charge for the year to increase by Euro 1,972 thousand.
Without this effect, the tax rate for the year would have been 45.3%.

## The Group's financial performance

The following table summarizes the reclassified consolidated balance sheet:

| (Thousands of Euro) | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Intangible assets | 54,715 | 57,751 |
| Property, plant and equipment | 66,140 | 68,373 |
| Other non-current assets - net | 41,575 | 51,695 |
| **Total non-current assets** | **162,430** | **177,819** |
| **Net operating working capital** | **251,856** | **193,763** |
| **Other current assets (liabilities), net** | **(10,933)** | **(13,649)** |
| **Net invested capital** | **403,353** | **357,933** |
| Equity | 359,717 | 370,863 |
| Provisions for severance indemnities, liabilities and charges | 7,704 | 7,859 |
| Net financial position | 35,932 | (20,789) |
| **Net invested capital** | **403,353** | **357,933** |

The Group balance sheet shows a negative financial position of Euro 35.9 million (+20.8 million as of December 31, 2015), after fair value adjustment of derivatives, which positively affected 2016 for Euro 15.7 million (Euro 16.6 million as of December 31, 2015).

The following table shows the mix and changes in net operating working capital and other current assets (liabilities):

| (Thousands of Euro) | Dec. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Inventories | 336,767 | 304,810 |
| Accounts receivable | 111,417 | 112,978 |
| Accounts payable | (196,328) | (224,025) |
| **Net operating working capital** | **251,856** | **193,763** |
| ***% of sales for the last 12 months*** | ***28.0%*** | ***22.2%*** |
| Taxes payable | (9,379) | (7,473) |
| Other non-financial current assets | 35,416 | 35,958 |
| Other non-financial current liabilities | (36,970) | (42,134) |
| **Other current assets (liabilities), net** | **(10,933)** | **(13,649)** |

Net operating working capital as a percentage of revenue is equal to 28.0% compared to 22.2% of 2015.

This change is mainly due to the following factors:

- an increase in warehouse stock for products from the 2016 Spring/Summer and Fall/Winter seasons. This is mainly due to the decline in comparable sales recorded by directly operated stores during 2016 (-1.0%), compared to the expected growth of +5%;
- a decrease in trade payables, in line with the timing of purchases of finished products.

The following table gives a reclassified consolidated cash flow statement:

| (Thousands of Euro) | 2016 | 2015 |
|---|---|---|
| **Net result** | **2,010** | **10,008** |
| Depreciation, amortization and impairment | 34,724 | 36,939 |
| Other non-cash items | 13,962 | (9,037) |
| | **50,696** | **37,910** |
| Change in net working capital | (63,063) | 43,272 |
| Change in other current assets/liabilities | 2,229 | 3,578 |
| **Cash flow from operations** | **(10,138)** | **84,760** |
| Capital expenditure | (30,624) | (39,244) |
| Disposals | 1,009 | 1,118 |
| **Net capital expenditure** | **(29,615)** | **(38,126)** |
| **Free cash flow** | **(39,753)** | **46,634** |
| Dividends | (15,552) | - |
| **Change in net financial position** | **(55,305)** | **46,634** |
| **Initial net financial position - prior to fair value adjustment of derivatives** | **4,217** | **(41,012)** |
| Change in net financial position | (55,305) | 46,634 |
| Translation differences | (532) | (1,405) |
| **Final net financial position - prior to fair value adjustment of derivatives** | **(51,620)** | **4,217** |
| Fair value adjustment of derivatives | 15,688 | 16,572 |
| **Final net financial position** | **(35,932)** | **20,789** |

During 2016 capex of Euro 30.6 million were made, compared with 39.2 million of 2015. This change is mainly due to the investment in the Serbian plant for an amount of Euro 11.7 million in 2015 and 2.3 million in 2016.

Consolidated capital expenditure is analyzed in the following table:

| (Thousands of Euro) | 2016 | 2015 |
|---|---|---|
| Trademarks and patents | 1,094 | 1,001 |
| Opening and restructuring of Geox Shop | 12,995 | 13,852 |
| Pruduction plant | 2,332 | 11,744 |
| Industrial plant and equipment | 2,971 | 2,547 |
| Logistic | 2,258 | 871 |
| Information technology | 7,813 | 7,454 |
| Offices furniture, warehouse and fittings | 1,161 | 1,775 |
| **Total** | **30,624** | **39,244** |

The following table gives a breakdown of the net financial position:

| **(Thousands of Euro)** | **Dec. 31, 2016** | **Dec. 31, 2015** |
|---|---|---|
| Cash and cash equivalents | 38,663 | 44,483 |
| Current financial assets - excluding derivatives | 1,341 | 266 |
| Bank borrowings and current portion of long-term loans | (66,578) | (30,432) |
| Current financial liabilities - excluding derivatives | (174) | (61) |
| **Net financial position - current portion** | **(26,748)** | **14,256** |
| Non-current financial assets | 23 | 23 |
| Long-term loans | (24,895) | (10,062) |
| **Net financial position - non-current portion** | **(24,872)** | **(10,039)** |
| **Net financial position - prior to fair value adjustment of derivatives** | **(51,620)** | **4,217** |
| Fair value adjustment of derivatives | 15,688 | 16,572 |
| **Net financial position** | **(35,932)** | **20,789** |

## Treasury shares and equity interests in parent companies

Note that pursuant to art. 40.2 d) of D.Lgs 127, the Group does not hold any of its own shares nor shares in parent companies, whether directly or indirectly, nor did it buy or sell such shares during the period.

## Stock Option

On December 18, 2008, the Extraordinary Shareholders' Meeting authorized a divisible cash increase in capital, waiving option, for a maximum par value of Euro 1,200,000, by issuing up to n. 12,000,000 ordinary shares to service one or more share incentive plans reserved for the directors, employees and/or collaborators of the Company and/or its subsidiaries, in order to encourage beneficiaries to pursue the Company's medium-term plans, increase their loyalty to the Company and promote better relations within the Company.

At the date of this report there are two cycles of stock option plans. The cycles are made up of a vesting period, from the date the options are granted, and a maximum period to exercise them (exercise period). Any options not vesting or, in any case, not exercised by the expiration date are automatically cancelled to all effects, releasing both the Company and the beneficiary from all obligations and liabilities.

The ability to exercise the options, which is determined tranche by tranche, depends on the Company achieving certain cumulative targets during the vesting periods, with reference to economic indicators, as shown in the Geox Group's consolidated business plan.

The main characteristics of the two cycles are as follows:

- The first plan, which was approved by the Board on December 22, 2014, establishes a maximum number of options (3,150,000) and envisages a grant cycle to be made within the month of December 2014. A number of 2,261,550 options were granted with a strike price calculated as the average of the official price of Geox in the thirty days prior the approval of the Business Plan 2014-2016, amounted to Euro 2.039. The vesting period is 3 years and ends with the approval of the consolidated financial statements for the year ended December 31, 2016, while the exercise period ends on December 31, 2020. The exercise of the Options is subject to the achievement of Net Profit as resulting from the Geox Group’s Business Plan.

- The second plan, which was approved by the Board on April 19, 2016, establishes a maximum number of options (4,000,000) and envisages a grant cycle to be made within the month of December 2017. A number of 3,383,375 options were granted with a strike price calculated as the average of the official price of Geox in the thirty days prior the date of the grant, amounted to Euro 2.86. The vesting period is 3 years and ends with the approval of the consolidated financial statements for the year ended December 31, 2018, while the exercise period ends on December 31, 2020. The exercise of the Options is subject to the achievement of Net Profit as resulting from the Geox Group’s Business Plan and it must be reduced of the number of options vested in relation to 2014-2016 Stock-Option Plan, if any.

It is noted that the 2005 Stock Option Plan had an exercise period ending on December 31, 2015. Therefore the rights accrued, but not exercised at the date, became extinct.

With regards the 2011-2012 Stock Option Plan, it’s to be noted that these Stock Options could not be exercised because the performance results were not achieved.

The stock options granted to the directors of the Group and the executives with strategic responsibilities are summarized below:

| | | Option held at the beginning of the year | | | Option granted during the period | | |
|---|---|---|---|---|---|---|---|
| (A) Name | (B) Position | (1) Number of option | (2) Average Strike Price | (3) Average Expiry Date | (4) Number of option | (5) Average Strike Price | (6) Average Expiry Date |
| Giorgio Presca | CEO | 250,000 | 2.29 | 2020 | - | - | - |
| Giorgio Presca | CEO | 500,000 | 2.08 | 2020 | - | - | - |
| Giorgio Presca | CEO | 554,564 | 2.039 | 2020 | - | - | - |
| Giorgio Presca | CEO | - | - | - | 1,007,368 | 2.86 | 2020 |
| Executives with strategic responsibilities | | 90,000 | 2.29 | 2020 | - | - | - |
| Executives with strategic responsibilities | | 841,407 | 2.039 | 2020 | - | - | - |
| Executives with strategic responsibilities | | - | - | - | 1,872,316 | 2.86 | 2020 |

| | Options exercised during the period | | | Options expired in 2016 (*) | Options held at the end of the period | | |
|---|---|---|---|---|---|---|---|
| (A) Name | (7) Number of option | (8) Average Strike Price | (9) Average Expiry Date | (10) Number of option | (11)=1+4-7-10 Number of option | (12) Average Strike Price | (13) Average Expiry Date |
| Giorgio Presca | - | - | - | 250,000 | - | 2.29 | 2020 |
| Giorgio Presca | - | - | - | 500,000 | - | 2.08 | 2020 |
| Giorgio Presca | - | - | - | - | 554,564 | 2.039 | 2020 |
| Giorgio Presca | - | - | - | - | 1,007,368 | 2.86 | 2020 |
| Exec. Strat. Resp. | - | - | - | 90,000 | - | 2.29 | 2020 |
| Exec. Strat. Resp. | - | - | - | - | 841,407 | 2.039 | 2020 |
| Exec. Strat. Resp. | - | - | - | - | 1,872,316 | 2.86 | 2020 |

(*) Options expired for termination of employment, for the expiration of the exercise-period or non-achievement of performance targets laid down in the plan (in terms of EBIT).

## Transactions between Related Parties

During the period, there were no transactions with related parties which can be qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties is provided in Note 31 of the Consolidated Financial Statements.

## Outlook for operation and significant subsequent events

The Geox S.p.A. Board of Directors dated January 12, 2017 announced that the Company and Giorgio Presca had reached an agreement to terminate Mr Presca's relationship as an employee and Director effective from that day.
In the same date Geox S.p.A. held a Board of Directors meeting, chaired by Mario Moretti Polegato, which co-opted Gregorio Borgo to the Board and subsequently appointed him as the Company's new Chief Executive Officer, with effect from January 12, 2017.

The Board of Directors has approved 2017 budget, which is based on the following pillars:

1. to carry over plans, already successfully implemented in part during the last quarter of 2016, to increase both gross margin and operating leverage through greater efficiency, more simplification, higher productivity and a strict cost control;
2. to keep growing in the wholesale channel, which is up 9% for the 2017 spring-summer season with a gross margin in line with expectations. The gross margin relating to the ongoing 2017 autumn-winter sales campaign has also further improved, thanks to specific measures targeting design to cost, channel and price mix;
3. the reorganisation of the retail division, focused on increased like-for-like sales, improved sell th and supply chain flexibility. All of these actions should lead to improved profitability in the retail channel;
4. to optimize the retail network in mature markets and to accelerate retail network expansion in fast-growing markets such as Eastern Europe, Russia and China. With regard to China, sales generated by our directly operated stores confirm the positive trend that had already begun in the last quarter of 2016;
5. the solid growth expected in the e-commerce channel;
6. strengthening the management team, which has already been partly implemented in the style department (women's shoes) and marketing department (with the appointment of the new marketing director). Additional new managers will also be on board soon to further enhance and complete the team.

The aim of these combined measures is to pursue sustainable and profitable growth, with profitability results in line with the business plan presented last year, especially in absolute terms, as reflected in market expectations. However, these profitability results will be delivered with a different channel and geographic mix than originally expected, and therefore with a more prudent evolution of total sales as a result of retail optimization.

Lastly, the management believes that special items in the region of Euro 10 million may be recorded in 2017 as a result of the termination of employment of the previous Chief Executive Officer, for Euro 4.3 million, the expected optimization of the network of directly operated and franchised stores, and the restructuring costs.

Considering all of the above, market expectations in terms of net results are thought to be challenging but achievable.

Biadene di Montebelluna, March 2, 2017

for the Board of Directors
The Chairman
Mr. Mario Moretti Polegato

# CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES


GEOX

## Consolidated income statement

| (Thousands of Euro) | Notes | 2016 | of which related party | 2015 | of which related party |
|---|---|---|---|---|---|
| **Net sales** | 3-31 | **900,763** | **2,293** | **874,304** | **2,553** |
| Cost of sales | 31 | (471,314) | 48 | (423,492) | 47 |
| **Gross profit** | | **429,449** | | **450,812** | |
| Selling and distribution costs | | (49,557) | - | (49,378) | |
| General and administrative expenses | 4-31 | (324,987) | 4,861 | (334,252) | 3,744 |
| Advertising and promotion | 31 | (36,798) | (270) | (42,292) | (278) |
| Restructuring charges | 7 | (5,273) | - | - | - |
| **EBIT** | 3 | **12,834** | | **24,890** | |
| Net financial expenses | 8 | (5,556) | - | (5,806) | - |
| **PBT** | | **7,278** | | **19,084** | |
| Income tax | 9 | (5,268) | - | (9,076) | - |
| **Net result** | | **2,010** | | **10,008** | |
| Earnings per share [Euro] | 10 | 0.01 | | 0.04 | |
| Diluted earnings per share [Euro] | 10 | 0.01 | | 0.04 | |

## Consolidated statement of comprehensive income

| (Thousands of Euro) | 2016 | of which related party | 2015 | of which related party |
|---|---|---|---|---|
| **Net income** | **2,010** | | **10,008** | |
| **Other comprehensive income that will not be reclassified subsequently to profit or loss:** | | | | |
| - Net gain (loss) on actuarial defined-benefit plans | (31) | - | 103 | - |
| **Other comprehensive income that may be reclassified subsequently to profit or loss:** | | | | |
| - Net gain (loss) on Cash Flow Hedge, net of tax | 3,760 | - | (10,707) | - |
| - Currency translation | (1,333) | - | (2,156) | - |
| **Net comprehensive income** | **4,406** | | **(2,752)** | |

## Consolidated statement of financial position

| (Thousands of Euro) | Notes | Dec. 31, 2016 | of which related party | Dec. 31, 2015 | of which related party |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Intangible assets | 11 | 54,715 | | 57,751 | |
| Property, plant and equipment | 12 | 66,140 | | 68,373 | |
| Deferred tax assets | 13 | 36,316 | | 37,486 | |
| Non-current financial assets | 18-30 | 23 | | 23 | |
| Other non-current assets | 14 | 14,368 | | 16,469 | |
| **Total non-current assets** | | **171,562** | | **180,102** | |
| Inventories | 15 | 336,767 | | 304,810 | |
| Accounts receivable | 16-31 | 111,417 | 1,514 | 112,978 | 4,538 |
| Other non-financial current assets | 17-31 | 35,416 | 1,902 | 35,958 | 1,902 |
| Current financial assets | 18-30 | 20,997 | | 17,375 | |
| Cash and cash equivalents | 19 | 38,663 | | 44,483 | |
| **Current assets** | | **543,260** | | **515,604** | |
| **Total assets** | | **714,822** | | **695,706** | |
| **LIABILITIES AND EQUITY:** | | | | | |
| Share capital | 20 | 25,921 | | 25,921 | |
| Reserves | 20 | 331,786 | | 334,934 | |
| Net income | 20 | 2,010 | | 10,008 | |
| **Equity** | | **359,717** | | **370,863** | |
| Employee severance indemnities | 21 | 2,658 | | 2,597 | |
| Provisions for liabilities and charges | 22 | 5,046 | | 5,262 | |
| Long-term loans | 23 | 24,895 | | 10,062 | |
| Other long-term payables | 24 | 9,109 | | 2,260 | |
| **Total non-current liabilities** | | **41,708** | | **20,181** | |
| Accounts payable | 25-31 | 196,328 | 1,190 | 224,025 | 1,825 |
| Other non-financial current liabilities | 26 | 36,970 | | 42,134 | |
| Taxes payable | 27-31 | 9,379 | - | 7,473 | 258 |
| Current financial liabilities | 18-30 | 4,142 | | 598 | |
| Bank borrowings and current portion of long-term loans | 28 | 66,578 | | 30,432 | |
| **Current liabilities** | | **313,397** | | **304,662** | |
| **Total liabilities and equity** | | **714,822** | | **695,706** | |

## Consolidated statement of cash flow

| (Thousands of Euro) | Notes | 2016 | 2015 |
|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES:** | | | |
| **Net result** | 20 | **2,010** | **10,008** |
| **Adjustments to reconcile net income to net cash provided (used) by operating activities:** | | | |
| Depreciation and amortization and impairment | 5 | 34,724 | 36,939 |
| Increase in (use of) deferred taxes and other provisions | | 8,151 | (5,509) |
| Provision for employee severance indemnities, net | | 18 | (74) |
| Other non-cash items | | 5,793 | (3,454) |
| | | **48,686** | **27,902** |
| **Change in assets/liabilities:** | | | |
| Accounts receivable | | (12,118) | 8 |
| Other assets | | (1,253) | 4,316 |
| Inventories | | (22,713) | (11,298) |
| Accounts payable | | (28,232) | 54,562 |
| Other liabilities | | 1,454 | (1,790) |
| Taxes payable | | 2,028 | 1,052 |
| | | **(60,834)** | **46,850** |
| **Operating cash flow** | | **(10,138)** | **84,760** |
| **CASH FLOW USED IN INVESTING ACTIVITIES:** | | | |
| Capital expenditure on intangible assets | 11 | (9,537) | (9,143) |
| Capital expenditure on property, plant and equipment | 12 | (21,087) | (30,101) |
| | | **(30,624)** | **(39,244)** |
| Disposals | | 1,009 | 1,118 |
| (Increase) decrease in financial assets | | (1,079) | 1,506 |
| **Cash flow used in investing activities** | | **(30,694)** | **(36,620)** |
| **CASH FLOW FROM (USED IN) FINANCING ACTIVITIES:** | | | |
| Increase (decrease) in short-term bank borrowings, net | | (1,501) | 561 |
| Loans: | | | |
| - Proceeds | | 72,537 | 35,000 |
| - Repayments | | (20,854) | (93,863) |
| Dividends | 32 | (15,552) | - |
| **Cash flow used in financing activities** | | **34,630** | **(58,302)** |
| **Increase (decrease) in cash and cash equivalents** | | **(6,202)** | **(10,162)** |
| **Cash and cash equivalents, beginning of the period** | 19 | **44,483** | **53,355** |
| Effect of translation differences on cash and cash equivalents | | 382 | 1,290 |
| **Cash and cash equivalents, end of the period** | 19 | **38,663** | **44,483** |
| **Supplementary information to the cash flow statement:** | | | |
| - Interest paid during the period | | 3,772 | 3,641 |
| - Interest received during the period | | 1,281 | 687 |
| - Taxes paid during the period | | 4,016 | 2,384 |

## Consolidated statement of changes in equity

| (Thousands of Euro) | Share capital | Legal reserve | Share premium reserve | Translation reserve | Cash flow hedge reserve | Stock option reserve | Retained earnings | Net income | Group equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2014** | **25,921** | **5,184** | **37,678** | **(577)** | **18,408** | **489** | **289,518** | **(2,941)** | **373,680** |
| Allocation of 2014 result | - | - | - | - | - | - | (2,941) | 2,941 | - |
| Recognition of cost stock option plans | - | - | - | - | - | (489) | 424 | - | (65) |
| Net comprehensive result | - | - | - | (2,156) | (10,707) | - | 103 | 10,008 | (2,752) |
| **Balance at December 31, 2015** | **25,921** | **5,184** | **37,678** | **(2,733)** | **7,701** | **-** | **287,104** | **10,008** | **370,863** |
| Allocation of 2015 result | - | - | - | - | - | - | 10,008 | (10,008) | - |
| Distribution of dividends | - | - | - | - | - | - | (15,552) | - | (15,552) |
| Net comprehensive result | - | - | - | (1,333) | 3,760 | - | (31) | 2,010 | 4,406 |
| **Balance at December 31, 2016** | **25,921** | **5,184** | **37,678** | **(4,066)** | **11,461** | **-** | **281,529** | **2,010** | **359,717** |

## Explanatory notes

### 1. Information about the Company: the Group's business activity

The Geox Group coordinates the third-party suppliers production and sells Geox-brand footwear and apparel to retailers and end-consumers. It also grants distribution rights and/or use of the brand name to third parties in markets where the Group has chosen not to have a direct presence. Licensees handle production and marketing in accordance with licensing agreements and pay Geox royalties.

Geox S.p.A. is a joint-stock company incorporated in Italy and controlled by Lir S.r.l..

### 2. Accounting policies

#### Form and contents of the consolidated financial statements

These explanatory notes have been prepared by the Board of Directors on the basis of the accounting records updated to December 31, 2016. They are accompanied by the directors' report on operations, which provides information on the results of the Geox Group. The consolidated financial statements have been drawn up in compliance with the International Financial Reporting Standards adopted by the European Union (IFRS, which include IAS). The accounting principles and policies used in the preparation of the consolidated financial statements are the same as last year.

To facilitate comparison with the previous year, the accounting schedules provide comparative figures: at December 31, 2015 and for the year 2015 in the case of the income statement.

The reporting currency is the Euro and all figures have been rounded up or down to the nearest thousand Euro.

#### Scope of consolidation

The consolidated financial statements at December 31, 2016 include the figures, on a line-by-line basis, of all the Italian and foreign companies in which the Parent Company holds a majority of the shares or quotas, directly or indirectly.
The companies taken into consideration for consolidation purposes are listed in the attached schedule entitled "List of companies consolidated at December 31, 2016".

#### Format of financial statements

The Group presents an income statement using a classification based on the "cost of sales" method, as this is believed to provide information that is more relevant. The format selected is that used for managing the business and for management reporting purposes and is consistent with international practice in the footwear and apparel sector.

For the Statement of financial position, a format has been selected to present current and non-current assets and liabilities.

The Statement of cash flow is presented using the indirect method.

In connection with the requirements of the Consob Resolution No. 15519 of July 27, 2006 as to the format of the financial statements, specific supplementary column has been added for related party transactions so as not to compromise an overall reading of the statements (Note 31).

#### Consolidation principles

The financial statements of the subsidiaries included in the scope of consolidation are consolidated on a line-by-line basis, which involves combining all of the items shown in their financial statements regardless of the Group's percentage interest.

If the companies included in the scope of consolidation are subject to different regulations, the most suitable reporting formats have been adopted to ensure maximum clarity, truth and fairness. The financial statements of foreign subsidiaries are reclassified where necessary to bring them into line with Group accounting policies. They are also adjusted to ensure compliance with IFRS.

In particular, for the subsidiaries included in the scope of consolidation:

- the book value of equity investments included in the scope of consolidation is eliminated against the equity of the companies concerned according to the full consolidation method. If the Group's direct or indirect investment is less than 100%, minority interests are calculated and shown separately;
- if purchase cost exceeds the net book value of the related shareholders' equity at the time of acquisition, the difference is allocated to specific assets of the companies acquired, with reference to the their fair value at the acquisition date and amortized on a straight-line basis having regard to the useful life of the investment. If appropriate, any amounts which are not allocated are recorded as goodwill. In this case, the amounts are not amortized but subjected to impairment testing at least once a year, or whenever considered necessary;
- if the book value exceeds the purchase cost, the difference is credited to the income statement.

The following are also eliminated:

- receivables and payables, costs and revenues and profits and losses resulting from intragroup transactions, taking into account the related tax effects;
- the effects of extraordinary transactions involving Group companies (mergers, capital contributions, etc).

**Accounting standards, amendments and interpretations applied since January 1, 2016**

- Amendments to IAS 19 – *Employee benefits* entitled "*Defined Benefit Plans: Employee Contributions*" which apply to contributions from employees or third parties to defined benefit plans. There were no effects from the adoption of this amendment;
- Amendments to IFRS 11 – *Joint arrangements:* "*Accounting for acquisitions of interests in joint operations"* which clarify the accounting for acquisitions of an interest in a joint operation that constitutes a business. There were no effects from the adoption of these amendments;
- Amendments to IAS *16 Property, plant and equipment* and *IAS 41 Agriculture – "Bearer Plants"*. There were no effects from the adoption of these amendments;
- Amendments to IAS 16 – *Property, Plant and Equipment* and to *IAS 38 – Intangible Assets – "Clarification of acceptable methods of depreciation and amortization",* which clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. There were no effects from the adoption of these amendments;
- Amendments to *IAS 1 – "Disclosure Initiative",* which were a part of the IASB's initiative to improve presentation and disclosure in financial reports. The amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. There were no effects from the adoption of these amendments;
- Documents "*Annual Improvements to IFRSs: 2010-2012 Cycle*" and "*Annual Improvements to IFRSs: 2012-2014 Cycle*" approved by IASB which partially integrate existing principles. There were no effects from the adoption of these documents.

**Accounting standards, amendments and interpretations effective not yet applicable and not early adopted by the Group**

At the date of this financial statements, the European Union has not yet completed its endorsement process for these amendments:

- IFRS 15 – *Revenue for contracts with customers.* This standard establishes a new model for recognising revenues which is applicable to all contracts with customers, with the exception of those falling under the scope of application of other IAS/IFRS standards such as leasing, insurance contracts and financial instruments;
- The final version of IFRS 9 – *Financial instruments* which includes the results of the IASB plan to replace IAS 39.

### Accounting standards, amendments and interpretations not yet approved by European Union

- IFRS 16 – *Leases;*
- Amendment to IAS 12 *"Recognition of Deferred Tax Assets for Unrealized Losses";*
- Amendment to IAS 7 *"Disclosure Initiative";*
- Amendment to IFRS 2 *"Classification and measurement of share-based payment transactions"*;
- Document *"Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"*;
- Document *"Annual Improvements to IFRSs: 2014-2016 Cycle"*;
- Interpretation of IFRIC 22 *"Foreign Currency Transactions and Advance Consideration"*;
- Amendment to IAS 40 *"Transfers of Investment Property"*;
- Amendments to IFRS 10 and IAS 28 "*Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*".

### Translation of foreign currency financial statements into Euro

The financial statements of foreign companies denominated in currencies other than the Euro are translated as follows:

- income statement items are translated at the average exchange rate for the period, whereas the closing rate is used for balance sheet items, except for net income and equity;
- equity items are translated at the historical exchange rate.

The difference between the equity translated at historical rates and the assets and liabilities translated at closing rates is recorded as a "Translation reserve" under "Reserves" as a part of consolidated equity.

The exchange rates used, as published by the Italian Exchange Office (U.I.C.), are as follows:

| **Currency** | **Average for 2016** | **As at 12-31-2016** | **Average for 2015** | **As at 12-31-2015** |
|---|---|---|---|---|
| US Dollar | 1,1066 | 1,0541 | 1,1096 | 1,0887 |
| Swiss Franc | 1,0902 | 1,0739 | 1,0676 | 1,0835 |
| British Pound | 0,8189 | 0,8562 | 0,7260 | 0,7340 |
| Canadian Dollar | 1,4664 | 1,4188 | 1,4176 | 1,5116 |
| Japanese Yen | 120,3138 | 123,4000 | 134,2866 | 131,0700 |
| Chinese Yuan | 7,3496 | 7,3202 | 6,9730 | 7,0608 |
| Czech Koruna | 27,0343 | 27,0210 | 27,2850 | 27,0230 |
| Russian Ruble | 74,2224 | 64,3000 | 68,0068 | 80,6736 |
| Polish Zloty | 4,3636 | 4,4103 | 4,1828 | 4,2639 |
| Hungarian Forint | 311,4594 | 309,8300 | 309,8978 | 315,9800 |
| Macau Pataca | 8,8492 | 8,4201 | 8,8608 | 8,6919 |
| Serbian Dinar | 123,1017 | 123,4031 | 120,6937 | 121,4513 |
| Vietnam Dong | 24.749,1091 | 23.991,8431 | 24.314,5658 | 24.475,0647 |
| Indonesian Rupiah | 14.720,4512 | 14.173,4300 | 14.859,7900 | 15.039,9900 |
| Turkish Lira | 3,3427 | 3,7072 | 3,0218 | 3,1765 |

## Subjective assessments

In applying the Group's accounting policies, the directors take decisions based on the following subjective assessments (excluding those involving estimates) which can have a significant impact on the figures in the financial statements.

*Operating lease commitments (with the Group acting as lessor)*

The Group has stipulated commercial lease agreements for the properties that it uses. Under these agreements, which are classified as operating leases, the Group is of the opinion that it retains all of the significant risks and rewards of ownership of the assets.

## Estimates and assumptions

Drawing up financial statements and notes in compliance with IFRS requires management to make estimates and assumptions that can affect the value of the assets and liabilities in the balance sheet, including disclosures on contingent assets and liabilities at the balance sheet date. The estimates and assumptions used are based on experience and other relevant factors. Estimates and assumptions are revised periodically and the effects of each variation made to them are reflected in the income statement for the period when the estimate is revised.

In this context, it is worth pointing out that the current economic and financial crisis has created a situation where assumptions about future trends have had to be made in a state of considerable uncertainty; so it cannot be exclude that the actual results over the coming months may differ from what has been forecasted, and this in turn could lead to adjustments that obviously cannot be estimated or foreseen as of today. The items in the financial statements that are principally affected by these situations of uncertainty are: deferred tax assets, pension funds and other post-employment benefits, the provisions for obsolescence and slow-moving inventory and returns, provision for bad and doubtful accounts, asset impairment.

The following is a summary of the critical valuation processes and key assumptions used by management in the process of applying the accounting standards with regard to the future and which could have significant effects on the values shown in the financial statements.

*Deferred tax assets*

Deferred tax assets are booked on all carry-forward tax losses to the extent that it is probable that there will be adequate taxable income in the future to absorb them. The directors are required to make a significant subjective assessment to determine the amount of deferred tax assets that should be recognized. They have to assess the timing and amount of future taxable income and develop a tax planning strategy for the coming years. The book value of the tax losses that have been recognized is shown in note 13.

*Pension funds and other post-employment benefits*

The cost of defined-benefit pension plans and other post-employment benefits (healthcare) is determined by means of actuarial valuations. Actuarial valuations involve making assumptions about discount rates, the expected return on investment, future pay rises, mortality rates and the future increase in pensions. Because of the long-term nature of these plans, such estimates are subject to a high degree of uncertainty. Further details are provided in note 21.

*Provision for returns*

The Group has provided for the possibility that products already sold may be returned by customers. To this end, the Group has made certain assumptions based on the quantity of goods returned in the past and their estimated realizable value. Further details are provided in note 16.

*Provision for obsolete and slow-moving inventory*

The Group has set up provisions for products in inventory that may have to be sold at a discount, which means that they will have to be adjusted to their estimated realizable value. For this purpose, the Group has developed assumptions regarding the quantity of goods sold at a discount in the past and the possibility of selling them through the Group's own outlets. Further details are provided in note 15.

*Provision for bad and doubtful accounts*

The provision for bad and doubtful accounts is calculated on the basis of a specific analysis of items in dispute and of those balances which, even if not in dispute, show signs of delayed collection. Evaluating the overall amount of trade receivables that are likely to be paid requires the use of estimates regarding the probability of collecting such items, so it is an assessment that is subject to uncertainties. Further details are provided in note 16.

*Asset Impairment*

The Group has set up provisions against the possibility that the carrying amounts of tangible and intangible assets may not be recoverable from them by use. The directors are required to make a significant subjective assessment to determine the amount of asset impairment that should be recognized. They estimate the possible loss of value of assets in relation to future economic performance closely linked to them.

## Accounting policies

The financial statements are prepared on a historical cost basis, amended as required for the valuation of certain financial instruments. They are also prepared on a going-concern basis.

The main accounting policies are outlined below:

## Intangible assets

Intangible assets with a finite useful life are recorded at purchase or production cost, including directly-related charges, and amortized systematically over their residual useful lives, as required by IAS 36.

Amortization is applied systematically over the useful life of the assets based on the period that they are expected to be of use to the Group. The residual value of intangible assets at the end of their useful life is assumed to be zero, unless there is a commitment on the part of third parties to purchase the asset at the end of their useful life or there is an active market for them. As regards the item key money, it is pointed out that in France the protection provided to the tenant by the local law, supported by the market practice, allows the recognition of a recovering value of each trading position, even at the end of the contract. This led the directors to estimate a residual value of the key money paid at the end of each lease.
The directors review the estimated useful life of intangible assets at the end of each period.

Intangible assets with an indefinite useful life are not amortized; instead, they are subjected to impairment testing.

The following table summarizes the useful life (in years) of the various intangible assets:

| | |
|---|---|
| Trademarks | 10 years |
| Geox patents | 10 years |
| Other patents and intellectual property rights | 3-5 years |
| Key money | Period of the rental contract |
| Other intangible assets | Period of the rental contract |

Trademarks include the costs incurred to protect and disseminate them.

Similarly, Geox patents include the costs incurred to register, protect and extend new technological solutions in various parts of the world.
The other patents and intellectual property rights mainly relate to the costs of implementing and customizing software programs which are amortized in 3-5 years, taking into account their expected future use.

Key money includes:

- amounts paid to acquire businesses (shops) that are managed directly or leased to third parties under franchising agreements;
- amounts paid to access leased property by taking over existing contracts or persuading tenants to terminate their contracts so that new ones can be signed with the landlords. The premises were then fitted out as Geox shops.

Goodwill is initially recognized by capitalizing the excess cost of acquisition compared with the fair value of the net assets of the company recently acquired. Goodwill is not amortized; instead, it is subjected to impairment testing at least once a year, or more frequently if there is evidence of a loss in value, to verify whether its value has been impaired. The elements that satisfy the definition of "assets acquired in a business combination" are only accounted for separately if their fair value can be established with a reasonable degree of reliability.

### Property, plant and equipment

Property, plant and equipment are booked at their purchase or construction cost, which includes the price paid for the asset (net of any discounts and allowances) and any directly-related purchasing and start-up costs. Property, plant and equipment are shown at cost, net of accumulated depreciation and write-downs/write backs.
The residual value of the assets, together with their estimated useful life, is reviewed at least once a year at the end of each accounting period and written down if it is found to be impaired in accordance with IAS 36, regardless of the amount of depreciation already charged. The value is reinstated in subsequent years if the reasons for the write-down no longer apply.
Routine maintenance costs are charged in full to the income statement, whereas improvement expenditure is allocated to the assets concerned and depreciated over their residual useful life.

The following table shows the useful life in years related to the depreciation rates applied:

| | |
|---|---|
| Building | 20-30 years |
| Plant and machinery | 5-8 years |
| Photovoltaic plant | 11 years |
| Industrial and commercial equipment | from 2 to 4 years |
| Moulds | 2 years |
| Office furniture | 8 years |
| Electronic machines | 5 years |
| Motor vehicles | 4 years |
| Internal transport and trucks | 5 years |
| Leasehold improvements | Period of contract * |
| Shop equipment | Lower of contract period and 8 years |
| Shop fittings | 4 years |
| Concept stores | 2-4 years |

* Depreciated over the lower of the useful life of the improvements and the residual duration of the lease.

Assets acquired under finance leases are shown in the consolidated financial statements at their nominal value at the start of the contract, at the same time recognizing the financial liability owed to leasing companies. These assets are depreciated using the depreciation schedules normally applied to similar types of fixed assets.

### Impairment of property, plant and equipment and intangible assets

The book value of the Geox Group's property, plant and equipment and intangible assets is reviewed whenever there is internal or external evidence that the value of such assets, or group of assets (defined as a Cash Generating Unit or CGU), may be impaired. Goodwill, consolidation differences and intangible assets with an indefinite useful life have to be subjected to impairment testing at least once a year.

Impairment tests are performed by comparing the book value of the asset or of the CGU with its realizable value, represented by its fair value (net of any disposal costs) or, if greater, the present value of the net cash flows that the asset or CGU is expected to generate.
If the book value of the asset is greater than its recoverable value this asset is consequently impaired in order to align it to its recoverable value.
Each unit, to which the specific values of assets are allocated (tangible and intangible), represents the lowest level at which the Group monitors such assets.
The Group's terms and conditions for reinstating the value of an asset that has previously been written down are those established by IAS 36. Write backs of goodwill are not possible under any circumstances.

**Financial instruments**

Financial instruments held by the Group are presented in the financial statements as described in the following paragraphs:

- Other non-current financial assets comprise investments in unconsolidated companies, held-to-maturity securities, non-current loans and receivables and other non-current available-for-sale financial assets;
- Current financial assets include trade receivables, receivables from financing activities, current securities, and other current financial assets (which include derivative financial instruments stated at fair value as assets), as well as cash and cash equivalents;
- Cash and cash equivalents include cash at banks, units in liquidity funds and other money market securities that are readily convertible into cash and are subject to an insignificant risk of changes in value;
- Financial liabilities refer to debts, which includes asset-backed financing, and other financial liabilities (which include derivative financial instruments stated at fair value as liabilities), trade payables and other payables.

Non-current financial assets other than investments, as well as current financial assets and financial liabilities, are accounted for in accordance with IAS 39.
Current financial assets and held-to-maturity securities are recognized on the basis of the settlement date and, on initial recognition, are measured at acquisition cost, including transaction costs.

Subsequent to initial recognition, available-for-sale and held for trading financial assets are measured at fair value. When market prices are not available, the fair value of available-for-sale financial assets is measured using appropriate valuation techniques e.g. discounted cash flow analysis based on market information available at the balance sheet date.

Gains and losses on available-for-sale financial assets are recognized directly in equity until the financial asset is disposed or is determined to be impaired; when the asset is disposed of, the cumulative gains or losses, including those previously recognized in equity, are reclassified into the income statement for the period; when the asset is impaired, accumulated losses are recognized in the income statement. Gains and losses arising from changes in fair value of held for trading financial instruments are included in the income statement for the period.

Loans and receivables which are not held by the Group for trading (loans and receivables originating in the course of business), held-to-maturity securities and all financial assets for which published price quotations in an active market are not available and whose fair value cannot be determined reliably, are measured, to the extent that they have a fixed term, at amortized cost, using the effective interest method. When the financial assets do not have a fixed term, they are measured at acquisition cost. Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.
Assessments are made regularly as to whether there is any objective evidence that a financial asset or group of assets may be impaired. If any such evidence exists, an impairment loss is included in the income statement for the period.

Accounts receivable are initially recognized at their fair value and then adjusted at the estimated realizable value by means of a provision for bad and doubtful accounts, accrued when there is objective evidence that the Group will not be able to collect the receivable for the original value.
The accrual for the doubtful debts found is charged to the income statement. Receivables subject to impairment are written off when it’s confirmed that they are not recoverable.
Receivables sold to the factor without recourse (*pro-soluto*) have been removed from the Balance Sheet as the relative contract transfers ownership of the receivables, together with all cash flows generated by said receivable and all related risks and benefits, to the factor.

Except for derivative instruments, financial liabilities are measured at amortized cost using the effective interest method.

Financial assets and liabilities hedged by derivative instruments are measured in accordance with hedge accounting principles applicable to fair value hedges: gains and losses arising from remeasurement at fair value, due to changes in relevant hedged risk, are recognized in the income statement and are offset by the effective portion of the loss or gain arising from remeasurement at fair value of the hedging instrument.

**Derivative financial instruments**

Derivative financial instruments are used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Fair value hedge – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk and could affect the income statement, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement;
- Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect income statement, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in equity. The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in equity and is recognized in the income statement at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in equity is recognized in the income statement immediately.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognized immediately in the income statement.

**Inventories**

Inventories of finished products are measured at the lower of purchase or production cost and their estimated net realizable or replacement value. For raw materials, purchase cost is calculated at the weighted average cost for the period.
For finished products and goods, purchase or production cost is calculated at the weighted average cost for the period, including directly-related purchasing costs and a reasonable proportion of production overheads.
Obsolete and slow-moving goods are written down according to the likelihood of them being used or sold.

**Employee benefits**

Benefits paid to employees under defined-benefit plans on termination of employment (employee severance indemnities) are recognized over the period that the right to such benefits accrues.

The liability arising under defined-benefit plans, net of any assets servicing the plan, is determined using actuarial assumptions and recorded on an accruals basis in line with the work performed to earn the benefits. The liability is assessed by independent actuaries.

The amount reflects not only the liabilities accrued up to the balance sheet date, but also future pay rises and related statistical trends.

The benefits guaranteed to employees through defined-contribution plans (also in virtue of the recent changes in the Italian regulations on pensions) are recognized on an accruals basis; at the same time, they also give rise to the recognition of a liability at face value.

**Share-based payments (stock options)**

Some group employees receive part of their compensation in the form of share-based payments. Employees therefore provide services in exchange for shares ("equity-based transactions").

The cost of equity-based transactions with employees is measured on the basis of the fair value at the grant date. The fair value is determined by an independent appraiser using an appropriate valuation method. Further details are provided in note 29.

The cost of the equity-based transactions and the corresponding increase in equity is accounted for from the time that the conditions for the attainment of the objectives and/or provision of the service are met, and ends on the date when the employees concerned have fully accrued the right to receive the compensation (the "maturity date").

The accumulated costs recorded for such transactions at the end of each accounting period up to the maturity date are compared with a best estimate of the number of equity securities that will effectively reach maturity at the end of the maturity period. The gain or loss posted to the income statement reflects the change in the accumulated cost recorded at the beginning and end of the accounting period.

No costs are booked for rights that do not reach full maturity, except in the case of rights whose granting is linked to market conditions. These are treated as if they had matured independently of the underlying market conditions, as long as all the other conditions are met.

If the initial conditions are changed, at the very least a cost has to be indicated, assuming that the conditions have remained the same. Moreover, a cost is recorded for each change implying an increase in the total fair value of the payment plan, or in any case when the change is favorable to the employees. This cost is measured taking into account the date on which the change takes place.

If rights are cancelled, they are treated as though they had reached maturity on the date of cancellation and any unrecorded costs relating to these rights are recognized immediately. However, if a cancelled right is replaced by a new right and the latter is recognized as a replacement on the date it is granted, the cancelled right and the new right are treated as though they were a change in the original right, as explained in the previous paragraph.

The dilutive effect of any vested options not yet exercised is reflected in the calculation of the dilution of earnings per share (see note 10).

**Provisions for liabilities and charges**

Provisions for liabilities and charges are recognized when there is an effective obligation (legal or implicit) deriving from a past event, providing there will probably be an outlay of resources to settle the obligation and the amount of the obligation can be reliably estimated.
Provisions represent the best estimate of the amount that the business would have to pay to settle the obligation or transfer it to third parties at the balance sheet date. Provisions are determined by discounting the expected future cash flows if the effect of discounting the value of money is significant.

**Revenue and income**

Revenues are recognized on an accruals basis.

Revenues derive from the Company's ordinary operations and include sales revenues, commissions and fees, interest, dividends, royalties and lease installments. They are recognized net of any returns, discounts, allowances and bonuses.
Revenues from the sale of products are recognized when the Company transfers most of the risks and benefits of ownership of the goods and collection of the amount billed is reasonably certain.

Revenues deriving from services rendered are accounted for with reference to the stage of completion of the transaction at the balance sheet date.

Royalties are accounted for on an accruals basis in accordance with the substance of the contractual agreements. Interest income is accounted for on an accruals basis, in a way that takes into account the actual yield of the assets concerned.

Dividends are accounted for when the shareholders become entitled to receive the payment.

### Costs and expenses

Costs and expenses are accounted for on an accruals basis.

### Leasing

To be able to define a contractual arrangement as a lease (or as one containing a lease), it's necessary to look at the substance of the arrangement. It must also be assessed whether fulfillment of the contract depends on the use of one or more specific assets and if the arrangement transfers the right to use such assets. The situation can only be reviewed after the start of the contract if one of the following conditions is met:

(a) there is a change in the contractual conditions, other than a renewal or extension of the contract;
(b) a renewal option is exercised or an extension is granted, unless the terms of the renewal or extension were included in the terms of the lease from the start;
(c) there is a change in the condition according to which fulfillment depends on a specific asset; or
(d) there is a substantial change in the asset.

If a review is carried out, accounting for the lease will begin or end on the date of the change in the circumstances that gave rise to the review for scenarios a), c) or d) and at the date of the renewal or extension for scenario b).

Operating lease installments are treated as costs in the income statement on a straight-line basis over the life of the contract.

### Government Grants

Government grants are recognized in the financial statements when there is reasonable assurance of the Group's compliance with the conditions for receiving such grants and that the grants will be received. Government grants are recognized as income over the periods necessary to match them with the related costs which they are intended to offset.

### Income tax

*Current income taxes*

Current income taxes for the period are calculated on the basis of taxable income in accordance with the tax rules in force in the various countries.

As from 2014 Geox S.p.A. joined, as parent company, a new domestic tax consolidation for three years (2014-2016) with the two Italian subsidiaries Geox Retail S.r.l. and XLOG S.r.l..

*Deferred taxes*

Deferred tax assets and liabilities are recognized on temporary differences between the amounts shown in the balance sheet and their equivalent value for fiscal purposes. Deferred tax assets are also recognized on the tax losses carried forward by Group companies when they are likely to be absorbed by future taxable income earned by the same companies.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply in the various countries in which the Geox Group operates in the tax periods when the temporary differences reverse or expire.
Deferred tax assets are recorded to the extent that, according to future plans, there is likely to be sufficient taxable income to cover deductible temporary differences.

The book value of deferred tax assets is reviewed at each balance sheet date and if necessary reduced to the extent that future taxable income is no longer likely to be sufficient to recover all or part of the assets. These write-downs are reversed if the reasons for them no longer apply.
Income taxes on the amounts booked directly to equity are also charged directly to equity rather than to the income statement.

**Earnings per share (EPS)**

Basic EPS is calculated by dividing the net income attributable to the Parent Company's shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the net income attributable to the Parent Company's shareholders by the weighted average number of shares outstanding, taking into account the effects of all potentially dilutive ordinary shares (e.g. employee stock option plans).

## 3. Segment reporting

For management purposes, the Group runs and controls its business according to the type of products being supplied, and for disclosure purposes these consist of two operating segments: footwear and apparel.

The directors monitor the results of these two business units separately so that they can make decisions regarding the allocation of resources and check the return on investment. The yield of each segment is evaluated on the basis of the operating result, which is allocated to the various operating segments as follows:

- Net sales, cost of sales, direct selling costs and advertising are input directly to the segment concerned as they are clearly identifiable;

- General and administrative costs, including non-industrial depreciation and amortization, are input to the segment concerned to the extent that they are directly attributable. When such costs are common to various segments, they are allocated in proportion to their respective percentage of total cost of sales;

- The Group's financial activities (including financing costs and revenues) and income taxes are handled at Group level and not allocated to the individual segments;

- There are no problems of transfer pricing between segments as they are totally independent from each other.

The following table provides information on the Group's business segments:

| | | 2016 | % | 2015 | % |
|---|---|---|---|---|---|
| Footwear | Net sales | 815,538 | | 784,983 | |
| | D&A | 31,471 | | 33,945 | |
| | EBIT | 18,404 | 2.3% | 28,345 | 3.6% |
| Apparel | Net sales | 85,225 | | 89,321 | |
| | D&A | 3,253 | | 3,995 | |
| | EBIT | (5,570) | (6.5%) | (3,454) | (3.9%) |
| **Total** | **Net sales** | **900,763** | | **874,304** | |
| | **D&A** | **34,724** | | **37,940** | |
| | **EBIT** | **12,834** | **1.4%** | **24,891** | **2.8%** |

Segment assets and liabilities are all managed at Group level, so they are not shown separately by segment.
The only exception to this rule is the value of inventories, which amount to Euro 300,160 thousand for footwear (Euro 264,603 thousand in 2015) and Euro 36,607 thousand for apparel (Euro 40,207 thousand in 2015).

The following table provides Net sales on the Group's geographical segments:

| **(Thousands of Euro)** | **2016** | **%** | **2015** | **%** | **Var. %** |
|---|---|---|---|---|---|
| Italy | 270,118 | 30.0% | 281,095 | 32.2% | (3.9%) |
| Europe (*) | 396,565 | 44.0% | 375,647 | 43.0% | 5.6% |
| North America | 60,678 | 6.7% | 62,795 | 7.2% | (3.4%) |
| Other countries | 173,402 | 19.3% | 154,767 | 17.7% | 12.0% |
| **Net sales** | **900,763** | **100.0%** | **874,304** | **100.0%** | **3.0%** |

(*) Europe includes: Austria, Benelux, France, Germany, UK, Iberia, Scandinavia, Switzerland.

## 4. General and administrative expenses

General and administrative expenses are analyzed in the following table:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Wages and salaries | 115,728 | 116,485 | (757) |
| Rental expenses | 95,885 | 99,403 | (3,518) |
| Other costs | 129,843 | 135,485 | (5,642) |
| Rental income | (7,163) | (8,416) | 1,253 |
| Other income | (9,306) | (8,705) | (601) |
| **Total** | **324,987** | **334,252** | **(9,265)** |

Rental and lease expenses relate to the shops, offices and industrial property leased by the Group.

Rental income relates to the Geox Shops owned by the Group and leased to third parties under franchising agreements.

Other costs mainly include: depreciation and amortization, services and consulting, sample costs, utilities, insurance, maintenance and bank charges.

Other income mainly includes sales of miscellaneous goods and insurance compensation.

Research and the ongoing conception and implementation of innovative solutions is a significant factor in the Group's strategies because, as already explained in the directors' report on operations, product innovation is fundamental to maintain and strengthen the Group's competitive advantage.

Research and development is a complex corporate process, which ranges from the study of technical solutions involving materials that are able to breathe while remaining waterproof, to the concession of new patents and the development of new product lines.
This process can be broken down into the following stages:

- pure research, which consists of verifying the performance of the materials used in Geox footwear and apparel. This activity's vocation is to create new patents and to implement solutions that use particular materials to make products that can breathe and at the same time remain waterproof;

- applied research, which consists of creating the collections, passing through the various phases of design, prototyping and modeling.

Research and development makes use of dedicated personnel, who transmit the results of their work to all those (designers, product managers, production technicians, etc.) who take part in the definition, industrialization and production of the Group's products. R&D costs are all written off to income during the period and amounted in total to Euro 16,056 thousand (in 2015 Euro 16,799 thousand).

The fees due to the directors, statutory auditors and executives with strategic responsibilities for 2016 are listed below. These amounts, in Euro, include the fees due for performing the same functions in Geox S.p.A. and in other companies included in the scope of consolidation.

| **Name**<br>**Position** | **Period in office** | **Exp. Of Mand.** | **Fixed Emolument** | **Non cash Benefits (*)** | **Bonus and other incentives** | **Other Remuneration** | **Incentives** |
|---|---|---|---|---|---|---|---|
| Mario Moretti Polegato<br>*Chairman* | from 01-01<br>to 12-31-16 | (1) | 1,800,000<br>(2) | | | | - |
| Enrico Moretti Polegato<br>*Deputy Chairman* | from 01-01<br>to 12-31-16 | (1) | 150,000<br>(3) | | | | - |
| Giorgio Presca<br>*CEO and Executive Director* | from 01-01<br>to 12-31-16 | | 1,004,279<br>(4) | 8,969 | 206,036<br>(5) | 450,000<br>(6) | - |
| Duncan Niederauer<br>*Independent Director* | from 01-01<br>to 12-31-16 | (1) | 25,000<br>(8) | - | - | - | - |
| Roland Berger<br>*Independent Director* | from 01-01<br>to 04-19-16 | | 16,530<br>(9) | - | - | - | - |
| Fabrizio Colombo<br>*Independent Director* | from 01-01<br>to 04-19-16 | | 19,535<br>(10) | - | - | - | - |
| Alessandro Antonio Giusti<br>*Director* | from 01-01<br>to 12-31-16 | (1) | 103,005<br>(11) | - | - | - | - |
| Claudia Baggio<br>*Director* | from 01-01<br>to 12-31-16 | (1) | 25,000<br>(12) | - | - | - | - |
| Lara Livolsi<br>*Independent Director* | from 01-01<br>to 12-31-16 | (1) | 45,000<br>(13) | - | - | - | - |
| Francesca Meneghel<br>*Independent Director* | from 04-19<br>to 12-31-16 | (1) | 31,475<br>(14) | - | - | - | - |
| Manuela Soffientini<br>*Independent Director* | from 04-19<br>to 12-31-16 | (1) | 24,481<br>(15) | - | - | - | - |
| Ernesto Albanese<br>*Independent Director* | from 04-19<br>to 12-31-16 | (1) | 24,481<br>(16) | - | - | - | - |
| Francesco Gianni<br>*Chairman of the Board of St. Auditors* | from 01-01<br>to 04-19-16 | | 22,541<br>(17) | - | - | - | - |
| Sonia Ferrero<br>*Chairman of the Board of St. Auditors* | from 04-19<br>to 12-31-16 | (1) | 52,459<br>(17) | - | - | - | - |
| Valeria Mangano<br>*Statutory Auditor* | from 01-01<br>to 04-19-16 | | 12,500<br>(18) | - | - | - | - |
| Francesca Meneghel<br>*Statutory Auditor* | from 01-01<br>to 04-19-16 | | 15,027<br>(18) | - | - | - | - |
| Fabrizio Colombo<br>*Statutory Auditor* | from 04-19<br>to 12-31-16 | (1) | 34,972<br>(18) | - | - | - | - |
| Francesco Gianni<br>*Statutory Auditor* | from 04-19<br>to 12-31-16 | (1) | 34,972<br>(18) | - | - | - | - |
| Livio Libralesso<br>*General Manager - Corporate* | from 01-01<br>to 12-31-16 | | 337,028<br>(7) | 5,500 | 79,278 | - | - |
| Executives with stategic responsabilities<br>*(**)* | | | 2,517,556<br>(19) | 63,858 | 544,972<br>(20) | - | 673,700<br>(21) |

(*) Includes fringe benefits

(**) Aggregated amounts

(1) Term of office expires at General Meeting held to approve the financial statements at December 31, 2018

(2) Includes remuneration as Chairman, member of Executives Committee and member of the Ethics Committee

(3) Includes remuneration as Deputy Chairman and member of Executives Committee

(4) Includes remuneration as CEO, Executive with strategic responsibilities and member of the Executives Committee

(5) Includes lump sum bonus as Executive with strategic responsibilities

(6) Includes compensation as Subsidiaries' CEO

(7) Includes remuneration as Executive with strategic responsibilities, until July 26, 2016, and compensation as General Manager - Corporate, from July 26, 2016

(8) Includes compensation as Independent Director

(9) Includes compensation as Independent Director, member of Audit and Risk Committee and member of Nomination Committee

(10) Includes compensation as Independent Director, Chairman of Audit and Risk Committee, member of Compensation Committee and member of Nomination Committee

(11) Includes compensation as Non-Independent Director, member of Audit and Risk Committee, member of Remuneration Committee and Nomination Committee

(12) Includes compensation as Non-Independent Director

(13) Includes compensation as Independent Director, Chairman of Audit and Risk Committee and Chairman of Compensation Committee and Nomination Committee until April 19, 2016 and compensation as Independent Director and Chairman of Compensation Committee and Nomination Committee

(14) Includes compensation as Independent Director and Chairman of Audit and Risk Committee

(15) Includes compensation as Independent Director and member of Audit and Risk Committee

(16) Includes compensation as Independent Director and member of Compensation Committee and Nomination Committee

(17) Includes compensation as Chairman of the Board of Statutory Auditor

(18) Includes compensation as member of the Board of Statutory Auditor

(19) Includes salary as Executives with strategic responsibilities (social security paid by the company are not included)

(20) Includes lump-sum bonus

(21) Includes amounts due for severance, employment termination and non competition agreement

## 5. Depreciation, amortization and payroll costs included in the consolidated income statement

The following table shows all of the depreciation and amortization charges included in the consolidated income statement:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Industrial depreciation | 5,359 | 5,113 | 246 |
| Non-industrial depreciation and amortization | 29,365 | 31,826 | (2,461) |
| **Total** | **34,724** | **36,939** | **(2,215)** |

Non-industrial amortization decreased of 2,215 from Euro 36,939 thousand of 2015 to Euro 34,724 thousand of 2016.

Payroll costs amounted to Euro 147,297 thousand (in 2015 Euro 143,610 thousand).

## 6. Personnel

The average number of employees is shown below:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Managers | 49 | 47 | 2 |
| Middle managers | 168 | 165 | 3 |
| Office staff | 831 | 819 | 12 |
| Shop employees | 3,077 | 2,845 | 232 |
| Factory workers | 1,038 | 258 | 780 |
| **Total** | **5,163** | **4,134** | **1,029** |

The average number of employees for 2016 amounted to 5,163, increased of 1,029 units compared to 2015. The change is mainly due by the increase in factory workers in the Serbian Plant.

## 7. Restructuring charges

In 2016, special items, were recorded for Euro 5,273 thousand due to legal costs, for Euro 1,734 thousand, mainly relating to the ongoing arbitration with the previous distributor for the Chinese market, the overall organizational review of staff resources for Euro 2,723 thousand and an early closing and rationalization of some directly operated and franchised stores with the aim of increasing the overall profitability of the network, for Euro 816 thousand.

## 8. Net financial expenses

This item is made up as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Interest income | 6,075 | 4,694 | 1,381 |
| Interest expense | (11,535) | (10,446) | (1,089) |
| Exchange differences | (96) | (54) | (42) |
| **Total** | **(5,556)** | **(5,806)** | **250** |

Interest income is made up as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Interest from banks | 104 | 158 | (54) |
| Interest from customers | 173 | 12 | 161 |
| Other interest income | 5,798 | 4,524 | 1,274 |
| **Total** | **6,075** | **4,694** | **1,381** |

Other interest income mainly consists of the effect of accounting for financial derivatives as explained in note 30.

Interest expense is made up as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Bank interest and charges | 234 | 193 | 41 |
| Interest on loans | 685 | 914 | (229) |
| Other interest expense | 7,840 | 6,796 | 1,044 |
| Financial discounts and allowances | 2,776 | 2,543 | 233 |
| **Total** | **11,535** | **10,446** | **1,089** |

The decrease in “Interest on loans” is mainly due to the decrease in the average debt rate.

Other interest expense mainly consists of the effect of accounting for financial derivatives as explained in note 30. Financial discounts and allowances relate to the discounts granted to customers who pay in advance, as per practice in various European markets.

Exchange differences are made up as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| Exchange gains | 41,460 | 49,865 | (8,405) |
| Exchange losses | (41,556) | (49,919) | 8,363 |
| **Total** | **(96)** | **(54)** | **(42)** |

## 9. Income taxes

Income taxes were equal to Euro 5,268 thousand, compared to Euro 9,076 thousand of 2015.

It is to be noted that Italian Law no. 208 dated 28/12/2015 (the so-called '2016 Stability Law') introduced a reduction in the IRES (Italian Corporate Income Tax) rate from 27.5% to 24%, valid from the 2017 tax year onwards. As a result, adjustments were made to deferred tax assets and liabilities relating to 2017 and following tax years. The effect of this tax rate alteration has led the company's tax liability for the year to increase by Euro 1,972 thousand.
Without this effect, the tax rate for the year would have been 45.3%.

The following table shows reconciliation between the Group's effective tax burden and its theoretical tax charge, based on the current tax rate in force during the period in Italy (the country of Geox S.p.A., the Parent Company).

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| PBT | 7,278 | 100.0% | 19,084 | 100.0% |
| Theoretical income taxes (*) | 2,001 | 27.5% | 5,248 | 27.5% |
| Effective income taxes | 5,268 | 72.4% | 9,076 | 47.6% |
| **Difference due to:** | **3,267** | **44.9%** | **3,828** | **20.1%** |
| 1) different tax rates applicable in other countries | (742) | (10.2%) | (415) | (2.2%) |
| 2) permanent differences: | | | | |
| i) IRAP and other local taxes | 1,012 | 13.9% | 1,392 | 7.3% |
| ii) writedowns of deferred tax asset | 3,124 | 42.9% | 2,088 | 10.9% |
| iii) previous years' taxes | (634) | (8.7%) | (345) | (1.8%) |
| iv) other | (1,465) | (20.1%) | (839) | (4.4%) |
| 3) tax correction as result of Stability Law | 1,972 | 27.1% | 1,947 | 10.2% |
| **Total difference** | **3,267** | **44.9%** | **3,828** | **20.1%** |

(*) Theoretical income taxes based on the tax rates applicable to Geox S.p.A.

## 10. Earnings per share

EPS is calculated by dividing the net income for the period attributable to the ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is calculated by dividing the net income for the period attributable to the Parent Company's shareholders by the weighted average number of shares outstanding during the period, taking into account the effects of all potentially dilutive ordinary shares (for example, vested options under a stock option plan that have not yet been exercised).

The following table shows the result and the number of ordinary shares used to calculate basic and diluted EPS in accordance with IAS 33:

| | 2016 | 2015 |
|---|---|---|
| Earnings per share (Euro) | 0.01 | 0.04 |
| Diluted earnings per share (Euro) | 0.01 | 0.04 |
| Weighted average number of shares outstanding: | | |
| - basic | 259,207,331 | 259,207,331 |
| - diluted | 259,207,331 | 259,207,331 |

## 11. Intangible assets

Intangible assets are made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Industrial patents and intellectual property rights | 14,556 | 14,127 | 429 |
| Trademarks, concessions and licenses | 689 | 684 | 5 |
| Key money | 36,253 | 40,189 | (3,936) |
| Assets in process of formation and payments on account | 2,079 | 1,613 | 466 |
| Goodwill | 1,138 | 1,138 | - |
| **Total** | **54,715** | **57,751** | **(3,036)** |

The following table shows the changes in intangible assets during 2016:

| | 12-31-15 | Purchases and capital. | Translation Differences | Amort./ write-down | Disposals | Other Changes | 12- 31-16 |
|---|---|---|---|---|---|---|---|
| *Intangible assets with finite useful life:* | | | | | | | |
| Industrial patents and intellectual property rights | 14,127 | 6,504 | 1 | (7,347) | (46) | 1,317 | 14,556 |
| Trademarks, concessions and licenses | 684 | 123 | - | (118) | - | - | 689 |
| Key money | 40,189 | 950 | (95) | (4,721) | (189) | 119 | 36,253 |
| Assets in process of formation and payments on account | 1,613 | 1,960 | - | - | - | (1,494) | 2,079 |
| *Intangible assets with an indefinite useful life:* | | | | | | | |
| Goodwill | 1,138 | - | - | - | - | - | 1,138 |
| **Total intangible assets** | **57,751** | **9,537** | **(94)** | **(12,186)** | **(235)** | **(58)** | **54,715** |

Investments during the period mainly concern:

- personalization of the IT system for a total of Euro 5,533 thousand;
- the costs incurred for the registration, extension and protection of patents in various parts of the world (Euro 971 thousand);
- the costs incurred for the registration, protection and extension of the GEOX trademark in various parts of the world (Euro 123 thousand);
- key money costs (Euro 950 thousand) for the amounts paid to access leased properties by taking over existing contracts or persuading tenants to terminate their contracts so that new ones could be signed with the landlords. The premises were then fitted out as Geox shops;
- assets in process of formation for a total of Euro 1,960 thousand. Such amounts mainly include the sums paid for the further implementations and customizing of the new IT system.

Each shop is considered a CGU and, other than those flagship stores, which, despite being open for more than two years showed negative results in terms of operating margin, it was decided to assess the recoverability of the carrying value on the basis of expected results in the next 12 months. If the value in use of a CGU is lower than its book value, its assets are written down accordingly. The intangible assets impairment fund amounts to Euro 464 thousand as of December 31, 2016 (Euro 564 as of December 31, 2015).

## 12. Property, plant and equipment

Details of property, plant and equipment are shown in the following table:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Changes |
|---|---|---|---|
| Land and buildings | 10,566 | 11,526 | (960) |
| Plant and machinery | 9,897 | 8,697 | 1,200 |
| Industrial and commercial equipment | 3,784 | 2,548 | 1,236 |
| Other assets | 14,324 | 17,392 | (3,068) |
| Leasehold improvements | 27,379 | 27,403 | (24) |
| Construction in progress and payments on account | 190 | 807 | (617) |
| **Total** | **66,140** | **68,373** | **(2,233)** |

The following table shows the changes in property, plant and equipment during 2016:

| | 12-31-15 | Purchases and capital. | Translation Differences | Amort./ write-down | Disposals | Other changes | 12-31-16 |
|---|---|---|---|---|---|---|---|
| Land and buildings | 11,526 | 43 | (180) | (823) | - | - | 10,566 |
| Plant and machinery | 8,697 | 2,702 | (80) | (2,009) | (121) | 708 | 9,897 |
| Industrial and commercial equipment | 2,548 | 3,820 | (2) | (2,555) | (24) | (3) | 3,784 |
| Other assets | 17,392 | 5,763 | 100 | (8,737) | (219) | 25 | 14,324 |
| Leasehold improvements | 27,403 | 8,569 | 102 | (8,414) | (411) | 130 | 27,379 |
| Construction in progress and payments on account | 807 | 190 | (5) | - | - | (802) | 190 |
| **Total property, plant and equipment** | **68,373** | **21,087** | **(65)** | **(22,538)** | **(775)** | **58** | **66,140** |

Investments during the period mainly concern:

- The purchase of equipment by the productive subsidiary in Serbia;
- The purchase of industrial equipment (mainly moulds for shoe soles) by the parent company Geox S.p.A. and its productive subsidiary in Serbia;
- Geox shop fittings and hardware for Euro 4,322 thousand, office and showroom fittings for Euro 1,113 thousand, office and head office hardware for Euro 328 thousand;
- leasehold improvements of Euro 8,569 thousand. These additions relate to industrial buildings and offices for Euro 1,614 thousand and to premises fitted out as Geox Shop for Euro 6,955 thousand;
- construction in progress of Euro 190 thousand. These additions mainly include amounts paid for the purchase of office and head office fittings by the parent company Geox S.p.A..

Each shop is considered a CGU and, other than those flagship stores, which, despite being open for more than two years showed negative results in terms of operating margin, it was decided to assess the recoverability of the carrying value on the basis of expected results in the next 12 months. If the value in use of a CGU is lower than its book value, its assets are written down accordingly. The tangible assets impairment fund amounts to Euro 2,512 thousand as of December 31, 2016 (Euro 3,972 thousand as of December 31, 2015).

Other assets are made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Electronic machines | 2,200 | 2,542 | (342) |
| Furniture and fittings | 12,041 | 14,769 | (2,728) |
| Motor vehicles and internal transport | 83 | 81 | 2 |
| **Total** | **14,324** | **17,392** | **(3,068)** |

## 13. Deferred taxes

The following table analyses the change in deferred tax assets and the nature of the items and temporary differences that gave rise to them. The Group has offset the deferred tax assets and liabilities as the law permits the compensation of fiscal assets with fiscal liabilities.

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Carry-forward tax losses | 7,282 | 6,783 | 499 |
| Depreciation and amortization and impairment | 8,270 | 8,849 | (579) |
| Provision for obsolescence and slow-moving inventory and returns | 16,862 | 17,202 | (340) |
| Provision for agents' severance indemnities | 657 | 692 | (35) |
| Other | 6,909 | 6,827 | 82 |
| **Deferred tax assets** | **39,980** | **40,353** | **(373)** |
| Evaluation derivates | (3,489) | (2,699) | (790) |
| Other | (175) | (168) | (7) |
| **Deferred tax liabilities** | **(3,664)** | **(2,867)** | **(797)** |
| **Total deferred taxes** | **36,316** | **37,486** | **(1,170)** |

The deferred tax assets on carry-forward tax losses, which at December 31, 2016 amount to Euro 7,282 thousand mainly relate to Geox S.p.A. This amount has been subjected to a strict evaluation by the directors in order to book it only if future taxable profit are likely to occur, against which such losses can be utilized.

Derivatives that are defined as cash flow hedges and valued on a mark-to-market basis booked directly to equity require all related taxes also to be booked directly to equity and not to the income statement.
The income taxes booked directly to equity amount to Euro 3,486 thousand (Euro 2,699 thousand in 2015).

Deferred tax assets included in "Other" are mainly related to provisions for liabilities and charges (note 26).

Deferred tax assets have been calculated at the tax rates applied in the various countries concerned.

## 14. Other non-current assets

Other non-current assets are made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Accounts receivable from others in 1 to 5 years | 11,088 | 12,685 | (1,597) |
| Accounts receivable from others in more than 5 years | 3,280 | 3,784 | (504) |
| **Total** | **14,368** | **16,469** | **(2,101)** |

Accounts receivable from others relate principally for Euro 9,023 thousand of guarantee deposits for utilities and shop leases (from 1 to 5 years: Euro 5,898 thousand; over 5 years: Euro 3,125 thousand) and accounts receivable, payable from 1 to 5 years, for Euro 1,055 thousand.

Prepaid expenses for lease payments made in advance for Euro 4,290 thousand (from 1 to 5 years: Euro 4,135 thousand; over 5 years: 155 thousand).

## 15. Inventories

The following table shows the breakdown of inventories:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Raw materials | 13,521 | 14,994 | (1,473) |
| Work in process and semi-finished products | - | 23 | (23) |
| Finished products and goods for resale | 322,366 | 288,612 | 33,754 |
| Furniture and fittings | 880 | 1,181 | (301) |
| **Total** | **336,767** | **304,810** | **31,957** |

Inventories of finished products include goods in transit acquired from countries in the Far East.
In 2016 there was an increase in the value of inventories for products from the 2016 Spring/Summer and Fall/Winter seasons. This is mainly due to the decline in comparable sales recorded by directly operated stores compared to the expected growth.

Furniture and fittings relate to furnishings that will be used or sold to franchisees for opening new Geox Shops.

The book value of inventories is not significantly different from their current cost at the end of the period.

Inventories are shown net of the provision for obsolete and slow-moving inventory, which is considered adequate for a prudent valuation of finished products from previous collections and raw materials that are no longer used.

The provision for obsolete and slow-moving inventory is analyzed below:

| | |
|---|---|
| **Balance at January 1** | **14,320** |
| Provisions | 13,951 |
| Translation differences | 49 |
| Utilizations | (14,250) |
| **Balance at December 31** | **14,070** |

The write-down mainly reflects the adjustment to market value based on statistical forecasts of discounted sales of products from previous collections.

## 16. Accounts receivable

Accounts receivable are made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Gross value | 176,156 | 162,911 | 13,245 |
| Provision for bad and doubtful accounts | (10,681) | (9,904) | (777) |
| Provision for returns and credit notes | (54,058) | (40,029) | (14,029) |
| **Net value** | **111,417** | **112,978** | **(1,561)** |

Accounts receivable amounted to Euro 176,156 thousand at December 31, 2016, showing an increase of Euro 13,245 thousand compared to December 31, 2015.

It's to be noted that, over the course of 2016, this item was influenced by non-recourse factoring transactions, amounted to Euro 21,894 thousand at the end of the year.

The following is an ageing analysis of accounts receivable:

| | Not yet due | Past due 0 - 90 days | Past due 91 - 180 days | Past due over 180 days | Total |
|---|---|---|---|---|---|
| Gross value of trade receivables at December 31, 2016 | 126,992 | 33,341 | 6,433 | 9,390 | **176,156** |
| Gross value of trade receivables at December 31, 2015 | 128,138 | 25,525 | 3,694 | 5,554 | **162,911** |

As regards the sales made to individual customers, there are no situations of particular concentration as all are well under the threshold of 10% of total revenues. The book value of trade receivables coincides with their fair value.

The Group continues to maintain tight control over credit. This management practice ensures that the investment in working capital is limited.

Accounts receivable are adjusted to their estimated realizable value by means of a provision for bad and doubtful accounts based on a review of individual outstanding balances. The provision at December 31, 2016 represents a prudent estimate of the current collection risk.

Changes in the provision during the year are as follows:

| **Balance at January 1** | **9,904** |
|---|---|
| Provisions | 2,545 |
| Translation differences | 38 |
| Utilizations | (1,806) |
| **Balance at December 31** | **10,681** |

The risk of customer insolvency is significantly mitigated as specific contracts with leading credit insurance companies cover credit risk on most of the turnover. The clauses provide that, initially, the insurance is configured solely as a request to accept the credit risk up to previously agreed credit limits. The insurance does become operating only after a formal communication of non-payment by the due date. The increase of the fund is relative to the prudent assessment of the risk on the portion of receivables not covered by insurance.

Changes in the provision for returns and credit notes during 2016 are as follows:

| **Balance at January 1** | **40,029** |
|---|---|
| Provisions | 53,008 |
| Translation differences | 127 |
| Utilizations | (39,106) |
| **Balance at December 31** | **54,058** |

The provision for returns has been estimated based on the potential returns and credit notes arising from the trade agreements signed with customers, in particular with franchising ones.

## 17. Other non-financial current assets

This item is made up as follows:

| | **Balance at Dec. 31, 2016** | **Balance at Dec. 31, 2015** | **Change** |
|---|---|---|---|
| Tax credits | 4,344 | 6,915 | (2,571) |
| VAT recoverable | 15,292 | 10,485 | 4,807 |
| Advances to vendors | 2,285 | 1,330 | 955 |
| Other receivables | 6,954 | 9,504 | (2,550) |
| Accrued income and prepaid expenses | 6,541 | 7,724 | (1,183) |
| **Total** | **35,416** | **35,958** | **(542)** |

As at December 31, 2016 the Group has a tax credit for an amount of Euro 1,891 thousand towards the ultimate Parent Company LIR S.r.l. .

Other receivables include:

- Euro 2,163 thousand due from a credit insurance representing the value of claims assigned for which reimbursement has not yet been received;
- Euro 750 thousand of customs duty paid in USA on the purchase of goods to be sent to Canada; the Group will obtain a rebate of this amount from the local tax authorities.

Prepaid expenses mainly include prepayments for rent and for other rentals.

## 18. Financial assets and liabilities

The book value of the financial assets and liabilities shown below coincides with their fair value.

The following table shows the breakdown of this item:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Term bank deposits | 23 | 23 | - |
| **Total non current financial assets** | **23** | **23** | **-** |
| Fair value derivative contracts | 19,656 | 17,110 | 2,546 |
| Loans granted by Geox | 1,341 | 265 | 1,076 |
| **Total current financial assets** | **20,997** | **17,375** | **3,622** |
| Fair value derivative contracts | (3,968) | (538) | (3,430) |
| Other current financial liabilities | (174) | (60) | (114) |
| **Total current financial liabilities** | **(4,142)** | **(598)** | **(3,544)** |

The term bank deposits of Euro 23 thousand include amounts lodged to guarantee rent contracts on foreign shops.

As regards the mark-to-market derivative contracts, see the comments in note 30.

## 19. Cash and cash equivalents

The amount of Euro 38,663 thousand relates to short term deposits for Euro 3,600 thousand, a current account in Euro for Euro 20,097 thousand, a current account in US Dollars for Euro 4,391 thousand, a current account in Chinese Yuan for Euro 2,582 thousand, a current account in Canadian Dollars for Euro 2,096 thousand, a current account in British Pound for Euro 1,671 thousand, a current account in Hong Kong Dollars for Euro 1,294 thousand, a current account in other currencies for the rest. The term deposits relate to investments of surplus cash remunerated at a rate linked to Euribor. The cash on the current account in US Dollars is used to pay suppliers in the Far East when their invoices fall due; it has a yield substantially in line with the reference rate. The cash on the other current accounts relates to receipts from customers on December 31, 2016 and temporary cash surpluses waiting to be used to make payments.

The book value of the financial assets and liabilities shown below coincides with their fair value.

## 20. Equity

### Share capital

The share capital of Euro 25,921 thousand is fully paid and is made up of 259,207,331 shares with a par value of Euro 0.10 each.

### Other reserves

This item is made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Legal reserve | 5,184 | 5,184 | - |
| Share premium reserve | 37,678 | 37,678 | - |
| Translation reserve | (4,066) | (2,733) | (1,333) |
| Reserve for cash flow hedges | 11,461 | 7,701 | 3,760 |
| Retained earnings | 281,529 | 287,104 | (5,575) |
| **Total** | **331,786** | **334,934** | **(3,148)** |

The legal reserve amounts to Euro 5,184 thousand. This reserve is not distributable.

The share premium reserve was set up for Euro 33,466 thousand in 2004 as a result of the public offering of shares which increased the share capital by Euro 850 thousand.
During 2005, this reserve was increased by Euro 1,548 thousand following the early exercise of a tranche of the stock option plans reserved for management; this involved an increase in capital of Euro 34 thousand.
During 2008, this reserve was increased by Euro 2,635 thousand following the early exercise of the stock option plans reserved for management; this involved an increase in capital of Euro 36 thousand.
During 2009, this reserve was increased by Euro 29 thousand following the early exercise of the stock option plans reserved for management; this involved an increase in capital of Euro 1 thousand.

The reserve for cash flow hedges, for Euro 11,461 thousand, originated as a result of valuing the financial instruments defined as cash flow hedges at December 31, 2016. Fair value valuation of cash flow hedges is stated net of the tax effect as explained in greater detail in note 30. This reserve is not distributable.

Retained earnings consist of unallocated results earned in previous years for an amount of Euro 193,792 thousand.

Amounts are shown net of tax, where applicable.

The following is a reconciliation between the Parent Company's equity and net income for the period and the Group's equity and net income for the period:

| Description | Net income for the period 2016 | Equity 12-31-16 | Net income for the period 2015 | Equity 12-31-15 |
|---|---|---|---|---|
| **Parent company's equity and net income** | **45** | **380,560** | **10,343** | **392,136** |
| Differences between the carrying value of the investments in subsidiaries and the Group share of their equity | 8,046 | (15,891) | 14,078 | (21,503) |
| Group share of affiliates' results | (1,963) | (1,963) | 5,672 | 5,672 |
| Effect of the reorganization in 2001 | 1,387 | - | 1,753 | (1,387) |
| Elimination of intragroup transactions on inventories | 347 | (12,769) | (1,569) | (13,115) |
| Elimination of intragroup dividens and investments write-off | (6,954) | - | (20,213) | - |
| Other adjustments | 1,102 | 9,780 | (56) | 9,060 |
| **Group equity and net income** | **2,010** | **359,717** | **10,008** | **370,863** |

## 21. Employee severance indemnities

Employee severance indemnities at December 31, 2016 amount to Euro 2,658 thousand, as shown in the following table:

| **Balance at December 31, 2015** | **2,597** |
|---|---|
| Amounts paid to leavers | (1,340) |
| Reversal of 0.50% withholding | (260) |
| Reversal of 11% flat-rate tax | (5) |
| Payments to supplementary pension schemes | (1,142) |
| Advances granted to employees | (250) |
| Provision for the period | 4,157 |
| Payments to supplementary pension schemes run by INPS | (1,172) |
| Change as a result of actuarial calculations | 61 |
| Translation differences | 12 |
| **Balance at December 31, 2016** | **2,658** |

Changes in the provision for severance indemnities during 2016 show a utilization of Euro 1,142 thousand for payments to supplementary pension funds and one of Euro 1,172 thousand for payments to supplementary pension schemes run by INPS. This is because, based on the legislative changes introduced by Law 296/06, with effect from June 30, 2007, severance indemnities accruing after January 1, 2007 have to be paid by companies (with more than 50 employees) to a special treasury fund set up by INPS or, if the employee prefers, to a supplementary pension fund that complies with D.Lgs 252/05.

Instead, companies book a short-term payable which is then cancelled when the amount is paid over to INPS.

The actuarial valuation of the severance indemnities is carried out on the basis of the Projected Unit Credit Method in accordance with IAS 19. This method involves measurements that reflect the average present value of the pension obligations that have accrued on the basis of the period of service that each employee has worked up to the time that the valuation is carried out, without extrapolating the employee's pay according to the legislative amendments introduced by the recent Pension Reform. The various stages of the calculation can be summarized as follows:

- for each employee on the books at the date of the valuation, an extrapolation of the severance indemnity already accrued up to the time that it will probably be paid;
- for each employee, a calculation of the severance indemnity that will probably have to be paid by the Company when the employee leaves due to dismissal, resignation, disability, death and retirement, as well as if an advance is requested;
- discounting the probable payments to the date of the valuation.

The actuarial model used for the valuation of the provision for severance indemnities is based on various assumptions, some demographic, others economic and financial. The main assumptions used in the model are as follows:

- mortality rates: RG48 life expectancy table
- disability rates: INPS tables split by age and gender
- employee turnover rate: 2.00%
- discount rate: 1.36%
- rate of severance indemnities increase: 2.625% for 2016, 2.85% for 2017, 2.775% for 2018, 2.7% for 2019, 3.00% from 2020 on
- inflation rate: 1.50% for 2016, 1.80% for 2017, 1.70% for 2018, 1.60% for 2019, 2.00% from 2020 on

The following table shows the effect that there would be on the obligation for the defined benefit obligation as a result of changes of significant actuarial assumptions at the year-end:

| **Changes in assumptions** | |
|---|---|
| +1% employee turnover rate | (29) |
| -1% employee turnover rate | 34 |
| +1/4% inflation rate | 55 |
| -1/4% inflation rate | (53) |
| +1/4% discount rate | (81) |
| -1/4% discount rate | 86 |

## 22. Provisions for liabilities and charges

This item is made up as follows:

| | Balance at Dec. 31, 15 | Utiliza-tion | Provi-sions | Translation differences | Actuarial adjustment | Balance at Dec. 31, 16 |
|---|---|---|---|---|---|---|
| Provision for agents' severance indemnities | 4,270 | (319) | 523 | 20 | 131 | 4,625 |
| Other | 992 | (571) | - | - | - | 421 |
| **Total** | **5,262** | **(890)** | **523** | **20** | **131** | **5,046** |

The "provision for agents' severance indemnities" is provided for on the basis of legislative rules and collective agreements that regulate situations in which agency mandates may be terminated. Provisions represent the best estimate of the amount that the business would have to pay to settle the obligation or transfer it to third parties at the balance sheet date. The cumulative effect of the actuarial valuation carried out in accordance with IAS 37 amounts to Euro 62 thousand.

"Other" reflects mainly an estimate of the risks involved in outstanding disputes.

## 23. Long-term loans

Long term loans amount to Euro 24,895 thousand and refer entirely to the parent company Geox S.p.A.. The item includes the long-term portion of the fixed rate loan signed in 2015 for a residual amount of Euro 10 million and expiring date March 31, 2018, the long-term portion of the floating rate loan signed in 2016 for a total amount of Euro 12.5 million and expiring date January 28, 2019, and the long term portion of the floating rate loan signed in 2016 for a total amount of Euro 20 million and expiring date July 19, 2019.

The loans are subject to a financial covenant for which Group net financial position must be lower than 90% of Group Equity, for the loan signed in 2015, and lower than 75% of Group Equity for the loans signed in 2016.
These covenants have been accomplished at balance sheet date.

## 24. Other long-term payables

This item is made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Guarantee deposits | 1,214 | 1,129 | 85 |
| Accrued expenses and deferred income | 7,895 | 1,131 | 6,764 |
| **Total** | **9,109** | **2,260** | **6,849** |

The guarantee deposits refer to amounts received from third parties to guarantee business lease contracts (for Geox Shops).

Accrued expenses and deferred income mainly relate to shop lease contracts and the amount due beyond 12 months of the grant received by Republic of Serbia for the construction and start-up of the factory in Vranje for a total amount of Euro 11,250 thousand.

## 25. Accounts payable

Accounts payable at December 31, 2016 amount to Euro 196,328 thousand, with an decrease of Euro 27,697 thousand if compared with December 31, 2015. All amounts are due within the next 12 months.

Terms and conditions of the above financial liabilities:

- Trade payables are normally settled within 30-90 days and do not generate interest;
- The terms and conditions applied to related parties are the same as those applied to third parties.

The book value of accounts payable coincides with their fair value.

## 26. Other non-financial current liabilities

This item is made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Social security institutions | 4,630 | 5,039 | (409) |
| Employees | 10,134 | 12,577 | (2,443) |
| Provisions for liabilities and charges | 5,097 | 5,034 | 63 |
| Other payables | 9,332 | 8,612 | 720 |
| Accrued expenses and deferred income | 7,777 | 10,872 | (3,095) |
| **Total** | **36,970** | **42,134** | **(5,164)** |

The amounts due to social security institutions mainly relate to pension contributions for 2016, paid in 2017.

The amounts due to employees include payroll, bonuses and accrued vacation not yet taken as of December 31, 2016.

The provisions for liabilities and charges mainly include the estimated costs related to the change in corporate governance started in the previous years.

Other payables are mainly advances received from customers and the short term part of the guarantee deposits received from third parties.

Accrued expenses and deferred income mainly relate to shop lease contracts for the period and the amount due within 12 months of the grant received by Republic of Serbia for the construction and start-up of the factory in Vranje.

## 27. Taxes payable

This item is made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| Witholding taxes | 3,809 | 4,059 | (250) |
| VAT payable | 5,335 | 2,172 | 3,163 |
| Income taxes for the period | 235 | 1,242 | (1,007) |
| **Total** | **9,379** | **7,473** | **1,906** |

## 28. Bank borrowings and current portion of long-term loans

This item is made up as follows:

| | Balance at Dec. 31, 2016 | Balance at Dec. 31, 2015 | Change |
|---|---|---|---|
| **Bank borrowings** | | | |
| - cash advances | 7,424 | 8,575 | (1,151) |
| - loans | 59,154 | 21,857 | 37,297 |
| **Total** | **66,578** | **30,432** | **36,146** |

The item "loans" includes the portion due within 12 months of the loans signed by the parent company Geox S.p.A. (see note 23) and the revolving credit lines entered over the course of 2016 by the parent company Geox S.p.A., for an amount of Euro 20 million, and by the subsidiary S&A Distribution Inc., for an amount of Usd 10 million.
The remaining part is based on self-liquidating technical forms (orders, invoices, bills).

## 29. Share-based payments

### Stock option plans

In accordance with IFRS 2, the adoption of a stock option plan requires that the fair value of the options at the grant date is recognized as a cost. This cost is charged to the income statement over the vesting period, and a specific equity reserve is booked. The fair value of these options has been determined by an independent expert using the binomial method.

At the date of this report there are two cycles of stock option plans. The cycles are made up of a vesting period, from the date the options are granted, and a maximum period to exercise them (exercise period). Any options not vesting or, in any case, not exercised by the expiration date are automatically cancelled to all effects, releasing both the Company and the beneficiary from all obligations and liabilities.

The ability to exercise the options, which is determined tranche by tranche, depends on the Company achieving certain cumulative targets during the vesting periods, based on economic ratios, as shown in the Geox Group's consolidated business plan. If targets are not achieved, no costs are charged to the Financial Statements.

## 30. Risk management: objectives and criteria

### Credit risk

Geox Group policy is to insure its trade receivables, thereby minimizing the risk of bad debts due to non-payment and/or significant payment delays on the part of customers. The policy of insuring against credit risk is applied to the main part of the Geox Group's accounts receivable from third parties.

The maximum risk involved in the Group's financial assets, which include cash and cash equivalents, derivative and other financial assets, is the book value of these assets in the event of counterparty insolvency (see note 16).

### Interest rate risk

Indebtedness to the banking system exposes the Group to the risk of interest rate fluctuations. Floating rate loans, in particular, run the risk of cash flow variations. At 31 December 2016, the Group's indebtedness to the banking system amounts to Euro 91.5 million and is partially floating rate. This floating rate debt is based on technical forms related to working capital and is therefore self-liquidating (orders, invoices, bills); in other words, it is short term and linked to the Group's normal business activity with frequent extinctions and re-openings during the course of the year according to seasonal nature of the sector's financial cycle.
In this context, given expectations of lower interest rates and the short-term nature of the debt, the Group did not deem it necessary to implement general policies to hedge the risk of interest rate fluctuations, but rather entered into a 3-year Interest Rate Swap (IRS) transaction to hedge the medium-long term loan taken out in 2016 for an amount of Euro 20,000 thousand and a 0.62% rate.

In terms of sensitivity analysis, we would emphasize that a positive (negative) variation of 50 b.p. in the level of interest rates applicable to short-term variable-rate financial liabilities that are not hedged would have resulted in a higher (lower) annual financial burden, gross of tax, of approximately Euro 416 thousand.

### Exchange risk

The Geox Group also carries on its activity in countries outside the Euro-zone, which means that exchange rate fluctuations are an important factor to be taken into consideration.

The principal exchange rates to which the Group is exposed are the following:

- EUR/USD, in relation to purchases of finished product in U.S. dollars, made by Geox S.p.A., typically in the Far East, where the U.S. dollar is the reference currency for trade;
- EUR/GBP, EUR/CHF, EUR/RUB, EUR/PLN in relation to sales in the British, Swiss, Russian and Polish territories;
- USD/CAD, in relation to sales in Canadian dollars made by the subsidiary of the Group in the U.S. to Canada.

The Group initially calculates the amount of exchange risk, from trading transactions forecast for the coming 12 months, that is involved in the budget for the coming period. It then gradually hedges this risk during the process of order acquisition to the extent that the orders match the forecasts. These hedges take the form of specific forward contracts and options for the purchase and sale of the foreign currency. Group policy is not to arrange derivative transactions for speculative purposes.

The Board of Directors believes that the risk management policies adopted by the Geox Group are appropriate.

Group companies may find themselves with trade receivables or payables denominated in a currency different from the money of account of the company itself. In addition, it may be convenient from an economic point of view, for companies to obtain finance or use funds in a currency different from the money of account. Changes in exchange rates may result in exchange gains or losses arising from these situations. It is the Group’s policy to hedge fully, whenever possible, the exposure resulting from receivables, payables and securities denominated in foreign currencies different from the company’s money of account.

Some of the Group’s subsidiaries are located in countries which are not members of the European monetary union. As the Group’s reference currency is the Euro, the income statements of those entities are converted into Euro using the average exchange rate for the period, and while revenues and margins are unchanged in local currency, changes in exchange rates may lead to effects on the converted balances of revenues, costs and the result in Euro.

The assets and liabilities of consolidated companies whose money of account is different from the Euro may acquire converted values in Euro which differ based on the fluctuation in exchange rates. The effects of these changes are recognized directly in the item Cumulative Translation Adjustments reserve, included in Other Comprehensive income.

There have been no substantial changes in 2016 in the nature or structure of exposure to currency risk or in the Group's hedging policies.

The Group's financial statements as at December 31, 2016, could be materially affected by fluctuations in the exchange rates, mainly referred to the US dollar. The impact on the Group's result at December 31, 2016 resulting from a hypothetical, unfavorable and instantaneous change of 10% in the exchange rates of the leading foreign currencies with the Euro would have been approximately Euro 667 thousand, while in case of a favorable change of 10% in exchange rates the impact would have been approximately Euro 642 thousand.
Receivables, payables and future trade flows whose hedging transactions have been analyzed were not considered in this analysis. It is reasonable to assume that changes in exchange rates will produce the opposite effect, of an equal or greater amount, on the underlying transactions that have been hedged.

**Liquidity risk**

The sector in which the Group operates is very seasonal in nature. The year can be split into two collections (Spring/Summer and Fall/Winter), which more or less coincide with the first and second half. On the one hand, purchases and production are concentrated in the three months prior to the half-year in question, leading to an increase in inventory and, subsequently, the absorption of cash. On the other hand the wholesale and franchising sales are concentrated in the first three months of the half-year in question, transforming inventory into receivables. The same period sees the completion of payment of accounts payable. Receipts from customers and end consumers, on the other hand, are collected before the end of the half-year in question. These situations bring about very strong seasonal trends, also in the Group's financial cycle, which leads to peaks of absorption of financial resources in December to February and in June to August.

The Group manages liquidity risk by maintaining tight control over the various components of working capital, especially inventory and accounts receivable. The Group's credit risk hedging policies guarantee short-term collection of all accounts receivable, even those from customers in financial difficulty, eliminating almost entirely the risk of insolvency. In addition, the finished products remained in stores at the end of the season are then disposed of in a planned way in the outlets owned by the Group and through promotional sales to third parties.

The Group also has bank lines of credit in line with the strong balance sheet and which are also roomy compared to seasonal phenomena described above.

## Fair value and related hierarchy

As at December 31, 2016 financial instruments are as follows:

| | Notional value on 12-31-16 | Fair value on 12-31-16 (debit) | Fair value on 12-31-16 (credit) | Notional value on 12-31-15 | Fair value on 12-31-15 (debit) | Fair value on 12-31-15 (credit) |
|---|---|---|---|---|---|---|
| FX Forward buy agreements to hedge exch. rate risk | 125,261 | 6,275 | (130) | 107,613 | 2,785 | (369) |
| FX Forward sell agreements to hedge exch. rate risk | 151,854 | 1,063 | (3,769) | 136,485 | 3,347 | (169) |
| FX Currency Option agreem. to hedge exch. rate risk | 222,939 | 12,318 | - | 273,881 | 10,978 | - |
| Interest Rate Swap | 20,000 | - | (69) | - | - | - |
| **Total financial assets/(liabilities)** | **520,055** | **19,656** | **(3,968)** | **517,979** | **17,110** | **(538)** |

IFRS 7 requires financial instruments recognized in the statement of financial position at fair value to be classified on the basis of a hierarchy that reflects the significance of the inputs used in determining fair value.

The following levels are used in this hierarchy:

- Level 1 – quoted prices in active markets for the assets or liabilities being measured;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) on the market;
- Level 3 – inputs that are not based on observable market data.

All the financial assets and liabilities measured at fair value at December 31, 2016 are classified on Level 2. In 2016 there were no transfers from Level 1 to Level 2 or to Level 3 or vice versa.

The Group holds the following derivatives to cover exchange rate fluctuations at December 31, 2016:

- FX forward exchange agreements to hedge future purchases and sales of foreign currency;
- FX Currency Option agreements for future purchases and sales of foreign currency.

These agreements hedge future purchases and sales planned for the Spring/Summer 2017 and Fall/Winter 2017 seasons.

The fair value mentioned above agrees with the amount shown in the balance sheet. The fair value measurement of the derivatives being analyzed was carried out by means of independent valuation models on the basis of the following market data posted on December 31, 2016:

- Short-term interest rates on the currencies in question as quoted on www.euribor.org and www.bba.org.uk;
- The spot exchange rates taken directly from the European Central Bank's website and the relative volatility posted by Bloomberg.

With regard to derivative financial instruments to hedge the interest rate risk, at December 31, 2016, the Group held only an Interest Rate Swap (IRS), used to alter the profile of original interest rate risk exposure from variable rate to fixed rate. On set dates, this IRS exchanges interest flows with the counterparties, calculated on the basis of a reference notional value, at the agreed fixed and variable rates.

## 31. Related-party transactions

Pursuant to IAS 24, the Group's related parties are companies and people who are unable to exercise control or significant influence and associated companies. Finally, are considered related parties the members of the Board of Directors, the Statutory Auditors and Executives with strategic roles of the Group and their families.

The Group has dealings with the ultimate parent company (LIR S.r.l.) and with third parties that are directly or indirectly linked by common interests to the majority shareholder. The commercial relations with these parties are based on the utmost transparency and normal market conditions. Net sales mainly relate to the sale of "Geox" products in monobrand shops owned by managers that work for the Group. General and administrative expenses principally relate to leases for buildings used by the Group.

The main effects on profit and loss of the transactions with these parties for 2016 and 2015 are summarized below:

| | Total 2016 | Parent company | Affiliated company | Other related parties | Total of which related parties | Effect on Total (%) |
|---|---|---|---|---|---|---|
| Net sales | **900,763** | - | 261 | 2,032 | **2,293** | **0.25%** |
| Cost of sales | **(471,314)** | - | 48 | - | **48** | **(0.01%)** |
| General and administrative expenses | **(324,987)** | (297) | 4,567 | 591 | **4,861** | **(1.50%)** |
| Advertising and promotion | **(36,798)** | (285) | (1) | 16 | **(270)** | **0.73%** |

| | Total 2015 | Parent company | Affiliated company | Other related parties | Total of which related parties | Effect on Total (%) |
|---|---|---|---|---|---|---|
| Net sales | **874,304** | - | 275 | 2,278 | **2,553** | **0.29%** |
| Cost of sales | **(423,492)** | - | 47 | - | **47** | **(0.01%)** |
| General and administrative expenses | **(334,252)** | (290) | 4,137 | (103) | **3,744** | **1.12%** |
| Advertising and promotion | **(42,292)** | (306) | - | 28 | **(278)** | **0.66%** |

The main effects on financial statement of the transactions with these parties at December 31, 2016 and at December 31, 2015 are summarized below:

| | Balance at Dec. 31, 2016 | Parent company | Affiliated company | Other related parties | Total of which related parties | Effect on Total (%) |
|---|---|---|---|---|---|---|
| Accounts receivable | **111,417** | 46 | 1,468 | - | **1,514** | **1.36%** |
| Other non-financial current assets | **35,416** | 1,902 | - | - | **1,902** | **5.37%** |
| Accounts payable | **196,328** | 215 | 975 | - | **1,190** | **0.61%** |

| | Balance at Dec. 31, 2015 | Parent company | Affiliated company | Other related parties | Total of which related parties | Effect on Total (%) |
|---|---|---|---|---|---|---|
| Accounts receivable | **112,978** | - | 1,991 | 2,547 | **4,538** | **4.02%** |
| Other non-financial current assets | **35,958** | 1,902 | - | - | **1,902** | **5.29%** |
| Accounts payable | **224,025** | 177 | 486 | 1,162 | **1,825** | **0.81%** |
| Taxes payable | **7,473** | 258 | - | - | **258** | **3.45%** |

## 32. Dividends paid and proposed

| | 2016 | 2015 |
|---|---|---|
| Dividends declared and paid during the year: | 15,552 | - |
| Dividends declared and paid during the year - per share: | 0.06 | - |
| Dividends proposed to the shareholders' meeting (not yet recognized as a liability at December 31)*: | 5,184 | 15,552 |
| Dividends proposed to the shareholders' meeting (not yet recognized as a liability at December 31) - per share**: | 0.02 | 0.06 |

* For 2016, the figure in Euro/thousand is calculated on the 259,207,331 shares outstanding on March 2, 2017
** Amount in Euro

## 33. Commitments and contingent liabilities

The Group has stipulated leases for a number of industrial and commercial premises with an average duration of 5-6 years in Italy and 10 years on average abroad. In certain cases, mainly in Italy, the contract provides for tacit renewal on expiry for another 6 years. These contracts can be index-based according to the annual trend in ISTAT's consumer-price index.

The future rental payments under these contracts, as of December 31, are as follows:

| | 12-31-2016 |
|---|---|
| Within 1 year | 76,740 |
| Within 1-5 years | 159,389 |
| Beyond 5 years | 73,841 |
| **Total** | **309,970** |

## 34. Significant subsequent events after December 31, 2016

The Geox S.p.A. Board of Directors dated January 12, 2017 announced that the Company and Giorgio Presca had reached an agreement to terminate Mr Presca's relationship as an employee and Director effective from that day.

In the same date Geox S.p.A. held a Board of Directors meeting, chaired by Mario Moretti Polegato, which co-opted Gregorio Borgo to the Board and subsequently appointed him as the Company's new Chief Executive Officer, with effect from January 12, 2017.

No other subsequent events occured after December 31, 2016.

***

Biadene di Montebelluna, March 2, 2017

for the Board of Directors
The Chairman
Mr. Mario Moretti Polegato

**Attachment I**

Biadene di Montebelluna, March 2, 2017

## ATTESTATION

## OF THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ART- 154-BIS, PARAS. 5 AND 5-BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998 "THE FINANCIAL INTERMEDIATION CODE".

The undersigned Giorgio Presca, Chief Executive Officer of Geox S.p.A. and Livio Libralesso, Financial Reporting Manager of Geox S.p.A., attest, bearing in mind the provisions of art. 154-bis, paras. 3 and 4 of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the enterprise and
- the effective application,

of the administrative and accounting procedures for preparing the consolidated financial statements during 2016.

They also confirm that the consolidated financial statements:

a) agree with the books of account and accounting entries;

b) are prepared in accordance with the International Financial Reporting Standards adopted by the European Union, as well as the provisions issued to implement art. 9 of Legislative Decree 38/2005, and to the best of their knowledge, they are able to give a true and fair view of the assets and liabilities, results and financial position of the Issuer and of the other enterprises included in the consolidation;

c) provide a fair and correct representation of the financial conditions, results of operations and cash flows of the Company as of December 31, 2016 and for the year 2016;

d) Director's report includes a reliable operating and financial review of the Company as well as a description of the main risks and uncertainties to which it is exposed.

| | |
|---|---|
| Gregorio Borgo<br>CEO | Livio Libralesso<br>Financial Reporting Manager |

## Attachment 2

Pursuant to Art. 149-duodecies of the Issuers' Regulations:

| Type of services | Entity that provided the services | Beneficiary | Fees 2016 (Euro/000) | Fees 2015 (Euro/000) |
|---|---|---|---|---|
| Auditing | Auditors of the Parent Company | Parent company | 133 | 133 |
| Attestation services | Auditors of the Parent Company | Parent company | - | - |
| Tax advisory services | Same network as the Parent Company's auditors | Parent company | 42 | 80 |
| Other services | Auditors of the Parent Company | Parent company | - | - |
| **Total Parent Company** | | | **175** | **213** |
| Auditing | i) Auditors of the Parent Company | Subsidiaries | 22 | 22 |
| | ii) Same network as the Parent Company's auditors | Subsidiaries | 164 | 160 |
| Attestation services | i) Auditors of the Parent Company | Subsidiaries | - | - |
| | ii) Same network as the Parent Company's auditors | Subsidiaries | - | - |
| Tax advisory services | i) Auditors of the Parent Company | Subsidiaries | - | - |
| | ii) Same network as the Parent Company's auditors | Subsidiaries | - | - |
| Other services | i) Auditors of the Parent Company | Subsidiaries | - | - |
| | ii) Same network as the Parent Company's auditors | Subsidiaries | 3 | 12 |
| **Total Subsidiaries** | | | **189** | **194** |
| **Total** | | | **364** | **407** |

## Attachment 3

## LIST OF COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016

| Name | Location | Year end | Currency | Share capital | % held Directly | % held Indirectly | Total |
|---|---|---|---|---|---|---|---|
| - Geox S.p.A. | Biadene di Montebelluna (TV), Italy | Dec. 31 | EUR | 25,920,733 | | | |
| - Geox Deutschland Gmbh | Munich, Germany | Dec. 31 | EUR | 500,000 | 100.00% | | 100.00% |
| - Geox Respira SL | Barcelona, Spain | Dec. 31 | EUR | 1,500,000 | 100.00% | | 100.00% |
| - Geox Suisse SA | Lugano, Switzerland | Dec. 31 | CHF | 200,000 | 100.00% | | 100.00% |
| - Geox UK Ltd | London, U.K. | Dec. 31 | GBP | 1,050,000 | 100.00% | | 100.00% |
| - Geox Japan K.K. | Tokyo, Japan | Dec. 31 | JPY | 100,000,000 | | 100.00% | 100.00% |
| - Geox Canada Inc. | Mississauga, Canada | Dec. 31 | CAD | 100 | | 100.00% | 100.00% |
| - S&A Distribution Inc. | New York, Usa | Dec. 31 | USD | 1 | | 100.00% | 100.00% |
| - Geox Holland B.V. | Breda, Netherlands | Dec. 31 | EUR | 20,100 | 100.00% | | 100.00% |
| - Geox Retail S.r.l. | Biadene di Montebelluna (TV), Italy | Dec. 31 | EUR | 100,000 | 100.00% | | 100.00% |
| - Geox Hungary Kft | Budapest, Hungary | Dec. 31 | HUF | 10,000,000 | 99.00% | 1.00% | 100.00% |
| - Geox Hellas S.A. | Athens, Greece | Dec. 31 | EUR | 220,000 | 100.00% | | 100.00% |
| - Geox Retail Slovakia Sro | Prievidza, Slovak Rep. | Dec. 31 | EUR | 6,639 | | 100.00% | 100.00% |
| - Geox France Sarl | Sallanches, France | Dec. 31 | EUR | 15,000,000 | 100.00% | | 100.00% |
| - S&A Retail Inc. | New York, Usa | Dec. 31 | USD | 200 | | 100.00% | 100.00% |
| - Geox Asia Pacific Ltd | Hong Kong, China | Dec. 31 | USD | 1,282 | | 100.00% | 100.00% |
| - XLog S.r.l. | Signoressa di Trevignano (TV), Italy | Dec. 31 | EUR | 110,000 | 100.00% | | 100.00% |
| - Geox Rus LLC | Moscow, Russian | Dec. 31 | RUB | 900,000 | 100.00% | | 100.00% |
| - Geox AT Gmbh | Wien, Austria | Dec. 31 | EUR | 35,000 | 100.00% | | 100.00% |
| - Geox Poland Sp. Z.o.o. | Warszawa, Poland | Dec. 31 | PLN | 5,000 | | 100.00% | 100.00% |
| - Geox Portugal S.U. LDA | Lisbon, Portugal | Dec. 31 | EUR | 300,000 | 100.00% | | 100.00% |
| - Technic Development D.O.O. Vranje | Vranje, Serbia | Dec. 31 | RSD | 802,468,425 | 100.00% | | 100.00% |
| - Geox Macau Ltd | Macau, China | Dec. 31 | MOP | 5,000,000 | | 100.00% | 100.00% |
| - Geox Trading Shangai Ltd | Shanghai, China | Dec. 31 | CNY | 69,269,816 | | 100.00% | 100.00% |
| - Dongguan Technic Footwear Apparel Design Ltd | Dongguan, China | Dec. 31 | CNY | 3,795,840 | | 100.00% | 100.00% |
| - Geox Turkey A.Ş. | Istanbul, Turkey | Dec. 31 | TRY | 1,750,000 | 100.00% | | 100.00% |
| - Technic Development Vietnam Company Ltd | Ho Chi Minh City, Vietnam | Dec. 31 | VND | 3,403,499,500 | | 100.00% | 100.00% |

## Company's data and information for Shareholders

### Registered office

Via Feltrina Centro, 16
31044 Biadene di Montebelluna (TV)

### Legal data

Share Capital: Euro 25,920,733.1 i.v.
Economic and Administrative Database no. 265360
Treviso Commercial Register and Taxpayer's Code no. 03348440268

### Investor Relations

Marina Cargnello
marina.cargnello@geox.com
ph. +39 0423 282476
Livio Libralesso
General Manager – Corporate – CFO

### Documents for shareholders

www.geox.biz
(investor relations section)