

Ferrari N.V.
2016 ANNUAL REPORT

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Board of Directors and Auditors

Board of Directors

Chairman and Chief Executive Officer

Sergio Marchionne

Directors

Amedeo Felisa

John Elkann

Piero Ferrari

Delphine Arnault

Louis C. Camilleri

Eddy Cue

Giuseppina Capaldo

Sergio Duca

Lapo Elkann

Adam Keswick

Maria Patrizia Grieco

Elena Zambon

Independent Auditors

Ernst & Young Accountants LLP

Letter from the Chairman and Chief Executive Officer

Shareholders,

2016 was an unforgettable year for Ferrari, one that began auspiciously on January 4th with Ferrari's listing on the MTA managed by Borsa Italiana and the completion of the company's spin-off from FCA. The listing ceremony, attended by the former Italian Prime Minister, who spoke to a packed house of media, captains of industry, Ferrari clients, board members and colleagues, went beyond a financial event, it was a celebration of a great Italian brand admired by people everywhere.

In 2016 we set the scene for what is destined to be an exciting 2017, one in which Ferrari marks its 70th anniversary. The celebrations already began at the Paris Motor Show in October with the unveiling of our 70th anniversary celebratory model, the LaFerrari Aperta, the spider version of the limited-edition special series supercar LaFerrari. We also announced an ambitious Tailor Made project, one which will see 70 liveries of iconic Ferraris of the past interpreted in a contemporary way on each of the five range models for a total of 350 special edition liveries. Needless to say, both the LaFerrari Aperta and the liveries were sold out before they were even made public.

In terms of results, we posted new financial records and earned the approval of the markets. While the stock price saw a decrease in the first half of the year, it made a well-deserved comeback in the last few months, demonstrating that in the longer term the market rewards the sound business fundamentals Ferrari has to offer. For those who were skeptical about the Ferrari IPO, fearing that we might sacrifice the DNA of the brand for short term gains, I think we have shown that it is possible to stand by the principles of the business while creating shareholder value.

To highlight just a few key figures, we delivered 8,014 cars to the dealership network, a 4.6% increase over the previous year while net revenues grew 8.8%. Interestingly, our biggest growth came in the EMEA region where shipments increased by 8%, underlining that even in our most established markets, Ferrari still has underexploited potential. We grew in all other regions as well, with deliveries in Greater China increasing by 1%, rest of APAC increasing by 3% and the Americas showing a 2% increase.

Another metric worth pointing out is our adjusted EBITDA, which has already reached €880 million with a margin of 28.3% (and 30.0% without FX hedges) in line with other luxury peers, proof we are well on our way to reaching the €1 billion adjusted EBITDA objective set out in the Business Plan during the IPO roadshow.

As far as the product range, 2016 saw the introduction of the GTC4Lusso, the new 12-cylinder four seater Ferrari with four wheel drive and four wheel steering featuring an elegant shooting break design. In an unprecedented move, we also launched the GTC4Lusso T, an 8-cylinder version of the same car, but aimed at a different clientele who prefers a sportier driving experience. This is just one of the ways in which we plan to expand our product portfolio to meet the needs of our increasingly diverse customers and capture new market share. Furthermore, in addition to the 70th anniversary celebratory models already mentioned, we introduced a *Fuoriserie* of bespoke cars, the J50 to mark Ferrari's 50th year in the Japanese market.

This year, Ferrari's technical prowess was rewarded with the most important accolade in the automotive industry, the overall "Engine of the Year" Award for the 488 turbo series, a great recognition for the engineers who worked tirelessly to fine-tune this V8 engine. The success of the 488 series is also reflected in the figures, with shipments of 8 cylinder models up 5%. Shipments of the 12 cylinder models were up 4% thanks to the newly launched GTC4Lusso and LaFerrari Aperta, and the strong performance of the F12tdf.

Innovation in product development is in our blood and we will continue to push boundaries. This is why we are now working hard on bringing hybrid technology to our product range in the coming years. But rest assured, we will introduce new technology in the "Ferrari way", so that it serves to enhance the driving emotion we are known for.

2016 was also the year we held the Ferrari Finali Mondiali in the U.S.A. for the first time, on the legendary banks of Daytona's International Speedway. It was a real delight for drivers, clients and spectators to see the Ferrari Challenge season culminate on this illustrious track where, notably in 1967 Ferrari took the triple victory at the 24 Hours of Daytona. While in Daytona we also introduced the 488 Challenge, which will replace the 458 Challenge in our one-make championship series.

Speaking of Daytona, let me say a few words about our GT racing activities. This year was the first year we competed with the 488 GTE and 488 GT3 and the racing car already showed its huge potential clinching the FIA World Cup for GT Manufacturers and the GTD Class in the IMSA SportsCar Championship.

As you know, this has been a challenging year for our home country, with central Italy being shaken to the core and left in ruins after a series of very strong earthquakes. Ferrari is doing its part to help. We donated a LaFerrari that was auctioned at the Finali Mondiali in Daytona for the National Italian American Foundation's Earthquake Relief Fund. Thanks to a very generous client and the professional expertise of RM Auctions we raised a staggering \$7 million, a record for the highest price ever fetched at auction of a 21st century automobile. All proceeds will go to the reconstruction of a school complex in Amatrice.

2017 will see the opening of Ferrari Land in the Spanish amusement park of PortAventura, along with the expansion of our Ferrari Museum in Maranello. The Ferrari museums had over 470,000 visitors in 2016, a record for a privately held museum of this kind, and testimony to the huge appeal of the brand.

In closing, let me make a brief comment on the topic of Formula One. Needless to say the 2016 season is best forgotten. However, with the new technical team in place, led by Mattia Binotto and the continued leadership of Maurizio Arrivabene, as well as our talented drivers Kimi Raikkonen and Sebastian Vettel, I know we have the right people in place to do the job. The 2017 season is full of unknowns, due to the many changes in both the regulations and the management of the sport, so I am reluctant to make any predictions. What I can promise is that we are fighters, and that we have the drive, commitment and passion to get back on top of this sport.

Let me take this opportunity, dear Shareholders, to thank you for your support. I am convinced, more than ever, that this is only the beginning of our journey, and that there is much value left to create while maintaining the principles of innovation, passion and exclusivity that have made Ferrari the legend that it is today.

March 3, 2017

Sergio Marchionne

Chairman & Chief Executive Officer

Certain Defined Terms and Note on Presentation

Certain Defined Terms

In this report, unless otherwise specified, the terms “we,” “our,” “us,” the “Group,” the “Company” and “Ferrari” refer to Ferrari N.V., individually or together with its subsidiaries, as the context may require. References to “Ferrari N.V.” refer to the registrant (formerly named FE New N.V.) following completion of the Separation and to the registrant's predecessor (formerly named New Business Netherlands N.V.), prior to completion of the Separation. References to “FCA” or “FCA Group” refer to Fiat Chrysler Automobiles N.V., together with its subsidiaries and its predecessor prior to the completion of the merger of Fiat S.p.A. with and into FCA on October 12, 2014 (at which time Fiat Investments N.V. was named Fiat Chrysler Automobiles N.V., or FCA), or any one of them, as the context may require. References to “Fiat” refer solely to Fiat S.p.A., the predecessor of FCA. References to the “Separation” refer to the series of transactions through which the Ferrari business was separated from FCA as described in the section “Overview.”

See “Basis of Preparation of the Consolidated Financial Statements” below for additional information regarding the financial presentation.

Note on Presentation

This Annual Report includes the consolidated financial statements of Ferrari N.V. as of December 31, 2016 and 2015, and for the years ended December 31, 2016, 2015 and 2014 prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”) and with Part 9 of Book 2 of the Dutch Civil Code. We refer to these consolidated financial statements collectively as the “Consolidated Financial Statements.”

Basis of Preparation of the Consolidated Financial Statements

As explained in Note 1 to the Consolidated Financial Statements and in “Overview - History of the Company”, on October 29, 2014, Fiat Chrysler Automobiles N.V. (“FCA”) announced its intention to separate Ferrari S.p.A. from FCA. The separation was completed on January 3, 2016 and occurred through a series of transactions (together defined as the “Separation”) including (i) an intra-group restructuring which resulted in the Company’s acquisition of the assets and business of Ferrari North Europe Limited and the transfer by FCA of its 90 percent shareholding in Ferrari S.p.A. to the Company, (ii) the transfer of Piero Ferrari’s 10 percent shareholding in Ferrari S.p.A. to the Company, (iii) the initial public offering of common shares of the Company, and (iv) the distribution, following the initial public offering, of FCA’s remaining interest in the Company to its shareholders. After the Separation, which took place on January 3, 2016, Ferrari operates as an independent, publicly traded company.

The transactions described above in (i) and (ii) (referred to collectively as the “Restructuring”) were completed in October 2015 through the following steps:

- The Company acquired from Ferrari North Europe Limited its assets and business of providing sales, after-sales and support services for the Ferrari brand and in exchange, the Company issued to Ferrari North Europe Limited a note in the principal amount of £2.8 million (the “FNE Note”).
- FCA transferred to the Company all of the issued and outstanding share capital that it previously held in Ferrari S.p.A. (representing 90 percent of the share capital of Ferrari S.p.A.), and in exchange the Company issued to FCA a note in the principal amount of €7.9 billion (the “FCA Note”).
- FCA contributed €5.1 billion to the Company in consideration of the issue to FCA of 156,917,727 common shares and 161,917,727 special voting shares of the Company. Following a subsequent transaction with Piero Ferrari, FCA owned 170,029,440 common shares and special voting shares, equal to 90 percent of the Company’s common shares outstanding. €5.1 billion of the proceeds received from FCA were applied to settle a portion of the FCA Note, following which the principal outstanding on the FCA Note was €2.8 billion, which was refinanced through cash deposits held with FCA and for the remainder from new third party debt.
- Piero Ferrari transferred his 10 percent interest in Ferrari S.p.A. to the Company and in exchange, the Company issued to Piero Ferrari 27,003,873 of its common shares and the same number of special voting shares. Following a subsequent transaction with FCA, Piero Ferrari owned 18,892,160 common shares and special voting shares, equal to 10 percent

of the Company's common shares outstanding. The Company did not receive any cash consideration as part of this transaction.

The Restructuring comprised: (i) a capital reorganization of the group under the Company, which has been accounted for in the Consolidated Financial Statements as though it had occurred effective January 1, 2014 using FCA's basis of accounting (see Note 21 "Equity" to the Consolidated Financial Statements), and (ii) the issuance of the FCA Note, which has been reflected in the Consolidated Financial Statements only from the date in which it occurred (see Note 24 "Debt" to the Consolidated Financial Statements).

The remaining steps of the Separation, which were completed between January 1 and January 3, 2016 through two consecutive demergers followed by a merger under Dutch law, have been reflected in the Consolidated Financial Statements only from the date in which the related transactions occurred and had no impact on the Company's results of operations or financial position. As part of the Separation a new entity, FE New N.V., was created. Pursuant to the demergers the shares in the Company held by FCA were ultimately transferred to FE New N.V., with FE New N.V. issuing shares in its capital to the shareholders of FCA. In connection with the demergers, the mandatory convertible security holders of FCA also received shares in FE New N.V. On completion of the Separation the Company was merged with and into FE New N.V. and FE New N.V. was renamed Ferrari N.V.

Following the Separation and at December 31, 2016, the share capital of the Company amounted to €2,504 thousand, comprising 193,923,499 common shares and 56,497,618 special voting shares all with nominal value of €0.01 per share. At December 31, 2016, Ferrari N.V. had 5,000,000 common shares and 2,930 special voting shares held in treasury.

Also following the Separation, the cash pooling and financial liabilities with the FCA Group were settled and the relevant agreements were terminated. The derivative contracts that were previously held by FCA were novated to Ferrari S.p.A.

Following the completion of the Separation, on January 4, 2016 the Company also completed the listing of its common shares on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana, under the ticker symbol RACE.

The Group's financial information is presented in Euro. In some instances, information is presented in U.S. Dollars. All references in this Annual Report to "Euro" and "€" refer to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty on the Functioning of the European Union, as amended, and all references to "U.S. Dollars," "U.S.\$" and "\$" refer to the currency of the United States of America (the "United States").

The language of this Annual Report is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

Certain totals in the tables included in this Annual Report may not add due to rounding.

Selected Financial and Other Data

The following tables set forth selected historical consolidated financial and other data of Ferrari and have been derived from:

- (i) the audited Consolidated Financial Statements, included elsewhere in this Annual Report;
- (ii) the audited consolidated income statement of the Company for the years ended December 31, 2013 and 2012 and the audited consolidated statement of financial position at December 31, 2014 and 2013;
- (iii) the unaudited statement of financial position at December 31, 2012.

This financial information has been prepared in accordance with IFRS.

For the purposes of the financial information set forth in this section, with the exception of the FCA Note and subsequent refinancing, which were reflected from the dates on which they occurred, the Restructuring has been retrospectively reflected as though it had occurred effective January 1, 2012.

The following information should be read in conjunction with the sections “Certain Defined Terms and Note on Presentation - Note on Presentation,” “Risk Factors,” “Operating Results” and the Consolidated Financial Statements included elsewhere in this Annual Report. Historical results for any period are not necessarily indicative of results for any future period.

Consolidated Income Statement Data

	For the years ended December 31,				
	2016	2015	2014	2013	2012
	(€ million, except per share data)				
Net revenues	3,105	2,854	2,762	2,335	2,225
EBIT	595	444	389	364	335
Profit before taxes	567	434	398	366	334
Net profit	400	290	265	246	233
Net profit attributable to:					
Owners of the parent	399	288	261	241	225
Non-controlling interests	1	2	4	5	8
Basic earnings per common share (€) ⁽¹⁾	2.11	1.52	1.38	1.27	1.19
Diluted earnings per common share (€) ⁽²⁾	2.11	1.52	1.38	1.27	1.19
Dividend paid per share (€)	—	—	—	—	—
Distribution paid per common share (€) ⁽³⁾	0.46	—	—	—	—

(1) Retrospectively reflects the issuance of 188,923,499 common shares as if the Separation had occurred on January 1, 2012. See also Notes 13 and 21 to the Consolidated Financial Statements.

(2) For the years ended December 31, 2015, 2014, 2013 and 2012 there were no potentially dilutive instruments. In order to calculate the diluted earnings per share for the year ended December 31, 2016, the weighted average numbers of shares outstanding has been increased to take into consideration the theoretical effect of the potential common shares that would be issued for the Non-Executive Directors’ compensation agreement. See Note 17 to the Consolidated Financial Statements.

(3) Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 15, 2016, the Company paid a cash distribution of €0.46 per common share in May 2016, corresponding to a total distribution of €87 million. The distribution was made from the share premium reserve which is a distributable reserve under Dutch law.

Consolidated Statement of Financial Position Data

	At December 31,				
	2016	2015	2014	2013	2012
	(€ million, except shares issued)				
Cash and cash equivalents	458	183	134	114	100
Deposits in FCA Group cash management pools ⁽¹⁾	—	139	942	684	457
Total assets	3,850	3,875	4,641	3,895	3,465
Debt	1,848	2,260	510	317	261
Total equity/(deficit) ⁽²⁾	330	(19)	2,478	2,316	2,041
Equity/(Deficit) attributable to owners of the parent	325	(25)	2,470	2,290	2,019
Non-controlling interests	5	6	8	26	22
Share capital	3	4	4	4	4
Common shares issued (in thousands of shares) ⁽³⁾	188,923	188,923	188,923	188,923	188,923

- (1) Deposits in FCA Group cash management pools related to our participation in a group-wide cash management system at FCA prior to the Separation, where the operating cash management, main funding operations and liquidity investment of the Group were centrally coordinated by dedicated treasury companies with the objective of ensuring effective and efficient management of our funds. Following the Separation on January 3, 2016, these arrangements were terminated and we manage our liquidity and treasury function on a standalone basis.
- (2) The negative equity at December 31, 2015 is a result of the effects of the Restructuring. See “Consolidated Statement of Changes in Equity” to the Consolidated Financial Statements for additional details.
- (3) The number of common shares issued retrospectively reflects the issuance of common shares (net of treasury shares), all with a nominal value of €0.01, as if the Separation had occurred on January 1, 2012. See Note 21 “Equity” to the Consolidated Financial Statements for additional details of share capital and common shares issued.

Other Statistical Information

	For the years ended December 31,				
	2016	2015	2014	2013	2012
Shipments (number of cars)	8,014	7,664	7,255	7,000	7,405
Average number of employees for the period	3,115	2,954	2,843	2,774	2,708

Creating Value for Our Shareholders

Ferrari is among the world's leading luxury brands with unique, world-class capabilities, and a vision built on our historic foundations and strengths.

We are fiercely protective of our brand, which is among the most iconic and recognizable in the world and critical to our value proposition to all of our stakeholders. We strive to maintain and enhance the power of our brand and the passion we inspire in clients and the broader community of automotive enthusiasts by continuing our rigorous production and distribution model, which promotes hard-to-satisfy demand and scarcity value in our cars. We also support our brand value by promoting a strong connection to our company and our brand among the community of Ferrari enthusiasts. We focus relentlessly on strengthening this connection by rewarding our most loyal clients through a range of initiatives, such as driving events and client activities in Maranello and at motor shows and, most importantly, by providing our most loyal and active clients with preferential access to our newest, most exclusive and highest value cars. As a result, we enjoy a strong and loyal client base with most of our cars being sold to existing Ferrari owners and approximately 36% of our clients being owners of more than one Ferrari, which reinforces the demand for our cars and the image of luxury and exclusivity inherent in our brand.

Our commitment to excellence and our pursuit of innovation, state-of-the-art performance and distinction in design and engineering in our luxury cars is inseparable from our commitment to integrity, transparency and responsibility in the conduct of our business. By fully integrating environmental and social considerations with economic objectives we are able to identify potential risks and capitalize on additional opportunities, resulting in a process of continuous improvement. Sustainability is a core element of our governance model and executive management plays a direct and active role in developing and achieving our sustainability objectives under the oversight of our Board of Directors.

The foundation of a responsible company rests on being fully attentive to the nature and extent of this interconnection and our understanding of both the potential effects of our activities and how those effects can be mitigated through responsible management.

Responsible management requires that we consider all potential implications of our strategic decisions and projects. Ferrari's sustainability efforts focus on our emissions reduction program, through the improvement of efficiency in our luxury cars and in our production processes, as well as through our Formula Uomo initiative, a program which places its people at the heart of the Company. We see our personnel as the cornerstone of our activities. Our commitment to environmental sustainability begins with a commitment to the community that is the home of our production campus, and the quality and safety of the working environment we provide to our personnel. As a fundamental part of our sustainability drive, Ferrari has also invested heavily to achieve independence in energy production through the extensive use of solar power and natural gas.

To provide for tangible long-term value creation, we place particular emphasis on:

- a governance model based on transparency and integrity;
- a safe and eco-friendly working environment including proper working conditions and respect for human rights;
- proper management and professional development of our employees;
- mutually beneficial relationships with business partners and the communities in which we operate;
- mitigation of environmental impacts from our production processes and the luxury cars we produce.

The Sustainability section of our 2016 Annual Report addresses those aspects of our sustainability efforts that we have identified as being of greatest importance to our internal and external stakeholders.

Our Strategy

Our strategy focuses on maintaining and extending our leading position in the luxury performance sports car market, enhancing and protecting the value and exclusivity of the Ferrari brand. We are seeking to achieve over 9,000 units shipments per year and zero net industrial debt position by 2019 whilst distributing dividends in the range of 25 percent to 40 percent of net income, subject to share buy back transactions. Within these parameters, we focus on cost-efficiencies and aim to achieve profitable growth by pursuing the following strategies.

Controlled growth in developed and emerging markets

We will continue to pursue a low volume production strategy, maintaining our reputation for exclusivity while responding to growing demand, both in developed and emerging markets, demographic changes as well as growth in the size and spending capacity of our target clients. We intend to continue the practice of managing waiting lists in our various geographic markets to respond appropriately to relative levels of demand by balancing the need to preserve exclusivity while maximizing client satisfaction.

Regular new model introductions and enhancements

We continue to regularly launch new cars with enhanced technological innovations and design improvements and plan to launch at least a new model every year, capitalizing on the speed and flexibility of our design, engineering and production processes. We intend to begin the transition of our product portfolio to hybrid technology in 2019. We alternate our new model launches among our distinct product segments in order to preserve the exclusivity and enduring value of each new car launch, while ensuring that our clients have continuing access to the latest technology and design. We also continue to periodically design and launch limited edition supercars and very limited series and one-off cars that command significantly higher prices, in order to satisfy the demands of our most affluent and loyal clients. We expect that increasing technological content of our cars, including the increasing emphasis on hybrid technology, combined with clients' appetite for our distinctive designs and personalization, will continue to support pricing at the upper end of the luxury performance market in each of our car segments.

Pursue excellence in Formula 1 racing

We continue to pursue success in Formula 1 racing through Scuderia Ferrari, the most successful team in Formula 1 history. We are focused on improving racing results and restoring our historical position as the premier racing team in Formula 1. In addition to the know-how we develop in designing, engineering and producing Formula 1 racing cars that we apply to our sports and GT cars, we continue to believe that the success of our business, the image of our brand and the allegiance of our clients is enhanced by our racing DNA.

Controlled growth in adjacent luxury and lifestyle categories

We intend to selectively extend the brand through initiatives that are compatible with our brand image. Over time we expect to expand the Ferrari brand into a range of other luxury goods and in adjacent luxury and lifestyle categories and at the same time preserve our brand's reputation for exclusivity. Our focus is on distinguishing and differentiating our brand deployment to adapt to the different expectations and requirements of our two major clientele; on the one hand, fans and enthusiasts of our racing activities represented by the "Scuderia Ferrari" brand and, on the other hand, high end luxury clientele which also includes customers who purchase our luxury performance sports cars, represented by the "Prancing Horse" brand.

Risk Factors

We face a variety of risks in our business. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of or that we currently believe to be immaterial, may also become important factors that affect us.

Risks Related to Our Business, Strategy and Operations

We may not succeed in preserving and enhancing the value of the Ferrari brand, which we depend upon to drive demand and revenues.

Our financial performance is influenced by the perception and recognition of the Ferrari brand, which, in turn, depends on many factors such as the design, performance, quality and image of our cars, the appeal of our dealerships and stores, the success of our promotional activities including public relations and marketing, as well as our general profile, including our brand's image of exclusivity. The value of our brand and our ability to achieve premium pricing for Ferrari-branded products may decline if we are unable to maintain the value and image of the Ferrari brand, including, in particular, its aura of exclusivity. Maintaining the value of our brand will depend significantly on our ability to continue to produce luxury performance cars of the highest quality. The market for luxury goods generally and for luxury automobiles in particular is intensely competitive, and we may not be successful in maintaining and strengthening the appeal of our brand. Client preferences, particularly among luxury goods, can vary over time, sometimes rapidly. We are therefore exposed to changing perceptions of our brand image, particularly as we seek to attract new generations of clients and, to that end, we renovate and expand our models range. The gradual expansion of hybrid engine technology will also introduce a notable change in the overall driver experience compared to the combustion engine cars of our range models to date. Any failure to preserve and enhance the value of our brand may materially and adversely affect our ability to sell our cars, to maintain premium pricing, and to extend the value of our brand into other activities profitably or at all.

We selectively license the Ferrari brand to third parties that produce and sell Ferrari-branded luxury goods and therefore we rely on our licensing partners to preserve and enhance the value of our brand. If our licensees or the manufacturers of these products do not maintain the standards of quality and exclusivity that we believe are consistent with the Ferrari brand, or if such licensees or manufacturers otherwise misuse the Ferrari brand, our reputation and the integrity and value of our brand may be damaged and our business, operating results and financial condition may be materially and adversely affected.

Our brand image depends in part on the success of our Formula 1 racing team.

The prestige, identity, and appeal of the Ferrari brand depend on the continued success of the Scuderia Ferrari racing team in the Formula 1 World Championship. The racing team is a key component of our marketing strategy and may be perceived by our clients as a demonstration of the technological capabilities of our Sports and GT cars which also supports the appeal of other Ferrari-branded luxury goods. The success of our Formula 1 racing team has declined over the past several years as our most recent driver's championship and constructors' championship were in 2007 and 2008, respectively. As a result, we are enhancing our focus on Formula 1 activities with the goal of improving racing results and restoring our historical position as the premier racing team in Formula 1. If we are unable to attract and retain the necessary talent to succeed in international competitions or devote the capital necessary to fund successful racing activities, the value of the Ferrari brand and the appeal of our cars and other luxury goods may suffer. Even if we are able to attract such talent and adequately fund our racing activities, there is no assurance that this will lead to competitive success for our racing team.

The success of our racing team depends in particular on our ability to attract and retain top drivers and racing management and engineering talent. Our primary Formula 1 drivers, team managers and other key employees of Scuderia Ferrari are critical to the success of our racing team and if we were to lose their services, this could have a material adverse effect on the success of our racing team and correspondingly the Ferrari brand. If we are unable to find adequate replacements or to attract, retain and incentivize drivers and team managers, other key employees or new qualified personnel, the success of our racing team may suffer. As the success of our racing team forms a large part of our brand identity, a sustained period without racing success could detract from the Ferrari brand and, as a result, potential clients' enthusiasm for the Ferrari brand and their perception of our cars, which could have an adverse effect on our business, results of operations and financial condition.

If we are unable to keep up with advances in high performance car technology, our competitive position may suffer.

Performance cars are characterized by leading-edge technology which is constantly evolving. In particular, advances in racing technology often lead to improved technology in road cars. Although we invest heavily in research and development,

we may be unable to maintain our leading position in high performance car technology and, as a result, our competitive position may suffer. As technologies change, we plan to upgrade or adapt our cars and introduce new models in order to continue to provide cars with the latest technology. However, our cars may not compete effectively with our competitors' cars if we are not able to develop, source and integrate the latest technology into our cars. For example, luxury performance cars will in the next few years begin to transition to hybrid technology, albeit at a slower pace compared to mass market vehicles. While we already produce hybrid cars, such as LaFerrari and LaFerrari Aperta, the integration of such technology more broadly into our car portfolio over time may present challenges and costs.

Developing and applying new automotive technologies is costly, and may become even more costly in the future as available technology advances and competition in the industry increases. If our research and development efforts do not lead to improvements in car performance relative to the competition, or if we are required to spend more to achieve comparable results, sales of our cars or our profitability may suffer.

If our car designs do not appeal to clients, our brand and competitive position may suffer.

Design and styling are an integral component of our models and our brand. Our cars have historically been characterized by distinctive designs combining the aerodynamics of a sports car with powerful, elegant lines. We believe our clients purchase our cars for their appearance as well as their performance. However, we will need to renew over time the style of our cars to differentiate the new models we produce from older models, and to reflect the broader evolution of aesthetics in our markets. We devote great efforts to the design of our cars and most of our current models are designed by Ferrari Design Centre, our in-house design team. If the design of our future models fails to meet the evolving tastes and preferences of our clients and prospective clients, or the appreciation of the wider public, our brand may suffer and our sales may be adversely affected.

The value of our brand depends in part on the automobile collector and enthusiast community.

An important factor in the connection of clients to the Ferrari brand is our strong relationship with the global community of automotive collectors and enthusiasts, particularly collectors and enthusiasts of Ferrari automobiles. This is influenced by our close ties to the automotive collectors' community and our support of related events (such as car shows and driving events), at our headquarters in Maranello and through our dealers, the Ferrari museum and affiliations with regional Ferrari clubs. The support of this community also depends upon the perception of our cars as collectibles, which we also support through our Ferrari Classiche services, and the active resale market for our automobiles which encourages interest over the long term.

If there is a change in collector appetite or damage to the Ferrari brand, our ties to and the support we receive from this community may be diminished. Such a loss of enthusiasm for our cars from the automotive collectors' community could harm the perception of the Ferrari brand and adversely impact our sales and profitability.

Demand for luxury goods, including luxury performance cars, is volatile, which may adversely affect our operating results.

Volatility of demand for luxury goods, in particular luxury performance cars, may adversely affect our business, operating results and financial condition. The markets in which we sell our cars have been subject to volatility in demand in recent periods. Demand for luxury automobiles depends to a large extent on general, economic, political and social conditions in a given market as well as the introduction of new vehicles and technologies. As a luxury performance car manufacturer and low volume producer, we compete with larger automobile manufacturers many of which have greater financial resources in order to withstand changes in the market and disruptions in demand. Demand for our cars may also be affected by factors directly impacting automobile prices or the cost of purchasing and operating automobiles, such as the availability and cost of financing, prices of raw materials and parts and components, fuel costs and governmental regulations, including tariffs, import regulation and other taxes, including taxes on luxury goods, resulting in limitations to the use of high performance sports cars or luxury goods more generally. Volatility in demand may lead to lower car unit sales, which may result in further downward price pressure and adversely affect our business, operating results and financial condition. These effects may have a more pronounced impact on us given our low volume strategy and relatively smaller scale as compared to large global mass-market automobile manufacturers.

Our low volume strategy may limit potential profits.

A key to the appeal of the Ferrari brand and our marketing strategy is the aura of exclusivity and the sense of luxury which our brand conveys. A central facet to this exclusivity is the limited number of models and cars we produce and our strategy of maintaining our car waiting lists to reach the optimal combination of exclusivity and client service. Our low volume strategy is also an important factor in the prices that our clients are willing to pay for our cars. Regulation also affects our potential for volume growth because we are eligible for certain exemptions from fuel economy and emissions requirements provided we sell

less than 10,000 road cars worldwide per year. See “—New laws, regulations, or policies of governmental organizations regarding increased fuel economy requirements, reduced greenhouse gas or pollutant emissions, or vehicle safety, or changes in existing laws, may have a significant effect on our costs of operation and/or how we do business.”

While important to our current marketing strategy, our focus on maintaining low volumes and exclusivity limits our potential sales growth and profitability. We may from time to time face investor and market pressure to demonstrate growth including by increasing the volume of cars we sell. Notwithstanding any such pressure, we intend to continue to pursue a low volume strategy in order to maintain our reputation for exclusivity, while growing volume in a controlled way to respond to growth in emerging markets and demographic changes.

Conversely, if we were to change our strategy and increase production of our cars more aggressively, we may be unable to maintain the exclusivity of the Ferrari brand. If we are unable to balance brand exclusivity with increased production, we may erode the desirability and ultimately the consumer demand for our cars. As a result, if we are unable to increase car production meaningfully or introduce new car models without eroding the image of exclusivity in our brand we may be unable to significantly increase our revenues.

Our revenues from Formula 1 activities may decline and our related expenses may grow.

Revenues from our Formula 1 activities depend principally on the income from our sponsorship agreements and on our share of Formula 1 revenues from broadcasting and other sources. See “Overview of our Business — Formula 1 Activities.” If we are unable to renew our existing sponsorship agreements or if we enter into new or renewed sponsorship agreements with less favorable terms, our revenues would decline. In addition, our share of Formula 1 results may decline if either our team’s performance worsens compared to other competing teams, or if the overall Formula 1 business suffers. Furthermore, in order to compete effectively on track we have been investing significant resources in research and development and to competitively compensate the best available drivers and other racing team members. These expenses also vary based on changes in Formula 1 regulations that require modification to our racing engines and cars. These expenses are expected to continue, and may grow further, including as a result of any changes in Formula 1 regulations, which would negatively affect our results of operations. In addition the company that owns the Formula 1 business was recently acquired by new owners and it is uncertain whether and how the arrangements relating to the participation of Ferrari and the other competing teams in the championship may change in the future.

The small number of car models we produce and sell may result in greater volatility in our financial results.

We currently depend on the sales of six range models, one special series and one limited edition supercar to generate our revenues. While we anticipate expanding our car offerings, we expect that a limited number of models will continue to account for a large portion of our revenues at any given time in the foreseeable future. Therefore, our future operating results depend upon the continued market acceptance of each model in our line-up. There can be no assurance that our cars will continue to be successful in the market. On average it takes about 40 months (approximately 33 months for M models) from the beginning of the development phase to start of production for a new model and the car development process is capital intensive. As a result, we would likely be unable to replace quickly the revenue lost from one of our main car models if it does not achieve market acceptance. Furthermore, volatility in our revenues and profits is also affected by our “special series” and limited edition cars that we launch from time to time and are typically priced higher than our range models. There can be no assurance that we will be successful in developing, producing and marketing additional new cars that will sustain sales growth in the future.

Engine production revenues are dependent on Maserati’s ability to sell its cars.

We produce V8 and V6 engines for Maserati. In particular, we have a multi-year arrangement with Maserati to provide V6 engines through 2020, which may be followed by further production runs in future periods. In 2016 we recorded net revenues of €238 million from sales to Maserati. While Maserati is required to compensate us for certain costs we may incur, such as penalties from our suppliers, in the event that the sales of Maserati cars decline, or do not increase at the expected rate, such an event would adversely affect our revenues from the sale of engines.

Our business is subject to changes in client preferences and trends in the automotive and luxury industry.

Our continued success depends in part on our ability to originate and define product and trends in the automotive and luxury industry, as well as to anticipate and respond promptly to changing consumer demands and automotive trends in the design, styling, technology, production, merchandising and pricing of our products. Our products must appeal to a client base whose preferences cannot be predicted with certainty and are subject to rapid change. Evaluating and responding to client

preferences has become even more complex in recent years, due to our expansion in new geographical markets. If we misjudge the market for our products, we and our dealers may be faced with excess inventories for some cars and missed opportunities with others. In addition, there can be no assurance that we will be able to produce, distribute and market new products efficiently or that any product category that we may expand or introduce will achieve sales levels sufficient to generate profits. This risk is particularly pronounced as we expand in accordance with our strategy into adjacent segments of the luxury industry, where we do not have a level of experience and market presence comparable to the one we have in the automotive industry. Any of these risks could have a material adverse effect on our business, results of operations and financial condition.

Global economic conditions may adversely affect us.

Our sales volumes and revenues may be affected by overall general economic conditions. Deteriorating general economic conditions may affect disposable incomes and reduce consumer wealth impacting client demand, particularly for luxury goods which may negatively impact our profitability and put downward pressure on our prices and volumes. Furthermore, during recessionary periods, social acceptability of luxury purchases may decrease and higher taxes may be more likely to be imposed on certain luxury goods including our cars, which may affect our sales. Adverse economic conditions may also affect the financial health and performance of our dealers in a manner that will affect sales of our cars or their ability to meet their commitments to us.

Many factors affect the level of consumer spending in the luxury performance car industry, including the state of the economy as a whole, stock market performance, interest and exchange rates, inflation, political uncertainty, the availability of consumer credit, tax rates, unemployment levels and other matters that influence consumer confidence. In general, although our sales have historically been comparatively resilient in periods of economic turmoil, sales of luxury goods tend to decline during recessionary periods when the level of disposable income tends to be lower or when consumer confidence is low.

We distribute our products internationally and we may be affected by downturns in general economic conditions or uncertainties regarding future economic prospects that may impact the countries in which we sell a significant portion of our products. In particular, the majority of our current sales are in the EU and in the United States; if we are unable to expand in emerging markets, a downturn in mature economies such as the EU and the United States may negatively affect our financial performance. In the EU, in particular, despite measures taken by several governments and monetary authorities to provide financial assistance to certain Eurozone countries and to avoid default on sovereign debt obligations, concerns persist regarding the debt burden of several countries. These concerns, along with the significant fiscal adjustments carried out in several countries, intended to manage actual or perceived sovereign credit risk, have led to further pressure on economic growth and may lead to new periods of recession. In addition, uncertainties regarding future trade arrangements and industrial policies in various countries, such as in the United Kingdom following the referendum to leave the European Union and in the United States under the incoming administration, create additional macroeconomic risk. In the United States, changes in policy positions by the new presidential administration may impact our business, in particular our production of vehicles outside the U.S. for import into the U.S., and potential changes in tax laws, could adversely affect our operations. Any new policies and any steps we may take to address such new policies may have an adverse effect on our business, financial condition and results of operations.

A significant decline in the EU or the global economy or in the specific economies of our markets, or in consumers' confidence could have a material adverse effect on our business.

New laws, regulations, or policies of governmental organizations regarding increased fuel economy requirements, reduced greenhouse gas or pollutant emissions, or vehicle safety, or changes in existing laws, may have a significant effect on our costs of operation and/or how we do business.

We are subject throughout the world to comprehensive and constantly evolving laws, regulations and policies. We expect the extent of the legal and regulatory requirements affecting our business and our costs of compliance to continue to increase significantly in the future. In Europe and the United States, for example, significant governmental regulation is driven by environmental, fuel economy, vehicle safety and noise emission concerns. Evolving regulatory requirements could significantly affect our product development plans and may limit the number and types of cars we sell and where we sell them, which may affect our revenue. Governmental regulations may increase the costs we incur to design, develop and produce our cars and may affect our product portfolio. Regulation may also result in a change in the character or performance characteristics of our cars which may render them less appealing to our clients. We anticipate that the number and extent of these regulations, and their effect on our cost structure and product line-up, will increase significantly in the future.

Current European legislation limits fleet average greenhouse gas emissions for new passenger cars, and new targets have been set in 2014 with more stringent emission targets applicable to the 2017-2021 period. Due to our small volume

manufacturer (“SVM”) status we benefit from a derogation from the existing emissions requirement and we are instead required to meet, by 2021 alternative targets for our fleet of EU-registered vehicles.

In the United States, the U.S. Environmental Protection Agency (“EPA”) and the National Highway Traffic Safety Administration (“NHTSA”) have set the federal standards for passenger cars and light trucks to meet certain combined average fuel economy (“CAFE”) levels and more stringent standards have been prescribed for model years 2017 through 2025. As a SVM that is able to demonstrate our operational independence from FCA, we expect to benefit from a derogation from currently applicable standards. We have also petitioned the EPA for alternative standards for the 2017-2021 model years, which are aligned to our technical and economic capabilities, and we expect to receive feedback on this proposal by the end of 2017. In September 2016 we petitioned NHTSA for recognition as an independent manufacturer of less than 10,000 vehicles produced globally and we proposed alternative CAFE standards for Model Years 2017, 2018 and 2019.

In addition, we are subject to legislation relating to the emission of other air pollutants such as, among others, the “Tier 3” Motor Vehicle Emission and Fuel Standards issued by the EPA, and the Zero Emission Vehicle regulation in California, which are subject to similar derogations for SVMs, as well as vehicle safety legislation. NHTSA also recently published guidelines for driver distraction, and the associated compliance costs may be substantial.

Other governments around the world, such as those in Canada, South Korea, China and certain Middle Eastern countries are also creating new policies to address these issues which could be even more stringent than the U.S. or European requirements. As in the United States and Europe, these government policies if applied to us could significantly affect our product development plans. In China, for example, Stage III fuel consumption regulations target a national average fuel consumption of 6.9L/100km by 2015 and Stage IV targets a national average fuel consumption of 5.0L/100km by 2021.

In response to severe air quality issues in Beijing and other major Chinese cities, in 2016 the Chinese government published a more stringent emissions program (National 6), providing two different level of stringency effective starting from 2020. Moreover autonomous Chinese regions and municipalities are allowed to implement these more stringent requirements in advance of 2020. If local Chinese regions and municipalities will implement such requirements before 2020 this could lead us to revise our product development and production plans in China, incur significant costs and change marketing strategies in China, which may affect our profits.

We could lose our status as a SVM in the EU, the United States and other countries if we do not continue to meet all of the necessary eligibility criteria under applicable regulations as they evolve. In order to meet these criteria we may need to modify our growth plans or other operations. Furthermore, even if we continue to benefit from derogations as a SVM, we will be subject to alternative standards that the regulators deem appropriate for our technical and economic capabilities and such alternative standards may be significantly more stringent than those currently applicable to us.

Under these existing regulations, as well as new or stricter rules or policies, we could be subject to sizable civil penalties or have to restrict or modify product offerings drastically to remain in compliance. We may have to incur substantial capital expenditures and research and development expenditures to upgrade products and manufacturing facilities, which would have an impact on our cost of production and results of operation. . For a description of recent fines we have paid and a summary of the regulation referred to in the paragraphs above please see “Overview of our Business - Regulatory Matters”.

Our growth strategy exposes us to risks.

Our growth strategy includes a controlled expansion of our sales and operations, including the launching of new car models and expanding sales and dealer operations in targeted growth regions internationally. In particular, our growth strategy requires us to expand operations in regions that we have identified as having relatively high growth potential. We may encounter difficulties, including more significant competition in entering and establishing ourselves in these markets.

Our growth depends on the continued success of our existing cars, as well as the successful design and introduction of new cars. Our ability to create new cars and to sustain existing car models is affected by whether we can successfully anticipate and respond to consumer preferences and car trends. The failure to develop and launch successful new cars could hinder the growth of our business. Also, any delay in the development or launch of a new product could result in others bringing new products and technology to market first, which could compromise our competitive position. As part of our growth strategy, we plan to broaden the range of our models to capture additional customer demand for different types of vehicles and modes of utilization. In addition, we will gradually expand the use of hybrid technology in our road cars, consistent with customer preferences and broader industry trends. While we will seek to ensure that these changes remain fully consistent with the Ferrari car identity, we cannot be certain that they will prove profitable and commercially successful.

Our growth strategy may expose us to new business risks that we may not have the expertise, capability or the systems to manage. This strategy will also place significant demands on us by requiring us to continuously evolve and improve our operational, financial and internal controls. Continued expansion also increases the challenges involved in maintaining high levels of quality, management and client satisfaction, recruiting, training and retaining sufficient skilled management, technical and marketing personnel. If we are unable to manage these risks or meet these demands, our growth prospects and our business, results of operation and financial condition could be adversely affected.

We currently plan to open additional dealerships and Ferrari stores in various international markets. We do not yet have significant experience directly operating in many of these markets, and in many of them we face established competitors. Many of these countries have different operational characteristics, including but not limited to employment and labor, transportation, logistics, real estate, environmental regulations and local reporting or legal requirements.

Consumer demand and behavior, as well as tastes and purchasing trends may differ in these markets, and as a result, sales of our products may not be successful, or the margins on those sales may not be in line with those we currently anticipate. Furthermore, such markets will have upfront short-term investment costs that may not be accompanied by sufficient revenues to achieve typical or expected operational and financial performance and therefore may be dilutive to us in the short-term. In many of these countries, there is significant competition to attract and retain experienced and talented employees.

Consequently, if our international expansion plans are unsuccessful, our business, results of operation and financial condition could be materially adversely affected.

Our indebtedness could adversely affect our operations and we may face difficulties in servicing or refinancing our debt.

As of December 31, 2016, our total consolidated debt was approximately €1,848 million (which includes our financial services), including €800 million outstanding under a term loan facility (the “Term Loan”) and €500 million aggregate principal amount of 1.500% notes due 2023, see “Operating Results - Liquidity and Capital Resources”. Our current and long-term debt requires us to dedicate a portion of our cash flow to service interest and principal payments and, if interest rates rise, this amount may increase. In addition, our existing debt may limit our ability to raise further capital to execute our growth strategy or otherwise may place us at a competitive disadvantage relative to competitors that have less debt. The agreements governing our indebtedness do not prohibit the incurrence of additional indebtedness. To the extent we become more leveraged, the risks described above would increase. We may also have difficulty refinancing our existing debt or incurring new debt on terms that we would consider to be commercially reasonable, if at all.

We face competition in the luxury performance car industry.

We face competition in all product categories and markets in which we operate. We compete with other international luxury performance car manufacturers which own and operate well-known brands of high-quality cars, some of which form part of larger automotive groups and may have greater financial resources and bargaining power with suppliers than we do, particularly in light of our policy to maintain low volumes in order to preserve and enhance the exclusivity of our cars. We believe that we compete primarily on the basis of our brand image, the performance and design of our cars and our reputation for quality. If we are unable to compete successfully, our business, results of operations and financial condition could be adversely affected.

Developments in emerging markets may adversely affect our business.

We operate in a number of emerging markets, both directly and through our dealers and we have experienced increasing demand in China and the Middle East.

Our strategy contemplates expanding our sales in the Middle East and Asia regions, recognizing the increasing personal wealth in these markets. While demand in these markets has increased in recent years due to sustained economic growth and growth in personal income and wealth, we are unable to foresee the extent to which economic growth in these emerging markets will be sustained. For example, rising geopolitical tensions and potential slowdowns in the rate of growth there and in other emerging markets could limit the opportunity for us to increase unit sales and revenues in those regions in the near term.

Our exposure to emerging countries is likely to increase, as we pursue expanded sales in such countries. Economic and political developments in emerging markets, including economic crises or political instability, have had and could have in the future material adverse effects on our results of operations and financial condition. Further, in certain markets in which we or our dealers operate, required government approvals may limit our ability to act quickly in making decisions on our operations in those markets. Other government actions may also impact the market for luxury goods in these markets, such as tax changes or the active discouragement of luxury purchases.

Maintaining and strengthening our position in these emerging markets is a key component of our global growth strategy. However, initiatives from several global luxury automotive manufacturers have increased competitive pressures for luxury cars in several emerging markets. As these markets continue to grow, we anticipate that additional competitors, both international and domestic, will seek to enter these markets and that existing market participants will try to aggressively protect or increase their market share. Increased competition may result in pricing pressures, reduced margins and our inability to gain or hold market share, which could have a material adverse effect on our results of operations and financial condition.

Our success depends largely on the ability of our current management team to operate and manage effectively.

Our success depends on the ability of our senior executives and other members of management to effectively manage our business as a whole and individual areas of the business. Our management team particularly benefits from the leadership of our CEO and Chairman, Sergio Marchionne, who engineered the operating and financial turnaround of Fiat and Chrysler and the global expansion of FCA into the eighth largest automaker in the world (based on 2016 vehicle sales worldwide). Our employees, particularly in our production facilities in and around Maranello, Italy include many highly skilled engineers, technicians and artisans. If we were to lose the services of any of these senior executives or key employees, this could have a material adverse effect on our business, operating results and financial condition. We have developed succession plans that we believe are appropriate in the circumstances, although it is difficult to predict with any certainty that we will replace these individuals with persons of equivalent experience and capabilities. If we are unable to find adequate replacements or to attract, retain and incentivize senior executives, other key employees or new qualified personnel, our business, results of operations and financial condition may suffer.

We rely on our dealer network to provide sales and services.

We do not own our Ferrari dealers and virtually all of our sales are made through our network of dealerships located throughout the world. If our dealers are unable to provide sales or service quality that our clients expect or do not otherwise adequately project the Ferrari image and its aura of luxury and exclusivity, the Ferrari brand may be negatively affected. We depend on the quality of our dealership network and our business, operating results and financial condition could be adversely affected if our dealers suffer financial difficulties or otherwise are unable to perform to our expectations. Furthermore, we may experience disagreements or disputes in the course of our relationship with our dealers or upon termination which may lead to financial costs, disruptions and reputational harm.

Our growth strategy also depends on our ability to attract a sufficient number of quality new dealers to sell our products in new areas. We may face competition from other luxury performance car manufacturers in attracting quality new dealers, based on, among other things, dealer margin, incentives and the performance of other dealers in the region. If we are unable to attract a sufficient number of new Ferrari dealers in targeted growth areas, our prospects could be materially adversely affected.

We depend on our suppliers, many of which are single source suppliers; and if these suppliers fail to deliver necessary raw materials, systems, components and parts of appropriate quality in a timely manner our operations may be disrupted.

Our business depends on a significant number of suppliers, which provide the raw materials, components, parts and systems we require to manufacture cars and parts and to operate our business. We use a variety of raw materials in our business including aluminum, and precious metals such as palladium and rhodium. We source materials from a limited number of suppliers. We cannot guarantee that we will be able to maintain access to these raw materials, and in some cases this access may be affected by factors outside of our control and the control of our suppliers. In addition, prices for these raw materials fluctuate and while we seek to manage this exposure, we may not be successful in mitigating these risks.

As with raw materials, we are also at risk of supply disruption and shortages in parts and components we purchase for use in our cars. We source a variety of key components from third parties, including transmissions, brakes, driving-safety systems, navigation systems, mechanical, electrical and electronic parts, plastic components as well as castings and tires, which makes us dependent upon the suppliers of such components. In future, we will also require greater number of batteries as we introduce hybrid engines in our range model offering, and we expect producers of batteries will be called to increase the levels of demand as the shift to hybrid or electric technology gathers pace in the industry. While we obtain components from multiple sources whenever possible, similar to other small volume car manufacturers, most of the key components we use in our cars are purchased by us from single source suppliers. We generally do not qualify alternative sources for most of the single-sourced components we use in our cars and we do not maintain long-term agreements with a number of our suppliers. Furthermore, we have limited ability to monitor the financial stability of our suppliers.

While we believe that we may be able to establish alternate supply relationships and can obtain or engineer replacement components for our single-sourced components, we may be unable to do so in the short term, or at all, at prices or costs that we believe are reasonable. Qualifying alternate suppliers or developing our own replacements for certain highly customized components of our cars may be time consuming, costly and may force us to make costly modifications to the designs of our cars. For example, Takata is currently the principal supplier of the airbags installed in our cars. Defective airbags manufactured by Takata have led to widespread recalls by several automotive manufacturers starting in 2015 and Takata may be unable to meet the financial liabilities associated with such recalls. See "Overview of Our Business - Regulatory Matters - Vehicle Safety". Any failure by Takata to continue the supply of airbags may cause significant disruption to our operations.

In the past, we have replaced certain suppliers because they have failed to provide components that met our quality control standards. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to delays in car deliveries to our clients, which could adversely affect our relationships with our clients and also materially and adversely affect our operating results and financial condition. Supply of raw materials, parts and components may also be disrupted or interrupted by natural disasters, as was the case in 2012 following the earthquake in the Emilia Romagna region of Italy.

Changes in our supply chain have in the past resulted and may in the future result in increased costs and delays in car production. We have also experienced cost increases from certain suppliers in order to meet our quality targets and development timelines and because of design changes that we have made. We may experience similar cost increases in the future. Additionally, we are negotiating with existing suppliers for cost reductions, seeking new and less expensive suppliers for certain parts, and attempting to redesign certain parts to make them less expensive to produce. If we are unsuccessful in our efforts to control and reduce supplier costs while maintaining a stable source of high quality supplies, our operating results will suffer. Additionally, cost reduction efforts may disrupt our normal production processes, thereby harming the quality or volume of our production.

Furthermore, if our suppliers fail to provide components in a timely manner or at the level of quality necessary to manufacture our cars, our clients may face longer waiting periods which could result in negative publicity, harm our reputation and relationship with clients and have a material adverse effect on our business, operating results and financial condition.

We depend on our manufacturing facilities in Maranello and Modena.

We assemble all of the cars that we sell and manufacture all of the engines we use in our cars and sell to Maserati at our production facility in Maranello, Italy, where we also have our corporate headquarters. We manufacture all of our car chassis in a nearby facility in Modena, Italy. Our Maranello or Modena plants could become unavailable either permanently or temporarily for a number of reasons, including contamination, power shortage or labor unrest. Alternatively, changes in law and regulation, including export, tax and employment laws and regulations, or economic conditions, including wage inflation, could make it uneconomic for us to continue manufacturing our cars in Italy. In the event that we were unable to continue production at either of these facilities or it became uneconomic for us to continue to do so, we would need to seek alternative manufacturing arrangements which would take time and reduce our ability to produce sufficient cars to meet demand. Moving manufacturing to other locations may also affect the perception of our brand and car quality among our clients. Such a transfer would materially reduce our revenues and could require significant investment, which as a result could have a material adverse effect on our business, results of operations and financial condition.

Maranello and Modena are located in the Emilia-Romagna region of Italy which has the potential for seismic activity. For instance, in 2012 a major earthquake struck the region, causing production at our facilities to be temporarily suspended for a day. If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, pandemics or other events occur, our headquarters and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our cars. As such damages from disasters or unpredictable events could have a material adverse impact on our business, results from operations and financial condition.

Car sales depend in part on the availability of affordable financing.

In certain regions, financing for new car sales has been available at relatively low interest rates for several years due to, among other things, expansive government monetary policies. Recent pronouncements of governments and central banks point to a change in the policy environment that may lead to a gradual contraction of monetary policies in coming periods. To the extent that interest rates rise generally, market rates for new car financing are expected to rise as well, which may make our cars less affordable to clients or cause consumers to purchase less expensive cars, adversely affecting our results of operations and financial condition. Additionally, if consumer interest rates increase substantially or if financial service providers tighten

lending standards or restrict their lending to certain classes of credit, our clients may not desire to or be able to obtain financing to purchase our cars.

We may not be able to provide adequate access to financing for our dealers and clients, and our financial services operations may be disrupted

Our dealers enter into wholesale financing arrangements to purchase cars from us to hold in inventory or to use in showrooms and facilitate retail sales, and retail clients use a variety of finance and lease programs to acquire cars.

In most markets, we rely on controlled finance companies and commercial relationships with third parties, including third party financial institutions, to provide financing to our dealers and retail clients. Finance companies are subject to various risks that could negatively affect their ability to provide financing services at competitive rates, including:

- the performance of loans and leases in their portfolio, which could be materially affected by delinquencies or defaults;
- higher than expected car return rates and the residual value performance of cars they lease; and
- fluctuations in interest rates and currency exchange rates.

Furthermore, to help funding our retail and wholesale financing business, our financial services companies also access forms of funding available from the banking system in each market, including sales or securitization of receivables either in negotiated sales or through securitization programs. For example, in 2016, Ferrari Financial Services Inc. carried out revolving securitizations raising an aggregate of \$481 million of initial proceeds. See "Operating Results - Liquidity and Capital Resources". Should we lose the ability to access the securitization market at advantageous terms or at all, the funding of our wholesale financing business would become more difficult and expensive and our financial condition may be adversely affected.

Any financial services provider, including our controlled finance companies, will face other demands on its capital, as well as liquidity issues relating to other investments or to developments in the credit markets. Furthermore, they may be subject to regulatory changes that may increase their costs, which may impair their ability to provide competitive financing products to our dealers and retail clients. To the extent that a financial services provider is unable or unwilling to provide sufficient financing at competitive rates to our dealers and retail clients, such dealers and retail clients may not have sufficient access to financing to purchase or lease our cars. As a result, our car sales and market share may suffer, which would adversely affect our results of operations and financial condition.

Our dealer and retail customer financing in Europe are mainly provided through our partnership with FCA Bank S.p.A. ("FCA Bank"), a joint venture between FCA Italy S.p.A. and Crédit Agricole Consumer Finance S.A. ("CACF"). If we fail to maintain our partnership with FCA Bank or in the event of a termination of the joint venture or change of control of one of our joint venture partners, we may not be able to find a suitable alternative partner with similar resources and experience and continue to offer financing services to support the sales of Ferrari cars in key European markets, which could adversely affect our results of operations and financial condition.

We rely on our licensing and franchising partners to preserve the value of our licenses and the failure to maintain such partners could harm our business.

We currently have multi-year agreements with licensing partners for various Ferrari-branded products in the sports, lifestyle and luxury retail segments. We also have multi-year agreements with franchising partners for our Ferrari stores and theme park. In the future, we may enter into additional licensing or franchising arrangements. Many of the risks associated with our own products also apply to our licensed products and franchised stores. In addition, there are unique problems that our licensing or franchising partners may experience, including risks associated with each licensing partner's ability to obtain capital, manage its labor relations, maintain relationships with its suppliers, manage its credit and bankruptcy risks, and maintain client relationships. While we maintain significant control over the products produced for us by our licensing partners and the franchisees running our Ferrari stores and theme park, any of the foregoing risks, or the inability of any of our licensing or franchising partners to execute on the expected design and quality of the licensed products, Ferrari stores and theme park, or otherwise exercise operational and financial control over its business, may result in loss of revenue and competitive harm to our operations in the product categories where we have entered into such licensing or franchising arrangements. While we select our licensing and franchising partners with care, any negative publicity surrounding such partners could have a negative effect on licensed

products, the Ferrari stores and theme parks or the Ferrari brand. Further, while we believe that we could replace our existing licensing or franchising partners if required, our inability to do so for any period of time could materially adversely affect our revenues and harm our business.

We depend on the strength of our trademarks and other intellectual property rights.

We believe that our trademarks and other intellectual property rights are fundamental to our success and market position. Therefore, our business depends on our ability to protect and promote our trademarks and other intellectual property rights. Accordingly, we devote substantial efforts to the establishment and protection of our trademarks and other intellectual property rights such as registered designs and patents on a worldwide basis. We believe that our trademarks and other intellectual property rights are adequately supported by applications for registrations, existing registrations and other legal protections in our principal markets. However, we cannot exclude the possibility that our intellectual property rights may be challenged by others, or that we may be unable to register our trademarks or otherwise adequately protect them in some jurisdictions. If a third party were to register our trademarks, or similar trademarks, in a country where we have not successfully registered such trademarks, it could create a barrier to our commencing trade under those marks in that country.

Third parties may claim that we infringe their intellectual property rights.

We believe that we hold all the rights required for our business operations (including intellectual property rights and third-party licenses). However, we are exposed to potential claims from third parties alleging that we infringe their intellectual property rights, since many competitors and suppliers also submit patent applications for their inventions and secure patent protection or other intellectual property rights. If we are unsuccessful defending against any such claim, we may be required to pay damages or comply with injunctions which may disrupt our operations. We may also as a result be forced to enter into royalty or licensing agreements on unfavorable terms or to redesign products to comply with third parties' intellectual property rights.

If our cars do not perform as expected our ability to develop, market and sell our cars could be harmed.

Our cars may contain defects in design and manufacture that may cause them not to perform as expected or that may require repair. There can be no assurance that we will be able to detect and fix any defects in the cars prior to their sale to consumers. Our cars may not perform in line with our clients' evolving expectations or in a manner that equals or exceeds the performance characteristics of other cars currently available. For example, our newer cars may not have the durability or longevity of current cars, and may not be as easy to repair as other cars currently on the market. Any product defects or any other failure of our performance cars to perform as expected could harm our reputation and result in adverse publicity, lost revenue, delivery delays, product recalls, product liability claims, harm to our brand and reputation, and significant warranty and other expenses, and could have a material adverse impact on our business, operating results and financial condition.

Car recalls may be costly and may harm our reputation.

We have in the past and we may from time to time in the future be required to recall our products to address performance, compliance or safety-related issues. We may incur costs for these recalls, including replacement parts and labor to remove and replace the defective parts. For example, in the course of 2015 and 2016, we have issued a series of recalls relating to defective air bags manufactured by Takata and installed on certain of our models. Also in light of uncertainties in our ability to recover the recall costs from Takata, we have increased our provision regarding this matter to €37 million as of December 31, 2016. For a description of these and other recent recalls, see "Overview of Our Business - Regulatory Matters - Vehicle Safety". In addition, regulatory oversight of recalls, particularly in the vehicle safety, has increased recently. Any product recalls can harm our reputation with clients, particularly if consumers call into question the safety, reliability or performance of our cars. Any such recalls could harm our reputation and result in adverse publicity, lost revenue, delivery delays, product liability claims and other expenses, and could have a material adverse impact on our business, operating results and financial condition.

We may become subject to product liability claims, which could harm our financial condition and liquidity if we are not able to successfully defend or insure against such claims.

We may become subject to product liability claims, which could harm our business, operating results and financial condition. The automobile industry experiences significant product liability claims and we have inherent risk of exposure to claims in the event our cars do not perform as expected or malfunction resulting in personal injury or death. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our cars and business, adversely affecting our reputation and inhibiting or preventing commercialization of future cars which could have a material adverse effect on our brand, business, operating results and financial condition. While we seek to insure against product liability risks, insurance may be insufficient to protect against any monetary

claims we may face and will not mitigate any reputational harm. Any lawsuit seeking significant monetary damages may have a material adverse effect on our reputation, business and financial condition. We may not be able to secure additional product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we face liability for our products and are forced to make a claim under such a policy.

We are exposed to risks in connection with product warranties as well as the provision of services.

A number of our contractual and legal requirements oblige us to provide extensive warranties to our clients, dealers and national distributors. There is a risk that, relative to the guarantees and warranties granted, the calculated product prices and the provisions for our guarantee and warranty risks have been set or will in the future be set too low. There is also a risk that we will be required to extend the guarantee or warranty originally granted in certain markets for legal reasons, or provide services as a courtesy or for reasons of reputation where we are not legally obliged to do so, and for which we will generally not be able to recover from suppliers or insurers.

If we were to lose our Authorized Economic Operator certificate, we may be required to modify our current business practices and to incur increased costs, as well as experience shipment delays.

Because we ship and sell our cars in numerous countries, the customs regulations of various jurisdictions are important to our business and operations. To expedite customs procedure, we applied for, and currently hold, the European Union's Authorized Economic Operator (AEO) certificate. The AEO certificate is granted to operators that meet certain requirements regarding supply chain security and the safety and compliance with law of the operator's customs controls and procedures. Operators are audited periodically for continued compliance with the requirements. The AEO certificate allows us to benefit from special expedited customs treatment, which significantly facilitates the shipment of our cars in the various markets where we operate. The AEO certificate is subject to mandatory audit review by May 1st, 2019 according to the new European Customs Legislation and therefore we will need to implement all necessary organization changes in order to comply with the new requirements. If we were to lose the AEO status, including for failure to meet one of the certification's requirements, we would be required to change our business practices and to adopt standard customs procedures for the shipment of our cars. This could result in increased costs and shipment delays, which, in turn, could negatively affect our results of operations.

Labor laws and collective bargaining agreements with our labor unions could impact our ability to operate efficiently.

All of our production employees are represented by trade unions, are covered by collective bargaining agreements and/or are protected by applicable labor relations regulations that may restrict our ability to modify operations and reduce costs quickly in response to changes in market conditions. These regulations and the provisions in our collective bargaining agreements may impede our ability to restructure our business successfully to compete more efficiently and effectively, especially with those automakers whose employees are not represented by trade unions or are subject to less stringent regulations, which could have a material adverse effect on our results of operations and financial condition.

We are subject to risks associated with exchange rate fluctuations, interest rate changes, credit risk and other market risks.

We operate in numerous markets worldwide and are exposed to market risks stemming from fluctuations in currency and interest rates. The exposure to currency risk is mainly linked to the differences in geographic distribution of our sourcing and manufacturing activities from those in our commercial activities, as a result of which our cash flows from sales are denominated in currencies different from those connected to purchases or production activities. For example, we incur a large portion of our capital and operating expenses in Euros while we receive the majority of our revenues in currencies other than Euro. In addition, foreign exchange movements might also negatively affect the relative purchasing power of our clients which could also have an adverse effect on our results of operations. In the second half of 2016, the foreign exchange markets have been subject to a high degree of volatility and the US dollar appreciated significantly against the euro while the pound sterling depreciated significantly against both the US dollar and the Euro. See "Operating Results".

We seek to manage risks associated with fluctuations in currency through financial hedging instruments. Although we seek to manage our foreign currency risk in order to minimize any negative effects caused by rate fluctuations, including through hedging activities, there can be no assurance that we will be able to do so successfully, and our business, results of operations and financial condition could nevertheless be adversely affected by fluctuations in market rates, particularly if these conditions persist.

Our financial services activities are also subject to the risk of insolvency of dealers and retail clients, as well as unfavorable economic conditions in markets where these activities are carried out. Despite our efforts to mitigate such risks

through the credit approval policies applied to dealers and retail clients, there can be no assurances that we will be able to successfully mitigate such risks, particularly with respect to a general change in economic conditions.

Changes in tax, tariff or fiscal policies could adversely affect demand for our products.

Imposition of any additional taxes and levies designed to limit the use of automobiles could adversely affect the demand for our vehicles and our results of operations. Changes in corporate and other taxation policies as well as changes in export and other incentives given by various governments or import or tariff policies could also adversely affect our results of operations. For example, the Chinese government has recently imposed various measures intended to curb consumption of luxury goods, including, among other things, a tax specifically applicable to the purchase of luxury cars. While we are managing our product development and production operations on a global basis to reduce costs and lead times, unique national or regional standards can result in additional costs for product development, testing, and manufacturing. Governments often require the implementation of new requirements during the middle of a product cycle, which can be substantially more expensive than accommodating these requirements during the design of a new product. The imposition of any additional taxes and levies or change in government policy designed to limit the use of high performance sports cars or automobiles more generally could also adversely affect the demand for our cars. The occurrence of the above may have a material adverse effect on our business, results of operations and financial condition.

We may be adversely affected by the U.K. determination to leave the European Union (Brexit).

In a June 23, 2016, referendum, the United Kingdom voted to terminate the UK's membership in the European Union ("Brexit"). As a result, negotiations are expected to take place to determine the future terms of the UK's relationship with the European Union, including the terms of trade between the UK and the member states in the EU. Any effect of Brexit is expected to depend on the agreements, if any, that may be negotiated between the UK and the EU with respect to reciprocal market access, either during a transitional period or more permanently. Brexit could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial markets. While we sell approximately 20% of our cars in the UK, we do not have other operations in the UK and we do not believe that our global operations would be affected materially by Brexit; however, any adverse effect of Brexit on us or on global or regional economic or market conditions could adversely affect our business, results of operations and financial condition as customers may reduce or delay spending decisions on our products. Any uncertainty related to Brexit could also affect trading in our shares.

We face risks associated with our international operations, including unfavorable regulatory, political, tax and labor conditions and establishing ourselves in new markets, all of which could harm our business.

We currently have international operations and subsidiaries in various countries and jurisdictions in Europe, North America and Asia that are subject to the legal, political, regulatory, tax and social requirements and economic conditions in these jurisdictions. Additionally, as part of our growth strategy, we will continue to expand our sales, maintenance, and repair services internationally. However, such expansion requires us to make significant expenditures, including the establishment of local operating entities, hiring of local employees and establishing facilities in advance of generating any revenue. We are subject to a number of risks associated with international business activities that may increase our costs, impact our ability to sell our cars and require significant management attention. These risks include:

- conforming our cars to various international regulatory and safety requirements where our cars are sold, or homologation;
- difficulty in establishing, staffing and managing foreign operations;
- difficulties attracting clients in new jurisdictions;
- foreign government taxes, regulations and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in Italy;
- fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake;
- our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as do the United States, Japan and European countries, which increases the risk of unauthorized, and uncompensated, use of our technology;

- European Union and foreign government trade restrictions, customs regulations, tariffs and price or exchange controls;
- foreign labor laws, regulations and restrictions;
- preferences of foreign nations for domestically produced cars;
- changes in diplomatic and trade relationships;
- political instability, natural disasters, war or events of terrorism; and
- the strength of international economies.

If we fail to successfully address these risks, many of which we cannot control, our business, operating results and financial condition could be materially harmed.

Improper conduct of employees, agents, or other representatives could adversely affect our reputation and our business, operating results, and financial condition.

Our compliance controls, policies, and procedures may not in every instance protect us from acts committed by our employees, agents, contractors, or collaborators that would violate the laws or regulations of the jurisdictions in which we operate, including employment, foreign corrupt practices, environmental, competition, and other laws and regulations. Such improper actions could subject us to civil or criminal investigations, and monetary and injunctive penalties. In particular, our business activities may be subject to anti-corruption laws, regulations or rules of other countries in which we operate. If we fail to comply with any of these regulations, it could adversely impact our operating results and our financial condition. In addition, actual or alleged violations could damage our reputation and our ability to conduct business. Furthermore, detecting, investigating, and resolving any actual or alleged violation is expensive and can consume significant time and attention of our executive management.

Our insurance coverage may not be adequate to protect us against all potential losses to which we may be subject, which could have a material adverse effect on our business.

We maintain insurance coverage that we believe is adequate to cover normal risks associated with the operation of our business. However, there can be no assurance that any claim under our insurance policies will be honored fully or timely, our insurance coverage will be sufficient in any respect or our insurance premiums will not increase substantially. Accordingly, to the extent that we suffer loss or damage that is not covered by insurance or which exceeds our insurance coverage, or have to pay higher insurance premiums, our financial condition may be affected.

A disruption in our information technology could compromise confidential and sensitive information.

We depend on our information technology and data processing systems to operate our business, and a significant malfunction or disruption in the operation of our systems, or a security breach that compromises the confidential and sensitive information stored in those systems, could disrupt our business and adversely impact our ability to compete. Our ability to keep our business operating effectively depends on the functional and efficient operation of our information, data processing and telecommunications systems, including our car design, manufacturing, inventory tracking and billing and payment systems. We rely on these systems to enable a number of business processes and help us make a variety of day-to-day business decisions as well as to track transactions, billings, payments and inventory. Such systems are susceptible to malfunctions and interruptions due to equipment damage, power outages, and a range of other hardware, software and network problems. Those systems are also susceptible to cybercrime, or threats of intentional disruption, which are increasing in terms of sophistication and frequency. For any of these reasons, we may experience systems malfunctions or interruptions. Although our systems are diversified, including multiple server locations and a range of software applications for different regions and functions, and we are currently undergoing an effort to assess and ameliorate risks to our systems, a significant or large scale malfunction or interruption of any one of our computer or data processing systems could adversely affect our ability to manage and keep our operations running efficiently, and damage our reputation if we are unable to track transactions and deliver products to our dealers and clients. A malfunction that results in a wider or sustained disruption to our business could have a material adverse effect on our business, results of operations and financial condition. In addition to supporting our operations, we use our systems to collect and store confidential and sensitive data, including information about our business, our clients and our employees. As our technology continues to evolve, we anticipate that we will collect and store even more data in the future, and that our systems will increasingly use remote communication features that are sensitive to both willful and unintentional security breaches. Much of our value is

derived from our confidential business information, including car design, proprietary technology and trade secrets, and to the extent the confidentiality of such information is compromised, we may lose our competitive advantage and our car sales may suffer. We also collect, retain and use certain personal information, including data we gather from clients for product development and marketing purposes, and data we obtain from employees. In the event of a breach in security that allows third parties access to this personal information, we are subject to a variety of ever-changing laws on a global basis that require us to provide notification to the data owners, and that subject us to lawsuits, fines and other means of regulatory enforcement. Our reputation could suffer in the event of such a data breach, which could cause consumers to purchase their cars from our competitors. Ultimately, any significant compromise in the integrity of our data security could have a material adverse effect on our business.

Risks Related to our Common Shares

The market price and trading volume of our common shares may be volatile, which could result in rapid and substantial losses for our shareholders.

The market price of our common shares may be highly volatile and could be subject to wide fluctuations. In addition, the trading volume of our common shares may fluctuate and cause significant price variations to occur. If the market price of our common shares declines significantly, you may be unable to sell your common shares at or above your purchase price, if at all. The market price of our common shares may fluctuate or decline significantly in the future. Some of the factors that could negatively affect the price of our common shares, or result in fluctuations in the price or trading volume of our common shares, include:

- variations in our operating results, or failure to meet the market's earnings expectations;
- publication of research reports about us, the automotive industry or the luxury industry, or the failure of securities analysts to cover our common shares;
- departures of any members of our management team or additions or departures of other key personnel;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by shareholders;
- changes in market valuations of similar companies;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws and regulations, or announcements relating to these matters;
- adverse publicity about the automotive industry or the luxury industry generally, or particularly scandals relating to those industries, specifically;
- litigation and governmental investigations; and
- general market and economic conditions.

The loyalty voting program may affect the liquidity of our common shares and reduce our common share price.

The implementation of our loyalty voting program could reduce the trading liquidity and adversely affect the trading prices of our common shares. The loyalty voting program is intended to reward our shareholders for maintaining long-term share ownership by granting initial shareholders and persons holding our common shares continuously for at least three years the option to elect to receive special voting shares. Special voting shares cannot be traded and, if common shares participating in the loyalty voting program are sold they must be deregistered from the loyalty register and any corresponding special voting shares transferred to us for no consideration (*om niet*). This loyalty voting program is designed to encourage a stable shareholder base and, conversely, it may deter trading by shareholders that may be interested in participating in our loyalty voting program. Therefore, the loyalty voting program may reduce liquidity in our common shares and adversely affect their trading price.

The interests of our largest shareholders may differ from the interests of other shareholders.

Exor N.V. is our largest shareholder, holding approximately 23.5 percent of our outstanding common shares and approximately 33.4 percent of our voting power. Therefore, Exor has a significant influence over these matters submitted to a vote of our shareholders, including matters such as adoption of the annual financial statements, declarations of annual dividends,

the election and removal of the members of our Board, capital increases and amendments to our articles of association. In addition, Piero Ferrari, the Vice Chairman of Ferrari, holds approximately 10 percent of our outstanding common shares and approximately 15.4 percent of voting interest in us. As a result, he also has influence in matters submitted to a vote of our shareholders. Exor and Piero Ferrari informed us that they have entered into a shareholder agreement pursuant to which they have undertaken to consult for the purpose of forming, where possible, a common view on the items on the agenda of shareholders meetings. See “Major Shareholders - Shareholders' Agreement”. The interests of Exor and Piero Ferrari may in certain cases differ from those of other shareholders. In addition, the sale of substantial amounts of our common shares in the public market by Piero Ferrari or the perception that such a sale could occur could adversely affect the prevailing market price of the common shares.

We may have potential conflicts of interest with FCA and Exor and its related companies.

Questions relating to conflicts of interest may arise between us and FCA, our former largest shareholder prior to the Separation, in a number of areas relating to common shareholdings and management, as well as our past and ongoing relationships. Even after the Separation overlaps remain among the directors and officers of us and FCA. For example, Mr. Sergio Marchionne, our Chairman and Chief Executive Officer, is the Chief Executive Officer of FCA, Mr. Marchionne and certain of our other directors and officers may also be directors or officers of FCA or Exor, our and FCA's largest shareholder., including Mr. John Elkann, who is one of our Vice-Chairman, the Chairman of FCA and Chairman and Chief Executive Officer of Exor. These individuals owe duties both to us and to the other companies that they serve as officers and/or directors. This may raise conflicts as, for example, these individuals review opportunities that may be appropriate or suitable for both us and such other companies, or we pursue business transactions in which both we and such other companies have an interest, such as our arrangement to supply engines for Maserati cars. Exor holds approximately 23.5 percent of our outstanding common shares and approximately 33.4 percent of the voting power in us, while it holds approximately 29.4 percent of the common shares and 42.6 percent of the voting power in FCA. Exor also owns a controlling interest in CNH Industrial N.V., which was part of the FCA group before its spin-off several years ago. These ownership interests could create actual, perceived or potential conflicts of interest when these parties or our common directors and officers are faced with decisions that could have different implications for us and FCA or Exor, as applicable.

Our loyalty voting program may make it more difficult for shareholders to acquire a controlling interest in Ferrari, change our management or strategy or otherwise exercise influence over us, which may affect the market price of our common shares.

The provisions of our articles of association which establish the loyalty voting program may make it more difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change of control were considered favorably by shareholders holding a majority of our common shares. As a result of the loyalty voting program, a relatively large proportion of the voting power of Ferrari could be concentrated in a relatively small number of shareholders who would have significant influence over us. Exor has approximately 23.5 percent of our outstanding common shares and a voting interest in Ferrari of approximately 33.4 percent. Piero Ferrari holds approximately 10 percent of our outstanding common shares and, as a result of the loyalty voting mechanism, has approximately 15.4 percent of the voting power in our shares. In addition, Exor and Piero Ferrari informed us that they have entered into a shareholder agreement, summarized under “Major Shareholders - Shareholders' Agreement”. As a result, Exor and Piero Ferrari may exercise significant influence on matters involving our shareholders. Exor and Piero Ferrari and other shareholders participating in the loyalty voting program may have the power effectively to prevent or delay change of control or other transactions that may otherwise benefit our shareholders. The loyalty voting program may also prevent or discourage shareholder initiatives aimed at changing Ferrari's management or strategy or otherwise exerting influence over Ferrari. See “Corporate Governance - Loyalty Voting Structure”

We are a Dutch public company with limited liability, and our shareholders may have rights different to those of shareholders of companies organized in the United States.

The rights of our shareholders may be different from the rights of shareholders governed by the laws of U.S. jurisdictions. We are a Dutch public company with limited liability (*naamloze vennootschap*). Our corporate affairs are governed by our articles of association and by the laws governing companies incorporated in the Netherlands. The rights of shareholders and the responsibilities of members of our board of directors may be different from the rights of shareholders and the responsibilities of members of our board of directors in companies governed by the laws of other jurisdictions including the United States. In the performance of its duties, our board of directors is required by Dutch law to consider our interests and the interests of our shareholders, our employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a shareholder.

We expect to maintain our status as a “foreign private issuer” under the rules and regulations of the SEC and, thus, are exempt from a number of rules under the Exchange Act of 1934 and are permitted to file less information with the SEC than a company incorporated in the United States.

As a “foreign private issuer,” we are exempt from rules under the Exchange Act of 1934, as amended (“the Exchange Act”) that impose certain disclosure and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act, nor are we required to comply with Regulation FD, which restricts the selective disclosure of material information. Accordingly, there may be less publicly available information concerning us than there is for U.S. public companies.

Our ability to pay dividends on our common shares may be limited and the level of future dividends is subject to change.

Our payment of dividends on our common shares in the future will be subject to business conditions, financial conditions, earnings, cash balances, commitments, strategic plans and other factors that our Board of Directors may deem relevant at the time it recommends approval of the dividend. Our dividend policy is subject to change in the future based on changes in statutory requirements, market trends, strategic developments, capital requirements and a number of other factors. In addition, under our articles of association and Dutch law, dividends may be declared on our common shares only if the amount of equity exceeds the paid up and called up capital plus the reserves that have to be maintained pursuant to Dutch law or the articles of association. Further, even if we are permitted under our articles of association and Dutch law to pay cash dividends on our common shares, we may not have sufficient cash to pay dividends in cash on our common shares.

Our maintenance of two exchange listings may adversely affect liquidity in the market for our common shares and could result in pricing differentials of our common shares between the two exchanges.

Our shares are listed on both the NYSE and the *Mercato Telematico Azionario* (“MTA”). The dual listing of our common shares may split trading between the NYSE and the MTA, adversely affect the liquidity of the shares and the development of an active trading market for our common shares in one or both markets and may result in price differentials between the exchanges. Differences in the trading schedules, as well as volatility in the exchange rate of the two trading currencies, among other factors, may result in different trading prices for our common shares on the two exchanges.

It may be difficult to enforce U.S. judgments against us.

We are organized under the laws of the Netherlands, and a substantial portion of our assets are outside of the United States. Most of our directors and senior management and our independent auditors are resident outside the United States, and all or a substantial portion of their respective assets may be located outside the United States. As a result, it may be difficult for U.S. investors to effect service of process within the United States upon these persons. It may also be difficult for U.S. investors to enforce within the United States judgments against us predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. In addition, there is uncertainty as to whether the courts outside the United States would recognize or enforce judgments of U.S. courts obtained against us or our directors and officers predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Therefore, it may be difficult to enforce U.S. judgments against us, our directors and officers and our independent auditors.

FCA creditors may seek to hold us liable for certain FCA obligations.

One step of our Separation from FCA included a demerger from FCA of our common shares previously held by it. In connection with a demerger under Dutch law, the demerged company may continue to be liable for certain obligations of the demerging company that exist at the time of the demerger, but only to the extent that the demerging company fails to satisfy such liabilities. Based on other actions taken as part of the Separation, we do not believe we retain any liability for obligations of FCA existing at the time of the Separation. Nevertheless, in the event that FCA fails to satisfy obligations to its creditors existing at the time of the demerger, it is possible that those creditors may seek to recover from us, claiming that we remain liable to satisfy such obligations. While we believe we would prevail against any such claim, litigation is inherently costly and uncertain and could have an adverse effect. See “Overview - The Separation.”

Risks Related to Taxation

As a result of the demergers and the merger in connection with the Separation, we might be jointly and severally liable with FCA for certain tax liabilities arisen in the hands of FCA.

Although the Italian tax authorities confirmed in a positive advance tax ruling issued on October 9, 2015 that the demergers and the Merger that was carried out in connection with the Separation would be respected as tax-free, neutral transactions from an Italian income tax perspective, under Italian tax law we may still be held jointly and severally liable, as a result of the combined application of the rules governing the allocation of tax liabilities in case of demergers and mergers, with FCA for taxes, penalties, interest and any other tax liability arising in the actions of FCA because of violations of its tax obligations related to tax years prior to the two Demergers described in the section “Overview - The Separation.”

There may be potential “Passive Foreign Investment Company” tax considerations for U.S. holders.

Shares of our stock would be stock of a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes with respect to a U.S. holder if for any taxable year in which such U.S. holder held shares of our stock, after the application of applicable “look-through rules” (i) 75 percent or more of our gross income for the taxable year consists of “passive income” (including dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business, as defined in applicable Treasury Regulations), or (ii) at least 50 percent of our assets for the taxable year (averaged over the year and determined based upon value) produce or are held for the production of “passive income.” U.S. persons who own shares of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the dividends they receive from the PFIC, and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

While we believe that shares of our stock are not stock of a PFIC for U.S. federal income tax purposes, this conclusion is based on a factual determination made annually and thus is subject to change. Moreover, our common shares may become stock of a PFIC in future taxable years if there were to be changes in our assets, income or operations.

The consequences of the loyalty voting program are uncertain.

No statutory, judicial or administrative authority directly discusses how the receipt, ownership, or disposition of special voting shares should be treated for Italian or U.S. tax purposes and as a result, the tax consequences in those jurisdictions are uncertain.

The fair market value of the special voting shares, which may be relevant to the tax consequences, is a factual determination and is not governed by any guidance that directly addresses such a situation. Because, among other things, our special voting shares are not transferable (other than, in very limited circumstances, together with the associated common shares) and a shareholder will receive amounts in respect of the special voting shares only if we are liquidated, we believe and intend to take the position that the fair market value of each special voting share is minimal. However, the relevant tax authorities could assert that the value of the special voting shares as determined by us is incorrect.

The tax treatment of the loyalty voting program is unclear and shareholders are urged to consult their tax advisors in respect of the consequences of acquiring, owning and disposing of special voting shares.

We currently benefit or seek to benefit from certain special tax regimes, which may not be available in the future.

We currently calculate taxes due in Italy based, among other things, on certain tax deductions recognized by Italian Tax regulations for R&D expenses and for the investments on manufacturing equipment, which result in a significant tax saving. A change in regulations or interpretation might adversely affect the availability of such exemptions and result in higher tax charges.

The 2015 Italian Finance Bill introduced a new optional patent box regime in the Italian tax system. The Patent Box is a tax exemption related to the use of intellectual property assets. Business income derived from the use of each qualified intangible assets is partially exempted from taxation for both Italian corporate income tax (IRES) and Italian regional tax (IRAP) purposes. The application of such patent box regime may reduce our tax expenses and we are currently seeking to avail ourselves of such regime. However, this exemption is subject to a mandatory ruling by the Italian Tax Authorities and the outcome of the

ruling procedure is not certain. In the event of a negative response from the Italian Tax Authorities, we will not be able to benefit from this exemption.

Overview

Ferrari is among the world's leading luxury brands focused on the design, engineering, production and sale of the world's most recognizable luxury performance sports cars. Our brand symbolizes exclusivity, innovation, state-of-the-art sporting performance and Italian design and engineering heritage. Our name and history and the image enjoyed by our cars are closely associated with our Formula 1 racing team, Scuderia Ferrari, the most successful team in Formula 1 history. From the inaugural year of Formula 1 in 1950 through the present, Scuderia Ferrari has won 224 Grand Prix races, 16 Constructor World titles and 15 Drivers' World titles. We believe our history of excellence, technological innovation and defining style transcends the automotive industry, and is the foundation of the Ferrari brand and image. We design, engineer and produce our cars in Maranello, Italy, and sell them in over 60 markets worldwide through a network of 170 authorized dealers operating 188 points of sale.

We believe our cars are the epitome of performance, luxury and styling. We currently sell seven models, including four sports cars (488 GTB, 488 Spider, F12berlinetta and our special series F12tdf) and three GT cars (California T, GTC4Lusso and GTC4Lusso T). The GTC4Lusso was launched in February 2016 while the GTC4Lusso T, Ferrari's first 4 seater V8 GT, was unveiled in September 2016, with shipments expected to begin in the second quarter of 2017. In addition, in September 2016 we unveiled our latest limited edition supercar, LaFerrari Aperta. We also produce very limited editions series (*Fuoriserie*) and one-off cars.

In 2016, we shipped 8,014 cars and recorded net revenues of €3,105 million, EBIT of €595 million, net profit of €400 million, adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) of €880 million, adjusted earnings before interest and taxes (Adjusted EBIT) of €632 million and Adjusted Net Profit of €425 million. For additional information regarding Adjusted EBITDA, Adjusted EBIT and Adjusted Net Profit, which are non-GAAP measures, including a reconciliation of Adjusted EBITDA to net profit, Adjusted EBIT to EBIT and Adjusted Net Profit to net profit, see sections "Operating Results - Non-GAAP Financial Measures."

We divide our regional markets into EMEA, Americas, Greater China and Rest of APAC, representing respectively 45.1% percent, 33.5% percent, 7.7% percent and 13.7% percent of units shipped in 2016.

History of the Company

Ferrari was incorporated as a public limited liability company (*naamloze vennootschap*) under the laws of the Netherlands on September 4, 2015 with an indefinite duration. Our corporate seat (*statutaire zetel*) is in Amsterdam, the Netherlands, and our registered office and principal place of business is located at Via Abetone Inferiore n. 4, I-41053 Maranello (MO), Italy. Ferrari is registered with the Trade Register of the Chamber of Commerce under number 64060977. Its telephone number is +39-0536-949111.

Our company is named after our founder Enzo Ferrari. An Alfa Romeo driver since 1924, Enzo Ferrari founded his own racing team, Scuderia Ferrari, in Modena in 1929 initially to race Alfa Romeo cars. In 1939 he set up his own company, initially called Auto Avio Costruzioni. In late 1943, Enzo Ferrari moved his headquarters from Modena to Maranello, which remains our headquarters to this day.

In 1947, we produced our first racing car, the 125 S. The 125 S's powerful 12 cylinder engine would go on to become synonymous with the Ferrari brand. In 1948, the first road car, the Ferrari 166 Inter, was produced. Styling quickly became an integral part of the Ferrari brand.

In 1950, we began our participation in the Formula 1 world championship, racing in the world's second Grand Prix in Monaco, which makes Scuderia Ferrari the longest running Formula 1 team. We won our first Constructor World Title in 1952. Our success on the world's tracks and roads extends beyond Formula 1, including victories in some of the most important car races such the 24 Hours of Le Mans, the world's oldest endurance automobile race, and the 24 Hours of Daytona.

The Fiat group acquired a 50 percent stake in Ferrari S.p.A. in 1969, which increased to 90 percent in 1988, after the death of Enzo Ferrari, with the remaining 10 percent held by Enzo Ferrari's son, Piero Ferrari.

The Separation

On October 29, 2014, FCA announced the intention to separate Ferrari S.p.A. from FCA (the "Separation"). The Separation was completed on January 3, 2016 through a series of transactions which are summarized below.

On October 19, 2015 we completed a restructuring intended to facilitate the initial public offering of our shares (the “IPO”) which resulted in the establishment of New Business Netherlands N.V., then renamed Ferrari N.V. (“Predecessor Ferrari”) as the holding company of the Ferrari group holding a 100 percent interest in Ferrari S.p.A. Predecessor Ferrari was originally established as a 100 percent owned subsidiary of FCA on May 24, 2013. As a result of the restructuring, immediately prior to the IPO, FCA held approximately 90 percent of Predecessor Ferrari common shares and special voting shares and Piero Ferrari, the son of our founder, held the remainder of Predecessor Ferrari common shares and special voting shares. As part of the restructuring, Predecessor Ferrari incurred debt in order to optimize the capital structure of Predecessor Ferrari as a public company through the issue by Predecessor Ferrari to FCA of a promissory note (the “FCA Note”).

On October 20, 2015, FCA priced an IPO of shares of Predecessor Ferrari shares representing approximately 10 percent of Predecessor Ferrari’s common share capital and, on October 21, 2015, such common shares started trading on the New York Stock Exchange under the ticker symbol “RACE”. Following completion of the IPO, FCA owned approximately 80 percent of Predecessor Ferrari common shares, Piero Ferrari held approximately 10 percent of Predecessor Ferrari common shares and investors in the IPO held approximately 10 percent of Predecessor Ferrari common shares.

On December 16, 2015, Ferrari repaid the FCA Note with the proceeds of a loan drawn under a syndicated credit facility with a group of lenders.

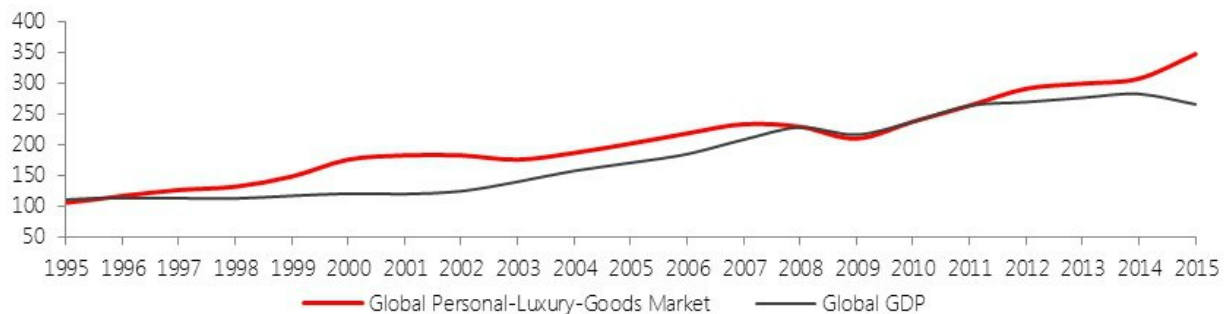
The remaining steps of the Separation were carried out through the following transactions, which occurred between January 1 and January 3, 2016. Through two consecutive demergers under Dutch law (the “Demergers”), the equity interests in Predecessor Ferrari previously held by FCA, corresponding to approximately 80 percent of Predecessor Ferrari common share capital, were transferred to holders of FCA common shares and FCA mandatory convertible securities (“MCS”). Immediately after the Demergers, Predecessor Ferrari merged with and into Ferrari, as surviving company (the “Merger”). Upon effectiveness of the Merger, Ferrari became the holding company of the Ferrari business.

Pursuant to the Separation, (i) holders of Predecessor Ferrari common shares received one Ferrari common share for each Predecessor Ferrari common share and one Ferrari special voting share for each Predecessor Ferrari special voting share held; (ii) FCA shareholders received one Ferrari common share for every 10 FCA common shares and one Ferrari special voting share for every 10 FCA special voting shares held; and (iii) holders of MCS received 0.77369 Ferrari common shares for each MCS unit (consisting of \$100 in notional amount of MCS) held. Ferrari special voting shares held by FCA prior to the Demergers are no longer outstanding.

On January 4, 2016, the business day following effectiveness of the Merger, Ferrari common shares began trading on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana.

Industry Overview

Luxury performance cars share several characteristics with other luxury goods such as quality, aesthetics, rarity, exclusivity and a high degree of non-functional associations all of which leads to significantly higher pricing as compared to mass market goods within the same category. While affected by global macroeconomic conditions, the luxury goods market is also impacted by several more specific factors, such as, in recent years, the significant economic growth and wealth creation in certain emerging economies and rising levels of affluence and demand from the emerging middle and upper classes in Asia and a general trend towards urbanization. Particularly following the 2008-2009 downturn, this has led the global luxury goods market to return to outperform global GDP.



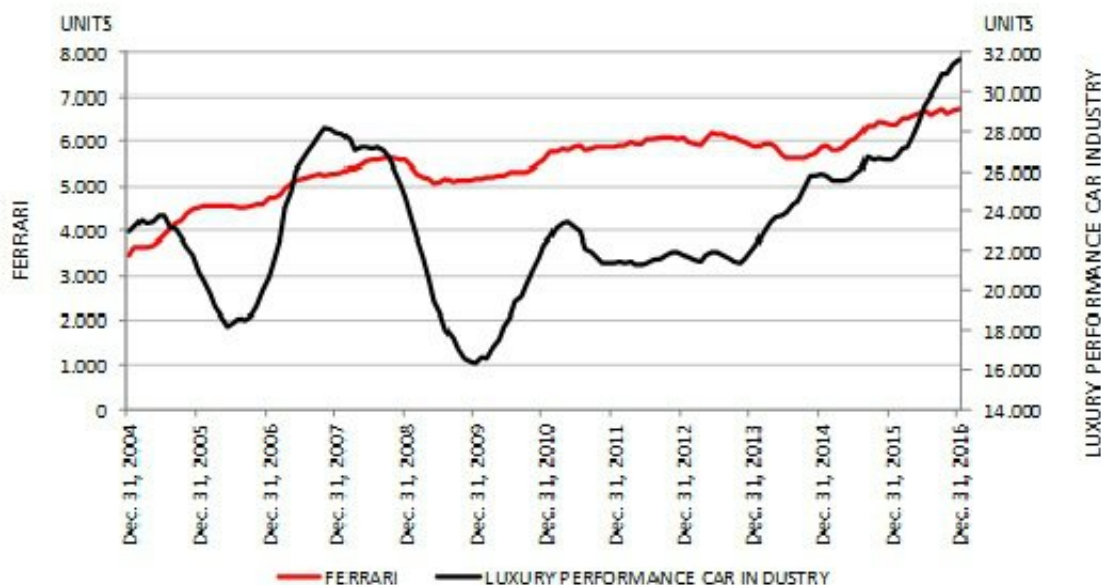
Sources: Bain & Company, 2016 Spring Update for global personal luxury goods market and World Bank data, 1995-2015 for global GDP

Within the luxury goods market, we define our target market for luxury performance cars as two-door cars powered by engines producing more than 500 hp and selling at a retail price in excess of Euro 150,000 (including VAT). The luxury performance car market historically has followed relatively closely growth patterns in the broader luxury market. The luxury performance car market is generally affected by global macroeconomic conditions and, although we and certain other manufacturers have proven relatively resilient, general downturns can have a disproportionate impact on sales of luxury goods in light of the discretionary nature of consumer spending in this market. Furthermore, because of the emotional nature of the purchasing decision, economic confidence and factors such as expectations regarding future income streams as well as the social acceptability of luxury goods may impact sales.

Following the sharp recession of 2008-2009, the luxury performance car market has been resilient to further economic downturns and stagnation in the broader economy, also a result of the increase of new product launches. A sustained period of wealth creation in several Asian countries and, to a lesser extent, in the Americas, has led to an expanding population of potential consumers of luxury goods. Developing consumer preferences in the Asian markets, where the newly affluent are increasingly embracing western brands of luxury products, have also led to higher demand for cars in our segment, which are all produced by established European manufacturers.

Additionally, the growing appetite of younger affluent purchasers for luxury performance cars has led to new entrants, which in turn has resulted in higher sales overall in the market.

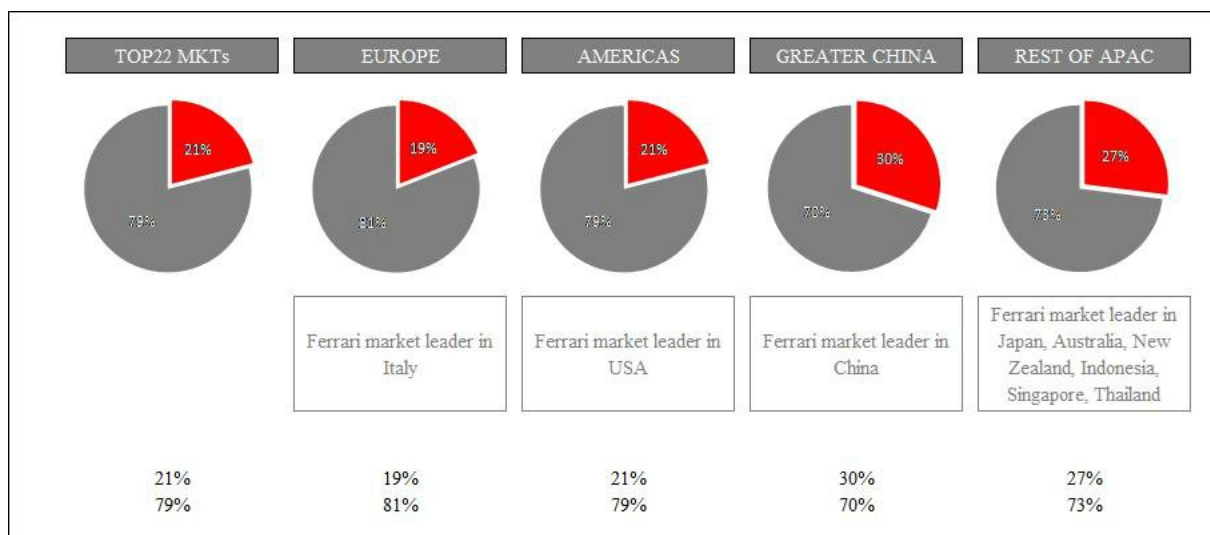
Unlike in other segments of the broader luxury market, however, in the luxury performance car market, a significant portion of demand is driven by new product launches. The market share of individual producers fluctuates over time reflecting the timing of product launches. New launches tend to drive sales volumes even in difficult market environments because the novelty, exclusivity and excitement of a new product is capable of creating and capturing its own demand from clients.



- Data for the Luxury Performance Car Industry include all two door GT and Sports Cars with power above 500hp, and retail price above Euro 150,000 (including VAT) sold by Aston Martin, Audi, Bentley, Ferrari, Honda/Acura, Lamborghini, McLaren, Mercedes Benz, Porsche and Rolls-Royce.
- Ferrari data based on the 22 top countries (excluding Middle East countries) for Ferrari annual registrations and sales (which accounted for approximately 85% of the total Ferrari shipments in 2016).
- Data for the Luxury Performance Car Industry based on units registered (Brazil, Japan, Taiwan, United Kingdom, Germany, France, Switzerland, Italy, Spain, Sweden, Netherlands, Belgium and Austria) or sold (in USA, South Korea, Thailand, China, Hong Kong, Australia, New Zealand, Singapore and Indonesia). Source: USA: US Maker Data Club, Brazil-ANFAVEA; Austria-OSZ; Belgium-FEBIAC; France-SIV; Germany-KBA; UK-SMMT; Italy-UNRAE; Netherlands- VWE; Spain- TRAFICO; Sweden-BranschData; Switzerland-ASTRA; China-China Automobile Industry Association-DataClub; Hong Kong-Hong Kong Motor Trader Association; Taiwan-Ministry of Transportation and Communications; Australia-VFACTS-S; Japan-JAIA; Indonesia-GAIKINDO; New Zealand-VFACTS; Singapore-LTA, MTA (Land Transport Authority, Motor Trader Associations); South Korea-KAIDA; Thailand -Department of Land Transportation

The luxury performance car market has now exceeded pre-crisis levels. As shown in the chart above, our volumes in recent years have proven less volatile than our competitors. We believe this is due to our strategy of maintaining low volumes compared to demand, as well as the higher number of models in our range and our more frequent product launches compared to our competitors.

In 2016, our volumes in the largest 22 markets grew reflecting recent model launches: 488 GTB, 488 Spider, F12tdf, GTC4Lusso and we had a market share of 21 percent in the luxury performance car market; with a 21 percent of market share in the sports car segment and 22 percent of market share in the GT segment. The chart below sets forth our market shares in 2016 in the largest 22 markets by geographical area.



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While we monitor our market share as an indicator of our brand appeal, we do not regard market share in the luxury performance market as particularly relevant as compared to other segments of the automotive industry. We are not focused on market share as a performance metric. Instead, we deliberately manage our supply relative to demand, to defend and promote our brand exclusivity and premium pricing. In recent years, we have produced a substantially constant number of cars per year in furtherance of that strategy.

Competition

Competition in the luxury performance car market is concentrated in a fairly small number of producers, including both large automotive companies as well as small producers exclusively focused on luxury cars, like us. The luxury performance car market includes a sports car segment and a GT segment.

In the sports car segment our products are the 488 GTB, 488 Spider, F12berlinetta and our latest special series, F12tdf, and our principal competitors are Lamborghini (Huracán 4WD/2WD, Aventador, Aventador SV, in each case Coupé and Spider), McLaren (570S/GT, 540C, 650S Coupé and Spider, and 675LT Coupé and Spider), Porsche (911 Turbo, Turbo S, both Coupé and Spider, GT3 RS and 911 R), Mercedes (SL 63/65 AMG), Aston Martin (Vanquish and V12 Vantage/S, both Coupé and Spider), Audi (R8 V10 Coupé and Spider and R8V10 Plus). In the GT segment our products are the California T, the GTC4Lusso and the new GTC4LussoT models and our principal competitors are Rolls-Royce (Wraith and Dawn), Bentley (Continental GT/ GTC, V12 and V8, Speed and S version and GT3-R), Aston Martin (DB9 Coupé and Spider and its successor the DB11) and Mercedes (S Coupé and Convertible 63/65 AMG).

In recent years, the market has shifted somewhat with an increased focus on the GT segment and the lower priced range of the sports car market, with larger automotive groups expanding their offering of premium cars to enter the luxury performance car market.

Competition in the luxury performance car market is driven by the strength of the brand and the appeal of the products in terms of performance, styling, novelty and innovation as well as on the manufacturers' ability to renew its product offerings

regularly in order to continue to stimulate customer demand. Larger automotive groups with a product offering in the luxury performance car market typically have larger financial resources compared to the small luxury car producers and therefore may have more flexibility in planning for product launches and capital spending over time.

Competition among similarly positioned luxury performance cars is also driven by price and total cost of ownership. We believe that the resilience of the value of our cars after a period of ownership is an important competitive factor because it decreases the total cost of ownership for our clients and promotes repeat purchases.

Overview of Our Business

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We pursue a low volume production strategy in order to maintain a reputation of exclusivity and scarcity among purchasers of our cars and deliberately monitor and maintain our production volumes and delivery wait-times to promote this reputation. We divide our regional markets into EMEA, Americas, Greater China and Rest of APAC, representing respectively 45.1 percent, 33.5 percent, 7.7 percent and 13.7 percent of units shipped in 2016.

We license the Ferrari brand to a selected number of producers and retailers of luxury and lifestyle goods. In addition, we design, source and sell Ferrari-branded products through a network of 16 Ferrari-owned stores and 29 franchised stores (including 8 Ferrari Store Junior), as well as on our website. As one of the world's most recognized premium luxury brands, we believe we are well positioned to selectively expand the presence of the Ferrari brand in attractive and growing lifestyle categories consistent with our image, including sportswear, watches, accessories, consumer electronics and theme parks which we believe enhance the brand experience of our loyal following of clients and Ferrari enthusiasts.

We focus our marketing and promotion efforts in the investments we make in our racing activities, in particular Scuderia Ferrari's participation in the Formula 1 World Championship, which is one of the most watched annual sports series in the world, with over 400 million television viewers annually. Although our most recent Formula 1 world title was in 2008, we are enhancing our focus on Formula 1 activities with the goal of improving recent racing results and restoring our historical position as the premier racing team in Formula 1. We believe that these activities support the strength and awareness of our brand among motor enthusiasts, clients and the general public.

We will continue focusing our efforts on protecting and enhancing the value of our brand to preserve our strong financial profile and participate in the premium luxury market growth. We intend to selectively pursue controlled and profitable growth in existing and emerging markets while expanding the Ferrari brand to carefully selected lifestyle categories.

Sports and GT Cars

Our current product range consists of seven models, including six range models and one special series, equipped with either eight or twelve cylinder engines and divided into two classes: Sports cars and GT cars. We target end clients seeking high performance cars with distinctive design and state of the art technology. Within these parameters, we offer different models to meet our clients' varying needs and to differentiate our line-up from that of other manufacturers, ranging from the exceptional performance of our Sports cars to the luxury and drivability of our GT cars. Our diversified product offering includes different

architectures (such as front-engine and mid-rear engine), engine sizes (V8 and V12), body styles (such as coupes and spiders), and seating (2 seaters, 2+2 seaters and 4 seaters).

Our sports cars are characterized by compact bodies, a design guided by performance and aerodynamics, and often benefit from technologies initially developed for our Formula 1 single-seaters. They favor performance over comfort, seeking to provide a driver with an immediate response and superior handling, leveraging state of the art vehicle dynamics components and controls. In our sports car class, we offer three models: two of which are equipped with mid-rear V8 engines, namely the 488 GTB (with 670 hp) and the 488 Spider (with 670 hp); and one equipped with a front V12 engine, the F12berlinetta (with 740 hp). Our GT cars, while maintaining the performance expected of a Ferrari, are characterized by more refined interiors with a higher focus on comfort and quality of life on-board. In our GT class, we offer one model equipped with our V8 engine, the California T (with 560 hp), and one model equipped with our V12 engine, the GTC4Lusso (with 680 hp), our sport-luxury 4 seater which replaced the FF. In addition, to complete our 4 seater offering to a wider client base in September we introduced the GTC4Lusso T (with 610 hp) at the Mondial de l'Automobile 2016 in Paris, the first Ferrari 4 seater equipped with a V8 turbo engine. The FF was produced and sold in 2016 but is now discontinued. We also from time to time design, engineer and produce special series cars which are based on our range models but introduce novel product concepts. These cars are characterized by significant hardware and software mechanical modifications designed to enhance performance and drivability. Our special series cars are particularly targeted to collectors and, from a commercial and product development standpoint, they facilitate the transition from existing to new range models. Our current special series model is the F12tdf, equipped with a V12 engine with 780 hp.

In addition to our range models and special series described above, we also continue the longstanding Ferrari tradition of limited edition supercars, very limited series (*fuoriserie*) and one-off cars. Our limited edition supercars, which we typically launch in seven to 10 year intervals, are the highest expression of Ferrari performance and are often the forerunners of technological innovations for the future range models, with innovative features and futuristic design. We launched our supercar, LaFerrari, in 2013 with a limited production run of 499 models that was completed in 2016. The 500th LaFerrari was sold at auction for \$7 million to benefit the reconstruction of Central Italy in the aftermath of the earthquakes of 2016. The auction was held in conjunction with RM Sotheby's and in collaboration with the National Italian American Foundation's Earthquake Relief Fund. The price achieved represents a record for the most valuable 21st Century automobile ever sold at auction. At the Mondial de l'Automobile 2016 show in Paris we introduced the open top version, LaFerrari Aperta, which will celebrate the 70th anniversary of Ferrari in 2017. Our *fuoriserie* cars can be based on range or special series mechanical components, but are characterized by important exterior body modifications resulting in an innovative product by concept or design. These exclusive cars are linked to specific events or celebrations, such as the F60 America (celebrating our 60th anniversary of sales in the United States) and the J50 (celebrating our 50th anniversary of sales in Japan). Our one-off cars are designed to meet the varying needs of our most loyal and discerning clients. They reflect the exact design and specifications required by our clients and are produced as a single, unique vehicle. (See “-Limited Edition Supercars, Fuoriserie and One-Offs”).

The table below sets forth our unit shipments for the years ended December 31, 2016, 2015 and 2014, by geographic market:

	For the years ended December 31,					
	2016	%	2015	%	2014	%
EMEA						
UK	769	9.6 %	740	9.7 %	705	9.7 %
Germany	675	8.4 %	595	7.8 %	616	8.5 %
Italy	364	4.5 %	285	3.7 %	243	3.3 %
Switzerland	333	4.2 %	340	4.4 %	332	4.6 %
France	306	3.8 %	274	3.6 %	253	3.5 %
Middle East ⁽¹⁾	439	5.5 %	456	5.9 %	521	7.2 %
Other EMEA ⁽²⁾	724	9.1 %	661	8.6 %	604	8.3 %
Total EMEA	3,610	45.1 %	3,351	43.7 %	3,274	45.1 %
Americas ⁽³⁾	2,687	33.5 %	2,640	34.4 %	2,462	33.9 %
Greater China ⁽⁴⁾	619	7.7 %	610	8.0 %	675	9.3 %
Rest of APAC ⁽⁵⁾	1,098	13.7 %	1,063	13.9 %	844	11.6 %
Total	8,014	100.0 %	7,664	100.0 %	7,255	100.0 %

(1) Middle East includes the United Arab Emirates, Saudi Arabia, Bahrain, Lebanon, Qatar, Oman and Kuwait.

(2) Rest of EMEA includes Africa and the other European markets not separately identified.

(3) Americas includes the United States of America, Canada, Mexico, the Caribbean and Central and South America.

(4) Greater China includes China, Hong Kong and Taiwan.

(5) Rest of APAC mainly includes Japan, Australia, Singapore, Indonesia and South Korea.

The table below sets forth our unit shipments for the years ended December 31, 2016, 2015 and 2014, with a breakdown of Sports and GT cars:

	For the years ended December 31,		
	2016	2015	2014
Sports			
V8 ⁽¹⁾	4,221	3,534	3,651
V12 ⁽²⁾	1,152	1,169	1,565
Total Sports	5,373	4,703	5,216
GT			
V8	2,247	2,638	1,645
V12	394	323	394
Total GT	2,641	2,961	2,039
Total	8,014	7,664	7,255

(1) Includes 458 Speciale and 458 Speciale A for 2015 and 2014.

(2) Includes LaFerrari, and from the third quarter of 2016 LaFerrari Aperta.

We are also actively engaged in after sales activities driven, among other things, by the objective of preserving and extending the market value of the cars we sell. We believe our cars' performance in terms of value preservation after a period of ownership significantly exceeds that of any other brand in the luxury car segment. High residual value is important to the primary market because clients, when purchasing our cars, take into account the expected resale value of the car in assessing the overall cost of ownership. Furthermore, a higher residual value potentially lowers the cost for the owner to switch to a new model thereby supporting client loyalty and promoting repeat purchases.

Range Models and Special Series

Our products include the range models and special series described below. Our range models currently include three sports cars, 488 GTB, 488 Spider and F12berlinetta, and three GT cars, California T GTC4Lusso and GTC4Lusso T. The GTC4Lusso was launched in 2016 to replace the FF which was produced and sold in 2016 but is now discontinued.

We also offer special series cars based on our range models. These cars are characterized by significant hardware and software modifications (engine, aerodynamics, and dynamics among others), designed to enhance performance and drivability when compared to current range models. Our latest special series, unveiled in October 2015, is the F12tdf, which is based on the F12berlinetta.

All of our range and special series models feature highly customizable interior and exterior options such as forged rims, luxury leathers, seat style, panoramic roof, dashboard and steering wheel inserts (see “—*Personalization Program and Tailor Made Program*”).

488 GTB



The 488 GTB is a two seater berlinetta with a 670 hp mid-rear mounted V8 engine. It was launched in March 2015, 40 years after we unveiled our first ever mid-rear-engined V8 model (the 308 GTB). The model’s exterior and interior design was developed entirely by Ferrari Design Centre. Its large signature air intake scallop evokes the original 308 GTB and is divided into two sections by a splitter. Designed for track-level performance, the 488 GTB can also provide enjoyment to non-professional drivers for everyday use. Accelerating from 0-200 km/h in only 8.3 seconds, its new 3902 cc V8 turbo engine is at top of the class for power output, torque and response times. In the cabin, the seamless integration of the new satellite control clusters, angled air vents and instrument panel heightens the sense that the cockpit is completely tailored around the driver, leading to an extremely sporty yet comfortable ambiance. The 488 GTB has collected various accolades including: Autocar (UK) – 2015 ‘Best Driver’s Car’, Sport Auto (Germany) – 2015 Best Brands Awards – “Best Coupé over €150,000” and Middle East Car of the Year (MECOTY) – ‘Best Supercar 2015’.

488 Spider



Our latest sports car, the 488 Spider, launched in September 2015, is a two seat coupe with a 670 hp mid-rear mounted V8 engine. Its retractable hard top, which saves approximately 25 kg on a soft top, unfolds and retracts in 14 seconds and can also be raised or lowered while the car is moving. It offers the full experience of sports car driving, especially on mixed and challenging surfaces, but aims to cater to those who do not need to constantly push their car to the limit on the track. Styled entirely in-house at Ferrari Design Centre and designed around the retractable hard top concept, the 488 Spider combines the prowess of the 488 GTB coupe's mid-rear V8 with innovations in aerodynamics, including a new Ferrari-patented blown spoiler, which allows air to enter an intake at the base of the rear screen and exit via the bumper and reduces drag. The 488 Spider accelerates from 0 to 100 km/h in 3.0 seconds and from 0 to 200 km/h in 8.7 seconds and offers exceptional dynamic behavior, with close to no turbo lag and response time of just 0.8 seconds.

F12berlinetta



Launched in 2012, the F12berlinetta is equipped with a 740 hp V12 engine. Built around evolved transaxle architecture with cutting-edge components and control systems, it sets a new standard in aerodynamics and handling. Though conceived as a performance automobile, the F12berlinetta is capable of both high speed and long-distance driving. In 2013 it won the International Engine of the Year Award in both the Best Performance category and Best Engine above 4.0 liters category. The F12berlinetta is the first model launched since the creation of Ferrari's in-house styling studio and was awarded the *Compasso d'Oro* (Golden Compass) award in 2014, the first Ferrari model to receive this distinction.

F12tdf



Unveiled in October 2015, the F12tdf is our latest special series sports car (based on the F12berlinetta), which pays tribute to the Tour de France, the legendary endurance road race that Ferrari dominated in the 1950s and 1960s. Designed entirely in-house at Ferrari Design Centre, the F12tdf is a two seat coupe equipped with a 6262cc 65° V12 engine with a maximum power of 780 hp at 8,500 rpm. The F12tdf is the most powerful high performance Ferrari sports car ever built. Its engine's sporty response is assured by a maximum torque of 705 Nm (up from 690 Nm) at 6,750 rpm with 80% of such force already available at 2,500 rpm. The F12tdf is equipped with a new Ferrari innovative rear-wheel steering system, known as the Virtual Short Wheelbase (or *Passo Corto Virtuale*), which together with wider front tires and other vehicle dynamic control systems provides the steering wheel response times and turn-in of a competition car while increasing stability at high speed. These factors combine to produce an outstanding acceleration: 0-100 km/h in 2.9 seconds and 0-200 km/h in 7.9 seconds.

California T



The California T, which followed the great success of our 2008 California model, is equipped with a 560 hp V8 turbo engine. Launched in 2014, it is the only GT car in the segment to combine a retractable hard top, rear seats and a ski passage to the spacious trunk. Its new turbocharged V8 engine comes with a variable boost management system. This makes it the only turbo engine in the world with close to no turbo lag. It also features a revised rear and interior design and a 15 percent reduction in fuel consumption compared to its predecessor. Its lines, penned by Ferrari Design Centre in collaboration with Pininfarina, were awarded the 2015 Red Dot Design Award. In January 2016, we announced the introduction of the Handling Speciale Package ("HSP") on the California T. The HSP, designed to ensure increased performance, handling and response for a more sporty driving experience, was launched at the Geneva Motor Show in March 2016.

GTC4Lusso



Unveiled in February 2016, the GTC4Lusso is our latest four-seater four-wheel drive Grand Tourer model. Its name recalls historic Ferrari models, such as the 330GT 2+2 and the 250 GT Berlinetta Lusso, renowned for their combination of elegance and performance. The Ferrari Design-penned GTC4Lusso adds a further refinement to the shooting brake coupe style to produce a streamlined, tapered silhouette. The GTC4Lusso is equipped with a 6262cc 65° V12 engine with a maximum power of 680 hp, maximum speed of 335/Km/h and acceleration of 0-100 km/h in 3.4 seconds. The Ferrari-patented integrated four wheel drive and steering system allows the driver to effortlessly handle the exceptional torque in a variety of road conditions. Shipments of the GTC4Lusso began in the third quarter of 2016.

GTC4Lusso T



Ferrari further broadened its range at the Mondial de l'Automobile 2016 in Paris with the world premiere of the new GTC4Lusso T, Maranello's first ever full 4-seater to be powered by a V8, combining sportiness and versatility with day-to-day drivability.

The GTC4Lusso T is equipped with the latest evolution of the "International Engine of the Year 2016" V8 turbo family. The 3.9-liter engine produces a maximum of 610 cv at 7,500 rpm, delivering instant throttle response and smooth progressive pick-up across the rev range. This impressive performance is matched by fuel consumption figures that yield an excellent range, making the car ideal for both city driving and longer journeys.

Adding four-wheel steering and specific calibration of the dynamic control systems to the mix has produced an extremely agile and responsive car. Production of the GTC4Lusso T started in December 2016 and shipments are expected to start in the second quarter of 2017.

Personalization Program and Tailor Made Program

All of our models feature highly customizable interior and exterior options, which together comprise our personalization catalogue. Some of these options include custom shop wheels, alternate brake caliper colors, parking cameras, MagneRide dual mode suspension, sport exhaust systems, panoramic roof option, various door configurations, steering wheel inserts and state of the art custom high fidelity sound systems.

With our “Special Equipment” program, we offer clients additional customization choices for their car. Our specialists are able to guide clients in creating a very customized car through a wide catalog of special items such as different types of rare leathers, custom stitching, special paints, special carbon fiber, and personalized luggage sets designed to match the car’s interior.

The “Atelier” and “Tailor Made” programs provide two additional levels of personalization in accordance with the expectations of our clients. In particular, in the “Tailor Made” program a dedicated Ferrari designer assists clients in selecting and applying virtually any specific design element chosen by the client. Our clients benefit from a large choice of finishes and accessories in an array of different materials (ranging from cashmere to denim), treatments and hues. To assist our clients’ choice we also offer three collections inspired by Ferrari’s own tradition: *Scuderia* (taking its lead from our sporting history), *Classica* (bringing a modern twist to the styling cues of our signature GT models) and *Inedita* (showcasing more experimental and innovation-led personalization).

Tailor Made 70th Anniversary Collection



As part of activities to mark the 70th anniversary of the company, Ferrari Tailor Made, together with the designers of the Ferrari Design Center have put a modern twist on the stylistic features that distinguished 70 of the most striking Ferraris in history and in so doing have created 70 unique designs to be applied to the cars in the current range. All the cars are distinguished by the commemorative logo of the 70th anniversary along with an ID plaque with the name of the model that inspired it. The project was unveiled at the Paris Motor Show in September 2016.

Limited Edition Supercars, Fuoriserie and One-Offs

In line with our tradition of supercars starting with the 288GTO in 1984 through to the Enzo in 2002 and the LaFerrari Aperta, our latest supercar which we launched in 2016, we also produce limited edition supercars. These are the highest expression of Ferrari road car performance at the time and are often the forerunners of technological innovations for future range models,

with innovative features and futuristic design. Furthermore, in connection with certain events or celebrations, we also launch very limited edition cars (our *fuoriserie*). These models can be offered globally, or may be limited to specific local markets. Based on an exotic product concept not available on the standard Ferrari model range, these cars feature completely unique design and specifications compared to our other models.

LaFerrari Aperta



LaFerrari Aperta is the open top version of the LaFerrari, the latest in our line of supercars. Like its coupé sibling, the LaFerrari Aperta is equipped with hybrid technology. Alongside its powerful rear-wheel drive layout V12 engine (which generates 800 hp), the hybrid system comprises two electric motors and a special battery consisting of cells developed by the Scuderia Ferrari where the F138 KERS technology was pioneered. Because the battery generates an additional 163 hp, LaFerrari Aperta has a combined total of 963 hp. LaFerrari Aperta's HY-KERS system is designed to achieve seamless integration and rapid communication between the V12 and electric motor, thus blending extreme performance with maximum efficiency. Thanks to the hybrid technology, LaFerrari Aperta generates almost 50 percent more horsepower than the Enzo, its predecessor, and 220 hp more than the F12, our most powerful car to date. Production and shipments started in the third quarter of 2016.

F60 America



The F60 America, a V12 open air roadster, celebrates our 60 years in the United States and is available to U.S. clients only. It combines two of our American clients' great passions-the modified V12 engine and open-top driving. The exterior is finished in North American Racing Team livery, with special 60th anniversary prancing horse badges adorning the wheel arches. Inside, the F60America features bespoke cabin trim, with the driver's side finished in red and the passenger side in black-a nod to our historic competition cars. We have pre-sold ten F60s. Production started in the second half of 2015 and all deliveries were made in 2016.

Ferrari J50



The J50 is a two-seater, mid-rear-engined roadster that marks a return to the targa body style evocative of several well-loved Ferrari road cars of the 1970s and 1980s. It was introduced during a celebration held at the National Art Center in Tokyo to commemorate the 50th anniversary of Ferrari in Japan in December 2016. Designed by the Ferrari Styling Centre team in Maranello, just 10 examples of the J50 will be built and, in the spirit of Ferrari's *fuori serie* tradition, each one will be tailored specifically to the customer's requirements. Based on the 488 Spider, the J50 is powered by a specific 690 cv version of the 3.9-liter V8 that won the overall International Engine of the Year Award this year. The bodywork is all new and heralds a radical and futuristic design language, with a highly distinctive personality that suits the tastes of a clientele seeking the utmost in innovative styling. Production will start during 2017.

One-Offs

Finally, in order to meet the varying needs of our most loyal and discerning clients, we also from time to time produce one-off models. While based on the chassis and equipped with engines of one of the current range models for homologation and registration purposes, these cars reflect the exact exterior and interior design specifications requested by the clients, and are produced as a single, unique car. Some of the most iconic models to have emerged from our One-Off program include the SP12 EC, the F12 TRS (a radical two-seat roadster created on the platform of the F12berlinetta in 2014) and the 458MM Speciale. The program is expanding due to increasing demand.



Non-Registered Racing Cars

Based on our Sports and GT cars, we also develop and manufacture special racing cars. These cars are not registered for use on the road and may only be used on track in competitive and non-competitive race events. This activity is managed by the Attività Sportive GT Department which includes: Competizioni GT (taking care of the GT racing) and Corse Clienti (taking care of the Challenge racing and XX/F1 programme).

488 GTR/GTLM and 488 GT3/GTD

They are sold to clients and private teams as racing cars specifically developed for professional racing with the aim to compete in the FIA World Endurance Championship, in several GT International and also Historical Race like Daytona 24 Hours, Le Mans 24 Hours.

The 488 won the FIA World Cup for GT Manufacturers in its first year of competition and the GT3 special car won several other competitions such as the GTD class of the IMSA SportsCar Championship and the GT class of the Asian Le Mans Series.

XX Programme



Since 2005, we have been operating our XX Programme, a non-competitive “owner-test drivers” program organized at some of the best known race tracks in Europe, Asia and North America. Through the XX Programme, we test advanced solutions and technological innovations by providing a select group of clients the opportunity to drive cars enhanced with superior power and performance characteristics. As part of this programme, we have developed the FXX K, based on LaFerrari, shipments of which started in the second quarter of 2015. Although conceived as a track-only model, the FXX K was specially styled by Ferrari Design Centre working closely with the aerodynamics engineers. The FXX K received the Red Dot “Best of the Best” Design Award in 2015, one of the most recognized design awards in the world.



The 488 Challenge marks the 25th anniversary of the Ferrari Challenge and was launched in December 2016 at the Finali Mondiali in Daytona. The 488 Challenge is the first equipped with a turbo engine to get on track in the Ferrari one-make series. It is the most powerful car in the Challenge history thanks to 670 hp from the V8 3.9-liter engine derived from the 488 GTB. Ferrari's patented Slip Slip Angle Control software is installed for the first time on a Challenge car, improving the longitudinal acceleration through bends by 4.2 percent. Production will start in 2017.

Sales and After-Sales

Our commercial team, which includes 226 employees at December 31, 2016, is organized in four geographic areas covering our principal regional end markets: (i) EMEA, which is also responsible for South Africa and India, (ii) Americas, (iii) Greater China (which includes The People's Republic of China, Taiwan and Hong Kong), and (iv) Rest of APAC (which includes the rest of Asia and Oceania).

Dealer network

We sell our cars exclusively through a network of authorized dealers (with the exception of one-offs which we sell directly to end clients). In our larger markets we act as importer either through wholly owned subsidiaries or, in China, through a subsidiary partly owned by a local partner, and we sell the cars to dealers for resale to end clients. In smaller markets we generally sell the cars to a single importer. At December 31, 2016, our network comprised 170 dealers operating 188 points of sale.

We do not own dealerships and, while our strategy does not contemplate owning dealerships, we retain flexibility to consider all market requirements from time to time.

We believe that our careful and strict selection of the dealers that sell our cars is a key factor for promoting the integrity and success of our brand. Our selection criteria are based on the candidates' reputation, financial solidity and track record. We are also mindful to select dealers who are able to provide an in-store experience and to market and promote our cars in a manner intended to preserve the Ferrari brand integrity and to ensure the highest level of client satisfaction.

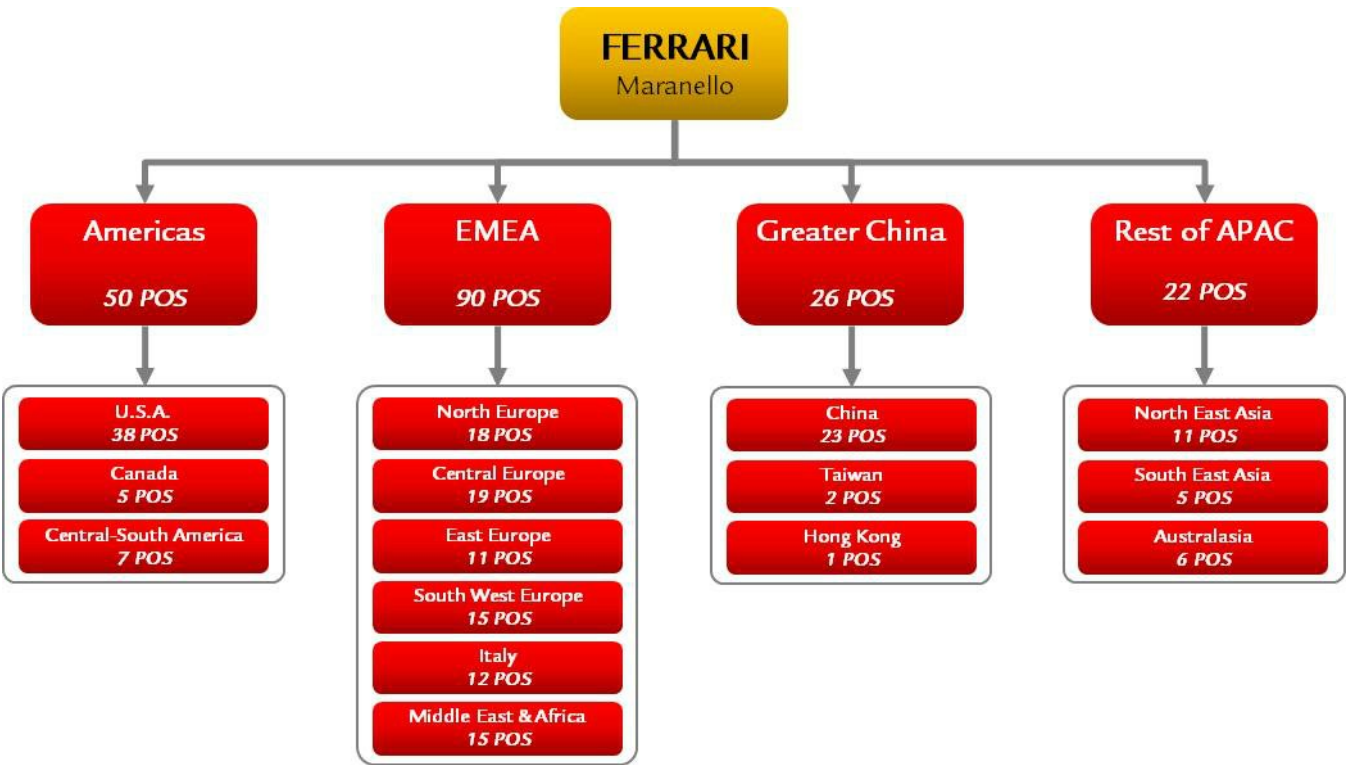
While dealers may hold multiple franchises, we enjoy a high degree of prominence and level of representation at each point of sale, where most of the client interface and retail experience is exclusive to Ferrari. Our network and business development team works directly with individual dealers to ensure various standards are met. All dealers must conform to our rigorous design, layout and corporate identity guidelines ensuring uniformity of the image and client interface. Through the Ferrari Academy we provide training to dealers for sales, after sales and technical activities to ensure our dealer network delivers a consistent level of market leading standards across diverse cultural environments. We train and monitor dealers intensively and we collect and

observe data relating to their profitability and financial health in order to prevent or mitigate any adverse experience for clients arising from a dealer ceasing to do business or experiencing financial difficulties. Our representatives visit dealerships regularly to measure compliance with our operating standards. We have the right to terminate dealer relationships in a variety of circumstances including failure to meet performance or financial standards, or failure to comply with our guidelines.

We provide a suggested retail price or a maximum retail price for all of our cars, but each dealer is free to negotiate different prices with clients and to provide financing. Although many of our clients in certain markets purchase our cars from dealers without financing, we provide direct or indirect finance and leasing services to retail clients and to dealers. (See “—*Financial Services*”).

The total number of our dealers as well as their geographical distribution tends to reflect closely the development or expected development of sales volumes to end clients in our various markets over time. Dealer turnover is relatively low, reflecting the strength of the franchise and our selection processes, but is sufficient to guarantee an orderly renewal over time and to stimulate the network’s health and performance.

The chart below sets forth the geographic distribution of our 188 points of sale at December 31, 2016:



Our sales are diversified across our dealer network, with the largest dealer representing approximately 2.3 percent of sales, and our 15 largest dealers representing 24 percent of sales.

As part of our supply and demand management, we determine allocations based on various metrics including expected developments in the relevant market, the number of cars sold historically by the various dealers, current order book of dealers and the average waiting time of the end client in the relevant market. Our order reporting system allows us to collect and monitor information regarding end client orders and is able to assist us in production planning, allocation and dealer management.

Parts

We supply parts for current and older models of Ferrari to our authorized dealer network. In addition to substitution of spare parts during the life of the car, sales are driven by clients’ demand for parts to customize their cars and maximize performance, particularly after a change in ownership and to compete in the Ferrari Challenge and other client races. We also

supply parts to Ferrari models currently out of production, with stocks dating back to 1995. The stock of parts for even older models is currently owned and managed by a third party which in some cases also manufactures out-of-stock parts based on our design. The sale of parts is a profitable component of our product mix and it is expected to benefit from the increase in the number of Ferrari cars in circulation.

After Sales

Dealers provide after sales services to clients, either at facilities adjacent to showrooms, or in stand-alone service points across 233 facilities worldwide. After sales activities are very important for our business to ensure the client's continued enjoyment of the car and the experience. Therefore, we enforce a strict quality control on our dealers' services activities and we provide continued training and support to the dealers' service personnel. This includes our team of "flying doctors," Ferrari engineers who regularly travel to service centers to address difficult technical issues for our clients.

We also sell certain cars together with a scheduled program of recommended maintenance services in order to ensure that these cars are maintained to the highest standards to meet our strict requirements for performance and safety.

While we do not have any direct involvement in pre-owned car sales, we seek to support a healthy secondary market in order to promote the value of our brand, benefit our clients and facilitate sales of new cars. Our dealers provide an inspection service for clients seeking to sell their car which involves detailed checks on the car and a certification on which the client can rely, covering, among other things, the authenticity of the car, the conformity to original technical specifications, and the state of repair. Furthermore, we offer owners of classic Ferrari cars maintenance and restoration services.

Client Relations

Our clients are the backbone of our business together with our brand and our technology. We do not promote our brand or our cars through general advertising. Our main brand marketing and promotional activities have two principal targets.

Firstly, we target the general public. Our most significant effort in this respect is centered on our racing activities and the resonance of Scuderia Ferrari (see "*—Formula 1 Activities*"). We also engage in other brand-promotional activities, including participation in motor shows and other public events.

Secondly, we target existing and prospective clients, seeking to promote clients' knowledge of our products, and their enjoyment of our cars both on road and on track, and to foster long term relationships with our clients, which is key to our success. In 2016, more than 60 percent of our new cars were sold to Ferrari owners.

By purchasing our cars, clients become part of a select community sharing a primary association with the Ferrari image and we foster this sense of fellowship with a number of initiatives. We strive to maximize the experience of our clients throughout their period of interaction with Ferrari — from first contact, through purchasing decision process, to waiting-time management and ownership.

Client events

We organize a number of client events at Maranello and elsewhere.

Our factory in Maranello is the core of our client engagement strategy and a symbolic hub attracting clients and prospects worldwide. Upon invitation, clients and prospects can visit the factory, witness some of its workings and experience several Ferrari core values such as heritage, exclusivity and customization. At the factory, clients have the opportunity to configure their cars through our personalization and bespoke program (see "*—Personalization Program and Tailor Made Program*").

Every new model launch is carefully staged and selected clients and prospects have preferential access to the new car. The new model presentation begins with the release of images providing a preliminary, often partial view of its design. Clients are then invited to a preview or world premiere. A public model presentation generally follows at motor shows where clients are provided access to the Ferrari stand. Further country and regional events follow before delivery of the first cars to dealers.

In 2016, for example, we organized the World Premier of the GTC4Lusso, where clients from all over the globe gathered at the Villa Erba on Lake Como to admire the new Ferrari V12, and we organized the first edition of the Finali Mondiali ever held in the United States at the legendary Daytona Speedway.

Driving events

Driving events serve the dual objective of allowing clients to experience at their best the emotion of driving a Ferrari car, and to foster client loyalty and repeat purchases by creating superior car-usage occasions. Track and sporty driving activities are mainly targeted to clients with a preference for sports models.

In addition to several track day activities, organized by local sales departments and dealers to allow clients to use their cars on ad-hoc rented tracks, Ferrari has a central department responsible for professionally organizing races and racing courses, *Corse Clienti*. The *Corse Clienti* activities take place on some of the world's most famous race tracks, and include both competitive races, such as the Ferrari Challenge Championships, and non-competitive events, such as with *XX and F1 Programme*. The *XX and F1 Programme* is a highly selective initiative dedicated to a restricted group of clients who own non-homologated GT race cars and F1 cars previously used in the Formula 1 Championship. Ferrari Challenge and XX/Formula 1 events are sometimes accompanied by so-called *Ferrari Racing Days*. These events are open to non-competing clients and prospects and a wider audience, and they offer the opportunity for important client gatherings.

In addition to on-track racing, we organize various on-the-road driving events, including both proprietary formats (*Ferrari Cavalcade*, also including the *International Edition*) or with a branded presence within an established driving event. For example, in the *Ferrari Tribute to Mille Miglia* and the *Ferrari Tribute to Targa Florio* modern Ferrari cars participate in their own regularity rally taking place shortly before the start of the classic Mille Miglia and Targa Florio races.

We see nurturing our clients' passion for driving as a key asset for our future commercial success, particularly in markets where racing traditions are less pronounced. We offer to our prospective and existing clients interested in new Ferrari models our *Esperienza Ferrari* initiative, which consists of driving sessions designed to allow participants to experience the pleasure of driving a Ferrari with a team of highly qualified and skilled Ferrari instructors and technicians professionally trained in high-performance driving. In addition we also offer on-track driving courses to our clients, catering to different levels of skill and experience and teaching essential driving skills for high performance cars. In our newer markets, such as China, we also offer complimentary driving courses on track to any new car buyer.

Ferrari Classiche

Through our "Ferrari Classiche" service, we offer specialized maintenance and restoration services to owners of Ferraris older than 20 years. We use either original components and spare parts or replicas based on the original specifications and our restoration service offers our clients the opportunity to reinstate any classic Ferrari to its pristine, original conditions. Each year Ferrari Classiche carries out maintenance works on approximately 40 cars and performs approximately 10 full restorations.

Ferrari Classiche also issues certificates of authenticity to Ferrari models older than 20 years and to all Ferrari racing cars, including Formula 1 single-seaters of any age, to attest the authenticity of the cars and of their components. Each certified car undergoes a thorough technical inspection, at the Ferrari Classiche workshop in Maranello or at certain of our authorized dealers worldwide, to verify that the car's chassis, engine, gearbox, transmission, suspension, brakes, wheels, bodywork and interior are original, or otherwise comply with, the car's original specifications. If the inspection is successful, our committee of experts, chaired by Piero Ferrari, our Vice Chairman, grants the certification. In recent years Ferrari Classiche has on average granted approximately 400 certificates of authenticity per year.

Formula 1 Activities

Participation in the Formula 1 world championship with Scuderia Ferrari is the core element of our marketing effort and an important source of technological innovation for the engineering, development and production of our Sports and GT cars. The Formula 1 world championship is the pinnacle of motorsports with over 400 million television viewers annually, which make it one of the most watched annual sport series in the world.

Formula 1 cars rely on advanced technology, powerful hybrid engines and cutting edge aerodynamics. While Europe is the sport's traditional base, Formula 1's reach has expanded significantly and an increasing number of Grand Prix are held in non-European countries, such as China, Bahrain, United Arab Emirates, Singapore, Australia, Brazil, Canada, Japan, Mexico and the United States. This provides participants in the world championship exceptional visibility on the world stage, and coverage now extends well beyond the range of conventional media with growing exposure on social networks.

Scuderia Ferrari has been racing in the Formula 1 world championship since the series launched in 1950, and won its first Grand Prix in 1951. We are the only team that has competed in each season since launch and the oldest and most successful in the history of Formula 1, with 224 Grand Prix wins. Throughout our racing history, we have won 15 drivers' championships

and 16 constructors championships, more than any other team. Many of the best known drivers in the sport's history have raced in Scuderia Ferrari's distinctive red single-seaters including Alberto Ascari, Juan-Manuel Fangio, Niki Lauda, Gilles Villeneuve, Alain Prost and Michael Schumacher. Our drivers' line-up currently comprises four-time World Champion Sebastian Vettel, who joined Ferrari at the beginning of 2015, and Kimi Raikkonen, now in his second term with the Scuderia Ferrari, for which he won the World Drivers title in 2007. Together, the two drivers have won a total of 62 Grands Prix. In December 2016, Antonio Giovinazzi, runner up in the prestigious GP2 racing series, joined as Ferrari's third driver.

Our Formula 1 racing performance has been less successful over the past several years as our most recent driver's championship and constructors' championship were in 2007 and 2008, respectively. To address this, we have recently enhanced our focus on Formula 1 activities with the goal of improving racing results and restoring our historical position as the premier racing team in Formula 1. Our efforts include increased research and development activity to improve car performance as well as investment in management and driving talent.

Participation in the Formula One World championship is regulated by bilateral Team Agreements entered into between Formula One World Championship Limited (FOWC), the Formula 1's commercial rights holder, and each competing Formula 1 racing team (including Ferrari) and by regulations issued by the Federation Internationale de l'Automobile (FIA), the motor sport's governing body.

On January 23, 2017, Liberty Media Corporation completed the acquisition of all the shares of Delta Topco Limited, the holding company of FOWC. The bilateral Team Agreements will remain unaffected by the change of control. As a consequence of the change of control, Ferrari exercised the options it was pursuant to the Team Agreement and in February 2017 received approximately \$11.4 million in cash (including \$2.7 million of previously undistributed dividends), 145 thousand Liberty Media Corporation shares and \$911 thousand of Liberty Media exchangeable notes.

The Team Agreements cover the 2013-2020 racing seasons and govern the terms by which the racing teams take their share of commercial profits. The FIA regulations regulate how the cars are manufactured and how the teams compete in races and include technical regulations governing aspects ranging from tires, weight to ignition, fueling and throttle requirements, and sporting regulations covering scoring and racing procedures. In return for their participation in Formula 1 races the teams receive a share of a prize fund based on the profits earned from Formula 1 related commercial activities managed by FOWC, including in particular, television broadcasting royalties and other sources, such as racetrack owners' fees. Shares in a prize fund equal to approximately 60 percent of earnings before interest, tax, depreciation and amortization from commercial activities and broadcasting rights are paid to the teams, largely based on the relative ranking of each team in the championship. We use our share of these payments to defray part of the costs associated with Scuderia Ferrari, including the costs of designing and producing a set of single-seaters each year and the costs associated with managing a racing team including earnings of drivers, who generally are among the most highly paid athletes in the world.

Improvements in technology and sometimes, changes in regulation, require the design and production of a new racing car every year. Therefore, in addition to our long-term research and development efforts, we begin designing our single-seaters each year in the Spring, in anticipation of the start of the racing season the following March. While the chassis we build each year are designed to be used throughout the racing season, the majority of other components fitted on our cars are adjusted from race to race depending on the characteristics of the circuits.

To maximize the performance, efficiency and safety of our single-seaters, while complying with the strict technical rules and restrictions set out by the FIA, our research and development team plays a key role in the development of our engines and cars. We often transfer technologies initially developed for racing to our road cars. Examples include steering wheel paddles for gearshifting, the use and development of composite materials, which makes cars lighter and faster, and technology related to hybrid propulsion.

Our road cars (especially our sports car models) have benefited from the know-how acquired in the wind tunnel by our racing car development teams, enjoying greater stability as they reach high speeds on and off the track. Our research and development team focused on combining minimal lap times with maximum efficiency, leading to advances in kinetic energy recovery system, or ERS, technology. Current advanced ERS feature two electric motor/generator units in every car, which allow the driver to recover, store and deploy energy generated both by the vehicle during braking and by the exhaust gases through a turbocharger. Building on our racing team's expertise, we developed a hybrid ERS system for our LaFerrari and LaFerrari Aperta road cars.

The high brand visibility we achieve through participation in the world championship has historically enabled us to benefit from significant sponsorships. Philip Morris International has been Scuderia Ferrari's official sponsor for over forty years and, together with Shell (our official sponsor since 1996) and Banco Santander (our official sponsor since 2008) remain

our principal official sponsors. Other official sponsors include TNT (Energy Drink), Alfa Romeo, UPS, Kaspersky lab, Weichai, Hublot and Ray-Ban. Our official suppliers include, among others, Pirelli, Puma, Ray-Ban, IVECO, Mahle, NGK, Magneti Marelli and OMR. Visibility and placement of a sponsor's logo reflects the level of sponsorship fees. Historically, our sponsors have sought advertising opportunities on the chassis of our cars, on clothes worn by our team members and drivers, and in the right to mention Ferrari in their marketing materials.

We use the platform provided by Formula 1 for a number of associated marketing initiatives, such as the hosting of clients and other key partners in the Scuderia Ferrari paddock to watch Grand Prix races, and our Formula 1 drivers participation in various promotional activities for our road cars. We often sell older single-seaters to clients for use in amateur racing or collection.

More generally, Formula 1 racing allows us to promote and market our brand and technology to a global audience without resorting to traditional advertising activities, therefore preserving the aura of exclusivity around our brand and limiting the marketing costs that we, as a company operating in the luxury industry, would otherwise incur.

The Mugello Circuit

We acquired the international Mugello circuit in Scarperia, near Florence, in 1988. We have renovated its buildings, 5.2 km race track and other testing and racing facilities, making Mugello what we believe to be one of the world's finest circuits of its type, with FIA Grade 1 and FIM Grade A certifications, the highest level of homologation for a track-race.

We promote the Mugello circuit to event organizers who regularly rent the circuit to host leading car and motorbike races, including the MotoGP World Championship since 1992. In 2016, over 93,000 people attended the MotoGP World Championship at Mugello, a record attendance for the show.

In 2011, the Mugello circuit won its fifth "Best Grand Prix" award, the highest honor given by the motor sport world for MotoGP organizers. The Mugello circuit is the only track race to have received this award five times.

Brand Activities

Ferrari is one of the world's leading luxury brands. We engage in brand development and protection activities through licensing contracts with selected partners, retail activities through a chain of franchised or directly managed Ferrari stores, licensed theme parks and the development of a line of apparel and accessories sold exclusively in our Ferrari stores and on our website www.store.ferrari.com.

Licensing and Theme Parks

We enter into license agreements with a number of licensees for the design, development and production of Ferrari branded products.

We carefully select our licensees through a rigorous process and we contractually seek to ensure that our brand and intellectual property are protected and that the products which will eventually bear our brand are of adequate quality, appearance and market positioning.

The table below sets forth our current licensing mix.

Category	Principal Licensees
Accessories	- o Oakley (sunglasses) - o Tod's (shoes and leather goods)
Consumer electronics	o Various
Fragrances	o Perfume Holding
Sportswear	o Puma
Theme Parks	- o Ferrari World, Abu Dhabi - o Ferrari Land, Port Aventura
Toys	- o Bburago (play-set) - o Lego (Lego toys)
Video games	- o Electronic Arts - o Microsoft - o Sony Polyphony - o Ubisoft
Watches	- o Hublot (co-branded high-luxury watches) - o Movado (Scuderia Ferrari Watches)
Other (including collectors' models, kid apparels, and accessories, stationary and credit cards)	o Various

A significant portion of our revenues from licensing activities consists of royalties we receive in connection with Ferrari World, our theme park in Abu Dhabi (12 percent of royalties generated by licensing activities). Ferrari World opened on Yas Island —on the North East side of Abu Dhabi's mainland in 2010 and it is currently the only operating Ferrari theme park. Ferrari World's iconic sleek red roof is directly inspired by the classic double curve side profile of the Ferrari GT body, spanning 200,000 square meters and carrying the largest Ferrari logo ever created. Ferrari World Abu Dhabi offers an all-around Ferrari experience to children and adults alike. The attractions include futuristic 4D rides such as the child-friendly Speed of Magic and the world's fastest roller-coaster which reaches speeds of 240 km/h and simulates the breathtaking adrenaline rush of a Ferrari single-seater. In the G-Force experience, visitors are launched 62 meters upwards and over the roof of the Park before being pulled back to earth.

In 2014 we reached an agreement with PortAventura Entertainment S.A.U. to open Ferrari's first European theme park at the PortAventura resort near Barcelona in Spain. PortAventura Entertainment S.A.U. has announced a planned investment of €100 million and the park is expected to open in the spring of 2017. In the long-term we aim to open one theme park in each of the main geographic areas where we operate, including North America and Asia.

Retail and E-Commerce

Through our network of Ferrari stores (franchised or directly managed), we offer a wide range of Ferrari branded products, including a line of apparel and accessories exclusively sold in our Ferrari stores and on our website. All Ferrari branded products we sell in our stores and on our website are either manufactured by our licensees, or directly sourced from our selected network of suppliers.

At December 31, 2016, there were a total of 45 retail Ferrari stores, including those in Maranello, Milan, Macau, New York, Las Vegas, Miami and Los Angeles, Johannesburg, Dubai and Abu Dhabi, of which 29 franchised stores (including 8 Ferrari Store Junior) and 16 stores owned and operated by us.

We require all franchisees to operate Ferrari stores according to our standards. Stores are designed, decorated, furnished and stocked according to our directions and specifications.

We use multiple criteria to select our franchisees, including know-how, financial condition, sales network and market access. Generally, we require that applicants meet certain minimum working capital requirements and have the requisite business facilities and resources. We typically enter into a standard franchising agreement with our franchisees. Pursuant to this agreement, the franchisee is authorized to sell our products exclusively at a suggested retail price. In exchange, we provide them with our products, the benefit of our marketing platform and association with our corporate identity.



In recent years, e-commerce has proved to be an increasingly valuable sales channel, with over 400,000 registered users in more than 190 countries and translations in seven languages.

Design, Development and Manufacturing

Design

The design of our cars is an essential and distinctive component of our products and our brand. Our designers, modelers and engineers work together to create car bodies that incorporate the most innovative aerodynamic solutions in the sleek and powerful lines typical of our cars. The interiors of our cars seek to balance functionality, aesthetics and comfort. Our cockpits are designed to maximize the driving experience, more sporty or more comfortable, depending on the model through an ergonomic layout of all main controls clustered on the steering wheel, and our cars' interiors boast elegant and sophisticated trims and details. A guiding principle of our design is that each new model represents a clear departure from prior models and introduces new and distinctive aesthetic elements, delivering constant innovation within the furrow of tradition.

For the design of our cars we have relied historically on Italian coachbuilders such as Carrozzeria Touring, Vignale, Scaglietti and especially Pininfarina. The privileged partnership with Pininfarina, spanning over six decades, has helped define Ferrari's design language and has established Ferrari at the forefront of design advance and excellence. Throughout the years this has been recognized repeatedly by a long series of awards being bestowed upon Ferrari road cars.

In 2010 we established the Ferrari Design Centre, our in-house design department, in order to improve our control over the design process and ensure long-term continuity of the Ferrari style. Its mission is to define and evolve the stylistic direction of the marque, imprinting all new products with a modern stamp, according to a futuristic, uncompromised vision. The name and logo "Ferrari Design" denotes all concepts and works from Ferrari Design Centre (see "*Intellectual Property*"). Ferrari Design handles all aspects of automotive styling for the Ferrari road cars product range, encompassing the styling of all bodywork, external components and interior trim, applied to series production models for the GT and Sports car range special editions, limited editions, one-off models, concept cars and some track-only models. Ferrari Design also includes a color & trim team which handles the choice of materials and finishes for both exterior and interior trim and, in addition, is responsible for the Tailor Made program in conjunction with the product marketing department. Ferrari Design is also regularly involved with the styling and conceptual definition of Ferrari branded products produced by our licensees (see "*Brand Activities*").

The department is organized as an integrated automotive design studio, employing a total workforce of approximately 80 people (both full-time workers and external contractors) including designers, 3D surfacing operators, physical modelers and graphic artists. It operates a modeling studio fully equipped with 5-axis milling machines with the capacity to develop various full-scale models (interior and exterior) in parallel.

Ferrari Design Centre entirely designed our most recent cars, such as the GTC4Lusso, the GTC4Lusso T, the F12tdf, the 488 Spider, the 488 GTB, the 488 Challenge, the FXX K, the LaFerrari, the LaFerrari Aperta and the limited-series J50, while it designed other current range models, such as the F12berlinetta, in collaboration with Pininfarina. Although our collaboration with Pininfarina is still active with regard to certain special models and *fuoriserie*, we expect that the design and development of most of our future models will be carried out primarily by Ferrari Design Centre.

During the 7 years of activity of the Ferrari Design Centre, our cars have been granted several renowned design awards. Among the recent ones are the following:

- *FXX K*: Red Dot: “Best of the Best” award for top design quality and ground-breaking design (2015); “iF Gold Award” (2016); “Compasso d’Oro 2016” (ADI).
- *488 GTB*: Red Dot: “Best of the Best” award for top design quality and ground-breaking design (2016); “iF Award” (2016).
- *488 Spider*: “iF Award” (2016); Autonis Design award (Auto Motor und Sport, D) - Beste Design-Neuheit: Cabrios (2016); Chicago Good Design Award (2016).
- *LaFerrari*: Red Dot design award for high design quality (2015); “Design Award” (AutoScout24 -11th Internet Auto Awards); “Design of the Year 2014” (AutoDesign & Styling Awards); “Best Super Sportscar 2014” (Auto Zeitung); “2014 James May’s Car of the Year” (Top Gear); “Best Cars 2015 -Coupé Category” (Motor Presse Iberia).
- *GTC4Lusso*: “Chicago Good Design Award” (2016); “Grand Prize for Best Supercar of the Year” (Festival International Automobile, 2016).
- *F12tdf*: “Chicago Good Design Award” (2016).
- *F12berlinetta*: “Compasso d’Oro 2014” (ADI); “Car of the Year 2014” (Robb Report); “Supercar of the Year 2013” (GQ); “Best Coupé 2013” (*L’Automobile Magazine*); “Design Award, 2012” (Auto Bild); “*Goldenes Lenkrad 2012*” (Auto Bild); “Supercar of the Year 2012” (Top Gear).
- *California T*: Red Dot design award for high design quality (2015); “The Most Beautiful Automobile Award 2014” (Car & Driver China); “Most Stylish Car 2014” (*Schweizer Illustrierte*).
- *458 Speciale*: “Supercar of the Year 2013” (Top Gear -UK); “2014 Car of the Year” (Evo -UK); “James May’s Car of the Year 2013” (Top Gear -UK); “Supercar of the Year 2013” (Evo Middle East); “2014 Britain’s Best Driver’s Car” (Autocar -UK).
- *458 Speciale A*: “Convertible of the Year 2014” (Top Gear UK).

Product Development

Our product development process is highly structured with the aim of allowing us to respond quickly to market demand and technological breakthroughs and to maintain our position at the top end of the market for car performance and luxury. Our technology team is comprised of approximately 640 engineers and technicians at December 31, 2016. All of our cars are designed and engineered in Italy, at our factories in Maranello and Modena (Carrozzeria Scaglietti).

Our product development includes innovation programs, components programs and car programs, with regular management reviews and detailed cycle milestones. Our components programs are intended to ensure technological innovation and support the development of future models rather than to create an “off the shelf” catalog of available components.

All our cars are designed and manufactured based on two highly modular architectures incorporating front and mid-rear engines respectively. This allows for flexible manufacturing at low volumes and easy adaptation to different models with limited additional investment. Our architectures utilize a number of common structures, reducing tooling investment for new model production. When developing a new platform, we focus on innovation, leveraging on our collaboration with the select research centers and universities, and flexibility, allowing us to respond efficiently to potentially varied market demand. The flexibility of our platforms enables us to introduce our highly innovative contents on a wide range of models while, at the same time, reducing the fixed costs connected to the use of multiple platforms.

Consistent with our mission to develop cutting edge sports and GT cars, our product development efforts continually focus on improving core components, such as the powertrain, car dynamics, and the use of materials such as special aluminum alloys and carbon fiber (see “—*Design, Development and Manufacturing—Production Process*”).

The expertise we acquired in these fields has recently guided our efforts to combine improved performance with reductions in CO₂ emissions. In recent years, calls for CO₂ emissions reductions have come from regulatory initiatives as well as market demand. LaFerrari is an example of such efforts, and we believe it shows our ability to apply our core mechanical know-how to new and expanding fields such as hybrid technology.

The design and development process for a new model currently takes approximately 40 months, depending on the modifications (approximately 33 months for M models), measured from the beginning of the development project to the start of production. We believe this fast development is made possible by our dedicated and concentrated development team as well as by the clarity and focus of the product marketing objectives. Our product marketing team is integrally involved in the entire development process, beginning with the initial product brief and, thereafter, through systematic interaction.

The cadence of production launches is designed to maintain our product portfolio's leading position in the industry segment and optimize the length of the model lifecycle relative to demand, while limiting research and development spend to maximize its productivity.

Generally, we plan for a four to five year life cycle for our range models. After four to five years, we typically launch a "modified" or "M" model based on the same platform but featuring significant aesthetic updates and technological improvements. This is, for example, the case of the California T, launched in 2014, which replaced and updated the earlier California, featuring new sheet-metal, new interior, a revised chassis and a new turbocharged powertrain. Typically, four years after the launch of the M-model, we start production of an entirely new model based on an completely new or overhauled platform. Therefore, the cumulative life cycle of each of our models is approximately eight to nine years, and typically we have launched one new model every year while keeping four or more range models in production at any time. The actual life cycles of our models vary depending on various factors including market response. Special series have different, typically shorter, lifecycles. We usually utilize additional platforms for production of our supercars, such as LaFerrari and LaFerrari Aperta.

We also run specific programs for our most critical components, independently from the development of new car models. This is the case of our engines, which we manufacture according to cycle milestones not necessarily connected with the release of a new car model. Since 2011, we have also been producing the new F160 3.0-liter V6 Turbo engine exclusively for Maserati. In 2016, we produced approximately 34,000 F160 engines for Maserati. (See "*—Manufacturing of Engines for Maserati*"). Many of our components, such as those relating to transmission, power steering, navigation systems and the instrument cluster, are co-designed by us and our suppliers based on our specifications.

Our research and development operations constantly focus on innovating our cars' concept and package, powertrains design, car architecture and components development. (See "*—Research and Development*").

Procurement

We source a variety of components (including transmissions, brakes, driving-safety systems, navigation systems, mechanical, electrical and electronic, plastic components as well as castings and tires), raw materials (aluminum, and precious metals including palladium and rhodium), supplies, utilities, logistics and other services from numerous suppliers.

Our focus on excellence, in terms of luxury and performance, require us to select suppliers and partners that are able to meet our high standards. For the sourcing of certain key components with highly technological specifications, we have developed strongly synergic relationships with some of our suppliers, which we consider "key strategic innovation partners." We currently rely on 14 key strategic innovation partners, including GETRAG and Brembo for the supply of transmissions and brakes respectively. We have also developed strong relationships with other industrial partners for bodyworks and chassis manufacturing and for powertrain and transmissions, among other things. Pursuant to our make-or-buy strategy, we generally retain production in-house whenever we have an interest in preserving or developing technological know-how or when we believe that outsourcing would impair the efficiency and flexibility of our production process. Therefore, we continue to invest in the skills and processes required for low-volume production of components that we believe improve product quality.

For the year ended December 31, 2016, the purchases from our ten largest suppliers by value accounted for approximately 20 percent of total procurement costs, and no supplier accounted for more than ten percent of our total procurement costs.

We recognize the contribution of our suppliers to our success through various initiatives, including "Key Innovation Partners", events devoted to Ferrari's suppliers who displayed particular excellence or innovative flair.

Production Process

Our production facilities are located in Maranello and in Modena, Italy (see “Item 4.D. *Properties, Plant, and Equipment*”). Our production processes include supply chain management, production and distribution logistics of cars in our range models and special series, as well as assembly of prototypes and avanseries.

Notwithstanding the low volumes of cars produced, our production process requires a great variety of inputs —over 40,000 product identifier codes sourced from approximately 1,000 total suppliers — entailing a complex supply chain management to ensure continuity of production. Our stock of supplies is warehoused in Ubersetto, near Maranello, and its management is outsourced to the logistics company Kuehne & Nagel.

Most of the manufacturing process takes place in Maranello, including aluminum alloy casting in our foundry, engine construction, mechanical machining, painting, car assembly, and bench testing; at our second plant in Modena (Carrozzeria Scaglietti) we manufacture our cars’ aluminum bodyworks and chassis. All parts and components not produced in house at Ferrari are sourced from our panel of suppliers (see “—*Procurement*”).

In recent years we have made significant investments in our manufacturing facilities, and between 2002 and 2012 the plants housing our production processes were entirely renovated or rebuilt. We plan our investment activities based on an estimated plant useful life of approximately 20 years. Equipment, on the other hand, may require substantial investment with the introduction of new models, particularly in the case of shell tools for the foundry, tools for machining, feature tools for body welding and special mounting equipment for the assembly.

At December 31, 2016, our production processes employed over 1,300 engineers, technicians and other personnel (approximately 1,200 blue collar employees including approximately 200 temporary production employees and approximately 100 white collar employees). We have a flexible production organization, which allows us to adjust production capacity to accommodate our expected production requirements. This is primarily due to the low volume of cars we produce per year and to our highly skilled and flexible employee base that can be deployed across various production areas. In addition, we can adjust our make-or-buy strategies to address fluctuations in the level of demand on our internal production resources. Our facilities can accommodate a meaningful increase in production compared to current output with the increase of weekend shifts or, to address special peaks in demand, temporary employees. Production could be increased even further with the introduction of a second shift on car assembly lines compared to the single shift currently operated. We constantly work to increase the utilization rate and reduce the internal scrap rate and we closely monitor an index of our production efficiency. In the past few years we have reduced our cycle time by approximately three percent per year. We are also committed to improve the reliability of our cars, reduce their defects, and optimize their finishing.

Unlike most low volume car producers, we operate our own foundry and machining department producing several of the main components of our engines, such as engine blocks, cylinders heads and crankshafts. We believe this accelerates product development and results in components that meet our specifications more closely.

Engine Production

Our engines are produced according to a vertical structure, from the casting of aluminum in our foundry up to the final assembly and testing of the engine. Several of the main components of our engines, such as blocks and cylinders heads are produced at our foundry in Maranello. For this purpose, we use a special aluminum alloy that includes seven percent silicon and a trace of iron, which improves mechanical integrity, and our own shell and sand casting molds. Once all components are ready, engines are assembled, on different lines for our V8 engines, V12 engines and for the V6 engines we manufacture for Maserati. The assembly process is a combination of automatic and manual operations. At the start of the assembly process, each engine is identified with a barcode and operations are recorded electronically. Every engine then goes to the test benches where its power and torque output are measured to ensure it delivers the expected performance. In 2016 we produced an average of approximately 147 engines per day, including approximately seven V12, 43 V8 (including two V8 turbo and 13 V8 aspirated for Maserati) and 97 V6 engines for Maserati (see “—*Manufacturing of Engines for Maserati*”).

Chassis and Body Assembly

In parallel with the assembly of our engines, we prepare our body-shells and chassis at our panel shop Carrozzeria Scaglietti in Modena. The main components of body-shells and chassis are not manufactured internally but are sourced from manufacturers such as Officine Meccaniche Rezzatesi for chassis and Fontana Group for bodies. At Carrozzeria Scaglietti we have two different production lines dedicated to the assembly of our V8 and V12 cars. We carefully check the alignment of the various parts —most importantly the engine cover and the wings —with electronic templates and gauges. Our highly trained

specialists also perform surface controls to the aluminum panels and eliminate any imperfections by either filing or panel beating. In our Scaglietti plant we also have a dedicated line for the assembly of a special carbon fiber body for our supercar "LaFerrari Aperta".

Painting

Our paint shop was inaugurated in 2004 with what we believe to be state-of-the-art technology. When transferred to our paint shop, all body-shells are cleaned with automatic pressure blowers (to avoid the electrostatic effect) and carefully brushed with emu feathers (because of their natural anti-electrostatic properties) to clean off any dirt particles or impurities. The bodies are then mounted on a loading bay, immersed in the cataphoresis tanks and subsequently transferred to a fixing gas fired oven at 140 degrees. Primers are then applied and fixed at 190 degrees until the completely grey body-shell is ready for painting. Painting is automated for the larger surfaces, while it is done by hand for some other localized areas. The whole car is painted at the same time to ensure color harmony. The bodies are finally polished with lacquer to fix the paint and give the bodies their final finish. In 2017 we will substitute the robot which applies the base coat with a new generation robot to improve quality and technical efficiency.

Assembly Line and Final Checks

The final assembly of our cars takes place in our body-shop built in 2008. Assembly of our 8 and 12 cylinder cars are carried out separately. For each model, the initial assembly operations take place simultaneously on different lines and sections to maximize efficiency.

Personalization and Road Tests

The final stage of our car production is the fitting of all bespoke interiors, components and special equipment options that our clients choose as part of our personalization program (see “—*Personalization Program and Tailor Made Program*”). After the personalization phase, every car completes a 40-kilometer road test-drive.

Finishing and Cleaning

After the road test all cars go to the finishing department. There, we thoroughly clean interior and exterior, check the whole car, polish and finish the bodies to give them their final appearance.

Manufacturing of Engines for Maserati

We have been producing engines for Maserati since 2003. The V8 engines that we historically produced and continue to produce for Maserati are variants of Ferrari families of engines and are mounted on Maserati’s highest performing models, such as the Quattroporte or Ghibli (turbo engines), the Granturismo and the Grancabrio (aspirated engines). All of the V8 engines that we sell to Maserati are manufactured and assembled according to the same production processes we adopt for the V8s equipped on our cars (see “*Production Process*”). In 2016, we sold approximately 420 V8 turbo engines and approximately 1,797 V8 aspirated engines to Maserati. In 2011 we began producing a family of engines exclusively for Maserati, namely the F160 3.0-liter V6 Turbo engines, in much larger production volumes to be mounted on the Ghibli and from 2016 on the Levante, the new SUV of Maserati. We have a multi-year arrangement with Maserati to provide V6 engines through 2020, which, may be followed by further production runs in future periods. Under the framework agreement, Maserati is required to compensate us for certain costs we may incur, such as penalties from our suppliers, if there is a shortfall in the annual volume of engines actually purchased by Maserati in that year. In 2016, we sold approximately 34,000 V6 engines to Maserati in four different versions, ranging from 330 hp to 410 hp.

In order to meet the V6 volumes and specifications requirements, we built a dedicated assembly facility at Maranello with a much higher level of industrialization compared to production of our V12 and V8 engines. Due to the larger volumes and product specifications, our make-or-buy strategy for the production of V6 F160 engines also differs from the one applicable to Ferrari engines. The vast majority of the engine components are sourced externally from our panel of suppliers (see “—*Procurement*”) and then assembled in Maranello on our highly automatized V6 assembly line.

From the sale of engines to Maserati, we recorded net revenues of approximately €238 million in 2016.

Financial Services

We offer retail client financing for the purchase of our cars through Ferrari Financial Services (“FFS”) in our major markets, including UK, Germany and the United States. We also offer dealer financing through FFS in the United States. Until December 2014 we offered dealer financing in the UK, Germany, Belgium and Switzerland and until May 2015 in Japan.

Through FFS, we offer a range of flexible, bespoke financial and ancillary services to clients (both new and current) interested in purchasing a wide range of cars, from our current product range of Sports and GT Cars, to older pre-owned models, to classic models, special series and competition cars, including retired Formula 1 single-seaters. FFS also provides special financing arrangements to a selected group of our most valuable and loyal customers.

In December 2014, we entered into a partnership with FGA Capital S.p.A. (now FCA Bank S.p.A. or “FCA Bank”), a 50/50 joint venture between FCA Italy S.p.A. and Crédit Agricole Consumer Finance S.A.; through this partnership financial services are provided to Ferrari dealers and customers in certain European countries. FCA Bank operates in 17 countries.

In May 2015, we entered into a partnership with JACCS Co., Ltd to support sales volume growth in the Japanese market with a full scale customer and dealer finance arrangement.

In light of our partnership with FCA Bank and JACCS Co., Ltd, and also due to recent changes to the banking and financial laws in Italy, we requested and obtained the cancellation of FFS from the list of regulated financial intermediaries in 2016.

In November 2016, FCA Bank acquired a majority stake in Ferrari Financial Services GmbH (“FFS GmbH”) for a total purchase price of €18.6 million. As a result of the transaction, FFS and FCA Bank will continue the operations of FFS GmbH as shareholders, supporting the sales of Ferrari cars in Germany, Great Britain and Switzerland and certain other European countries by offering innovative vehicle financing solutions to Ferrari customers. The funding of FFS GmbH has been provided by FCA Bank, which is also the consolidating entity.

At December 31, 2016, FFS’s portfolio of financial receivables was €790 million in aggregate, almost entirely in the Americas (EMEA accounted for €0.2 million).

Research and Development

We engage in research and development activities aimed at improving the design, performance, safety, efficiency and reliability of our cars.

Our research and development center is in Maranello and, at December 31, 2016, included approximately 370 employees who are part of our broader technology team. Our personnel support product development efforts and have expertise in a number of disciplines, including mechanical, electrical, materials, computer science and chemical engineering.

We capitalized development costs of €141 million in 2016, €154 million in 2015, and €145 million in 2014.

Research and development costs expensed during each period mainly include the research and development incurred for the Formula 1 racing activities to support the development of the sports and GT car models and prototypes, which are expensed as incurred. The following table summarizes our research and development expenditures in the years ended December 31, 2016, 2015 and 2014:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Amortization of capitalized development costs	104,055	114,856	125,497
Research and development costs expensed during the period	509,580	446,726	415,336
Total research and development costs	613,635	561,582	540,833

We transfer technologies developed by our racing team to our Sports and GT models across all core vehicle development areas, such as aerodynamics, powertrain, and car dynamics. To that end, we also transfer research and development personnel between the Formula 1 team and the sports and GT cars team, and the two teams regularly join forces for ad-hoc projects in areas such as combustion engine, new materials or computational fluid dynamics for aerodynamic performance.

Vehicle Concept

Achieving the most efficient combination of lightweight materials and optimal weight distribution gives our cars their superior longitudinal and lateral driving dynamics. We employ a range of technologies to reduce car weight. For our range models we are currently developing an aluminum lightweight chassis and body, which is competitive with a carbon fiber chassis. For LaFerrari we are currently using state of the art carbon fiber technologies, which we developed in conjunction with our Formula 1 research and development team. We are currently developing a new architecture, aimed at further reducing car weight and increasing performance, and thus improving stiffness and reducing noise, vibration and harshness (NVH), among other things.

Powertrain

The powertrain is a core area of our research and development. As with other research and development areas, powertrain research benefits from a constant exchange between the Formula 1 team and designers of our Sports and GT cars.

Engines

Our V12 engines' output ranges from 690 hp (in the GTC4 Lusso), to 780 hp (in the F12tdf), and up to 800 hp (in the LaFerrari). This range highlights our versatility in developing V12 aspirated engines, as there are no other carmakers which currently boast such specific high power ratios. With the new California T and the 488 GTB, we transitioned from aspirated V8 engines to turbo charged engines. This allowed us to increase specific engine power more than 20 percent, while reducing emissions by up to eight percent. All Ferrari turbo engines are designed to have the same throttle response delivered by a naturally aspirated car. To achieve this goal we are investing in cutting edge turbo charging technologies (such as aluminum-titanium-alloys and ball bearings), with our strategic partner IHI.

To further improve efficiency with respect to emissions and performance we continuously improve on our engines, researching new materials with higher specifications for friction, thermal and mechanical stress. We are also investing in technologies that improve the combustion process, with research focusing on high pressure injection.

Transmissions

Our 7-shift double clutch gearbox is a core element of Ferrari powertrains. The architecture of the gearbox, combined with the shifting technologies developed by Ferrari, allow for one of the fastest and most performance orientated shifts on the market. The 488 GTB demonstrates the potential of this gearbox, reaching the 4th gear limiter in full acceleration in six seconds.

Vehicle dynamics

Suspension, braking systems and tires are key elements of vehicle dynamics. Our vehicle suspensions allow for a very rigid and direct force transmission which increases the response of the car, and we combine those with magnetorheological ride dampers. We continuously collaborate with our strategic partners in our effort to increase damper dynamics.

All Ferraris are equipped with carbon ceramic brakes, renowned for superior breaking performance. With the 458 Speciale we introduced a new generation of carbon ceramic brakes with even higher breaking performance and reduced weight, which have also been equipped on the F12tdf and we plan to introduce such brakes on our future sports cars.

Aerodynamics

We are constantly seeking to improve the aerodynamics of our models, working specifically on drag resistance and downforce.

We also use passive and active spoiler systems. Thanks to our collaboration with the racing team, who assist with calculations and testing, we believe we are able to develop innovative solutions in shorter timeframes.

Hybrid technology

With LaFerrari we developed not only a supercar with cutting edge engine performance and driving dynamics, but also a highly sophisticated hybrid car. In conjunction with our partner Magneti Marelli, we developed a compact electric power unit

(120KW) and DC/DC charger. The battery (120KW/2,3KWH) was developed in conjunction with our Formula 1 team, who has extensive know-how in high performance powertrains.

The LaFerrari project greatly expanded our knowledge of powertrain electrification and its implications on performance and efficiency. We actively work to improve performance and efficiency of electric powertrains and to extend the range of electric components in our cars (e.g. electric power steering).

We are undertaking an important program to understand the potential of hybrid technology and we are researching how to improve the performance and driving experience of our cars without losing fuel efficiency advantages.

We are working intensively to develop an efficient package introducing new electrified components. While maintaining the compactness of the car, we are also seeking to lower the weight as a low center of gravity is crucial not only to performance but also for maximizing the overall driving experience. In our research program we are also considering new technologies outside powertrain.

Intellectual Property

We own a number of design and utility patents and registered designs. We expect the number to grow as we continue to pursue technological innovations and to develop our design and brand activities.

We file patent applications in Europe, and around the world (including in the United States) to protect technology and improvements considered important to our business. No single patent is material to our business as a whole.

We also own a number of registered trademarks, designs and patents, including approximately 450 trademarks (word or figurative), registered in several countries and across a number classes. In particular, we ensure that the maximum level of protection is given to the following iconic trademarks, for which we own a total of 4,674 applications/registrations in more than 130 countries, in most of the main classes for goods and services:

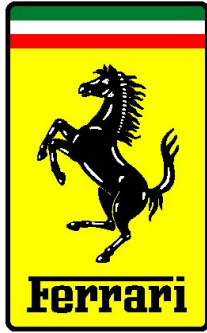
- “Ferrari” (word)
- “Ferrari” logotype:

Ferrari

- the “Prancing Horse” (figurative):



- the trademark (figurative):



- the racing shield (figurative):



- Scuderia Ferrari (word and figurative):



Our Sports and GT car models and Formula 1 single-seater models are also registered as trademarks (and logotypes) and we also register their designs and domain names.

The protection of intellectual property is also increasingly important in connection with our design and brand activities. Therefore, we adopt and follow internal processes and procedures to ensure both that all necessary protection is given to our intellectual property rights and that no third party rights are infringed by us. In addition, we are particularly active in seeking to limit any counterfeiting activities regarding our Ferrari branded products around the world. To reach this goal we closely monitor

trademark applications and domain names worldwide, actively interact with national and local authorities and customs and avail ourselves of a network of experienced outside counsels.

Properties

Our principal manufacturing facility is located in Maranello (Modena), Italy. It has an aggregate covered area of approximately 630 thousand square meters. Our Maranello plant hosts our corporate offices and most of the facilities we operate for the design, development and production of our Sports and GT cars, as well as of our Formula 1 single-seaters. (See “*Design, Development and Manufacturing—Production Process*”). Except for some leased technical equipment, we own all of our facilities and equipment in Maranello.

Between 2003 and 2008 most of the buildings in Maranello, including the paint shop building and the production building, were either rebuilt or renovated. In 2015 we completed construction of the new building entirely dedicated to our Formula 1 team and racing activities, as well as the new wind tunnel 4WD.

Adjacent to the plant is our approximately 3,000 meter Fiorano track, built in 1972 and remodeled in 1996. The track also houses the Formula 1 logistics offices. Additional facilities in Maranello include a product development center, a hospitality area and the Ferrari museum.

We also own the Mugello racing circuit in Scarperia, near Florence, which we rent to racing events organizers (see “*Formula 1 Activities—The Mugello Circuit*”).

We own a second plant in Modena, named Carrozzeria Scaglietti. At this approximately 26 thousand square meter plant we manufacture aluminum bodyworks and chassis for our regular range, special series and prototype cars.

The total carrying value of our property, plant and equipment at December 31, 2016 was €669,283 thousand

Employees

Human capital is a crucial factor in our success, building on our position as a global leader in the luxury performance car sector and creating long-term, sustainable value. To recognize excellence, encourage professional development and create equal opportunities, we adopt a number of initiatives, such as our Graduates Project, aimed at identifying and recruiting graduates from the world’s best universities; our appraisal system to assess our manager, professional and white collar employees, through performance management metrics; our talent management and succession planning; training and skill-building initiatives; employee satisfaction and engagement surveys, including our so-called “Pit Stop” and “Pole Position” programs; and flexible work arrangements, commuting programs and a dedicated welfare program, *Formula Uomo*, which includes, among other programs, *Formula Benessere Program* (offering medical assistance to employees and their families) and *Formula Estate Junior* (offering Summer Campus to the children of employees).

At December 31, 2016, we had a total of 3,248 employees, including 90 executives. Of these, approximately 3,054 were based at our Maranello facility, and approximately 194 in offices around the world, mostly in North America and China.

	For the years ended December 31,		
	2016	2015	2014
White collar employees	1,407	1,304	1,177
<i>Italy</i>	1,216	1,143	1,045
<i>Rest of the world</i>	191	161	132
Blue collar employees	1,751	1,607	1,603
<i>Italy</i>	1,748	1,604	1,600
<i>Rest of the world</i>	3	3	3
Executives	90	87	78
Total	3,248	2,998	2,858

The following table shows the average number of employees of the Group for the years ended December 31, 2016, 2015 and 2014:

	For the years ended December 31,		
	2016	2015	2014
Average number of employees	3,115	2,954	2,843

All employees of the Group worked outside the Netherlands for the years presented. We do not expect a significant change in the number for our employees during 2017.

Personnel costs are as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Salaries and wages	231,153	230,643	220,814
Pension and social contributions	62,893	54,304	58,866
Total personnel costs	294,046	284,947	279,680

The increase in employees in recent periods principally related to a strengthening of technical competencies, particularly within our GT cars development activities. Furthermore, in 2012, we began producing engines for the new Maserati cars. The planned production volumes required adoption of innovative work organization mechanisms, in terms of number of shifts and hours, thus enabling effective management of a varying production demand. The new activity required the addition of 253 workers, who are currently on agency contracts. These workers are not included in the total Ferrari employee head count referenced above.

Approximately 11 percent of the employees were trade union members in 2016. Our employees' principal trade unions are *Federazione Italiana Metalmeccanici* (FIM-CISL), *Federazione Italiana Sindacati Metalmeccanici e Industrie Collegate* (FISMIC), *Unione Italiana Lavoratori Metalmeccanici* (UILM-UIL) and *Federazione Impiegati Operai Metallurgici* (FIOM-CGIL).

All of our employees are covered by collective bargaining agreements. Our managers are represented by the Italian trade union, Federmanager, and are subject to a collective bargaining agreement renewed on March 2, 2016 and in effect through December 31, 2017. Our other employees are covered by the collective bargaining agreement entered into by FCA and FIM-CISL, UILM-IUL, FISMIC, UGL and Associazione Quadri e Capi FIAT, which will expire on December 31, 2018, and by a Ferrari Enterprise Bargaining Agreement signed on June 22, 2016 by Ferrari and FIM, UILM and FISMIC, which will expire on December 31, 2019. This collective bargaining contract provides, among other things, for the payment of bonuses linked to performance up to a maximum of approximately €5,720 gross per year payable in three installments.

In addition to the collective agreements, we have individually negotiated agreements with several of our managers and other key employees providing for long-term incentives, exclusivity and non-compete provisions.

Regulatory Matters

We manufacture and sell our cars around the world and our operations are therefore subject to a variety of laws and regulations relating to environmental, health and safety and other matters. These laws regulate our cars, including their emissions, fuel consumption and safety, as well as our manufacturing facilities and operations, setting strict requirements on emissions, treatment and disposal of waste, water and hazardous materials and prohibitions on environmental contamination. Our vehicles, together with the engines that power them, must comply with extensive regional, national and local laws and regulations, and industry self-regulations (including those that regulate vehicle safety). However, we currently benefit from certain regulatory exemptions, because we qualify as a SVM or similar designation in most of the jurisdictions where we sell cars (including the United States). As outlined below, these exemptions provide a range of benefits, from less stringent emissions caps and compliance date extensions, to exemptions from zero emission vehicle production requirements.

We are in substantial compliance with the relevant regulatory requirements affecting our facilities and products around the world. We constantly monitor such requirements and adjust our operations as necessary to remain in compliance.

Greenhouse gas/CO₂/fuel economy legislation

Current European legislation limits fleet average greenhouse gas emissions for new passenger cars to 130 grams of CO₂ per kilometer. This target, implemented gradually between 2012 and 2015, calls for 65 percent of the manufacturer's newly registered cars to comply with the 130 grams limit in 2012, rising to 75 percent in 2013, 80 percent in 2014, and 100 percent from 2015 onwards.

Due to our SVM status we benefit from a derogation from the 130 grams per kilometer emissions requirement available to small volume and niche manufacturers. Pursuant to that derogation, we are instead required to meet yearly CO₂ emissions targets, beginning in 2012, reaching a target level of 290 grams per kilometer in 2016 for our fleet of EU-registered vehicles that year.

In 2015 we exceeded our alternative target and therefore we were required to pay a penalty of €411 thousand. In 2014, the European Union set new 2020 emissions targets, calling for 95 percent of a manufacturer's full fleet of new passenger cars registered in the EU in 2020 to average 95 grams of CO₂ per kilometer, rising to 100 percent of the fleet in 2021. The 2014 regulation extends the small volume and niche manufacturers derogation. Therefore, in December 2015, we submitted to the E.U. Commission our proposed CO₂ emissions target levels for the 2017-2021 period and the E.U. Commission approved our derogation in October 2016. Pursuant to that derogation, we are required to meet certain CO₂ emissions target levels in the 2017-2021 period, reaching a target of 277 grams per kilometer in 2021 for our fleet of EU-registered cars that year.

In the United States, both Corporate Average Fuel Economy (CAFE) standards and greenhouse gas emissions standards are imposed on manufacturers of passenger cars. Because the control of fuel economy is closely correlated with the control of GHG emissions, the United States Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) have sought to harmonize fuel economy regulations with the regulation of GHG vehicle emissions (primarily CO₂). These agencies have set the federal standards for passenger cars and light trucks to meet an estimated combined average fuel economy (CAFE) level that is equivalent to 35.5 miles per U.S. gallon for 2016 model year vehicles (250 grams CO₂ per mile). In August 2012, these agencies extended this program to cars and light trucks for model years 2017 through 2025, targeting an estimated combined average emissions level of 163 grams per mile in 2025, which is equivalent to 54.5 miles per gallon. In November 2016, the EPA determined that the model years 2022-2025 standards, adopted by EPA in the 2012 final rule establishing the model year 2017-2025 standards, remain appropriate.

However, for model years 2017-2025, the EPA allows a SVM, defined as manufacturers with less than 5,000 yearly unit sales in the United States, to petition for a less stringent standard. Based on our operational independence from FCA, the EPA has granted us SVM status. We have therefore petitioned the EPA for alternative standards for the 2017-2021 model years, which are aligned to our technical and economic capabilities. We expect to receive feedback on this proposal by the end of 2017.

In September 2016, we petitioned NHTSA for recognition as an independent manufacturer of less than 10,000 vehicles produced globally, and we proposed alternative CAFE standards, for Model Year 2017, 2018 and 2019.

In February 2010, the California Air Resources Board (CARB) enacted regulations that deem manufacturers of vehicles for model years 2012-2016 which are in compliance with the EPA greenhouse gas emissions regulations to also be in compliance with California's greenhouse gas emission regulations. In November 2012, the CARB extended these rules to include model years 2017-2025.

While Europe and the United States lead the implementation of these fuel consumption/CO₂ emissions programs, other jurisdictions typically follow on with adoption of similar regulations within a few years thereafter. In China, for example, Stage III fuel consumption regulations target a national average fuel consumption of 6.9L/100km by 2015 and Stage IV targets a national average fuel consumption of 5.0L/100km by 2021.

Exhaust and evaporative emissions requirements

In 2007, the European Union adopted the latest in a series of more-stringent standards for emissions of other air pollutants from passenger and light commercial vehicles, such as nitrogen oxides, carbon monoxide, hydrocarbons and particulates. These standards were phased in from September 2009 (Euro 5) and September 2014 (Euro 6) for passenger cars. In 2016, the European Union established that Euro 6 limits shall be evaluated through Real Driving Emissions (RDE) measurement procedure and a new test-cycle more representative of normal conditions of use (Worldwide Light Vehicles Test Procedure). These requirements are effective starting from 2017.

In April 2014, the “Tier 3” Motor Vehicle Emission and Fuel Standards issued by the EPA were finalized. With Tier 3, the EPA has established more stringent vehicle emission standards, requiring significant reductions in both tailpipe and evaporative emissions, including nitrogen oxides, volatile organic compounds, carbon monoxide and particulate matter. Beginning in 2017, the emission standards will be phased in and the requirement on fuel producers to reduce sulfur in gasoline will be effective. The new standards are intended to harmonize with California’s standards for 2015-2025 model years (so called “LEV3”) and will be implemented over the same timeframe as the U.S. federal CAFE and greenhouse gas emissions standards for cars and light trucks described above. Because of our status as an operationally independent SVM, Ferrari obtained a longer, more flexible schedule for compliance with these standards under both the EPA and California Program.

In addition, California is moving forward with other stringent emission regulations for vehicles, including the Zero Emission Vehicle regulation (ZEV). The ZEV regulation requires manufacturers to increase their sales of zero emissions vehicles year on year, up to an industry average of approximately 15 percent of vehicles sold in the state by 2025. Because we currently sell fewer than 4,500 units in California, we are exempt from these requirements.

Additional stringency of evaporative emissions also requires more-advanced materials and joints solutions to eliminate fuel evaporative losses, all for much longer warranty periods (up to 150,000 miles in the United States).

In response to severe air quality issues in Beijing and other major Chinese cities, in 2016 the Chinese government published a more stringent emissions program (National 6), providing two different level of stringency effective starting from 2020. Moreover autonomous regions and municipalities are allowed to implement in advance this more stringent requirement. Furthermore, China is moving forward with other stringent requirements setting a mandatory minimum volume of sold/imported NEV(s) New Energy Vehicle(s) starting from 2018. We are exempted from this requirement since our annual production/import volume is lower than 50,000 units in China.

To comply with current and future environmental rules related to both fuel economy and pollutant emissions, we may have to incur substantial capital expenditure and research and development expenditure to upgrade products and manufacturing facilities, which would have an impact on our cost of production and results of operation.

Vehicle safety

Vehicles sold in Europe are subject to vehicle safety regulations established by the E.U. or by individual Member States. In 2009, the E.U. established a simplified framework for vehicle safety, repealing more than 50 directives and replacing them with a single regulation aimed at incorporating relevant United Nations standards. This incorporation process began in 2012. With respect to regulations on advanced safety systems, the E.U. now requires new model cars from 2011 on to have electronic stability control systems and tire pressure monitoring systems (beginning in 2012). Also introduced were regulations on low-rolling resistance tires. From April 2009, the criteria for whole vehicle type approval were extended to cover all new road vehicles, to be phased in over five years depending on the vehicle category. The framework, is reviewed periodically, and a revised version of the General Safety Regulation is currently under discussion. As revised, the regulation would mandate new model cars to be compliant, among other things, with toAdvanced Driver Assistance Systems (ADAS), pole side impact protection, full overlap frontal crash, small overlap crash requirements. In 2017 E.U. published technical requirements for the Emergency Call (eCall) system, mandatory for new model cars starting from 2018.

Under U.S. federal law, all vehicles sold in the United States must comply with Federal Motor Vehicle Safety Standards (FMVSS) promulgated by NHTSA. Manufacturers need to provide certification that all vehicles are in compliance with those standards. In addition, if a vehicle contains a defect that is related to motor vehicle safety or does not comply with an applicable FMVSS, the manufacturer must notify vehicle owners and provide a remedy at no cost to the consumer. Moreover, the Transportation Recall Enhancement, Accountability, and Documentation Act requires manufacturers to report certain information related to claims and lawsuits involving fatalities and injuries in the United States if alleged to be caused by their vehicles, and other information related to client complaints, warranty claims, and field reports in the United States, as well as information about fatalities and recalls outside the United States. Several new or amended FMVSSs will take effect during the next few years in certain instances under phase-in schedules that require only a portion of a manufacturer’s fleet to comply in the early years of the phase-in. These include an amendment to the side impact protection requirements that added several new tests and performance requirements (FMVSS No. 214), an amendment to roof crush resistance requirements (FMVSS No. 216), and a new rule for ejection mitigation requirements (FMVSS No. 226). Because of our status as SVM, Ferrari is required to be compliant at the end of the phase-in period. Under the Transportation Recall Enhancement, Accountability, and Documentation Act (TREAD), we must log certain information, including incidents involving death or injury, with NHTSA. In 2014 we paid a \$3.5 million civil penalty to NHTSA for reporting failures related to the period 2011-2014 and for failure to comply with early warning reporting requirements in connection with three fatalities. We have upgraded our procedures for compliance.

On July 14, 2015, we issued a safety recall report with the NHTSA, after being notified by Takata Corporation that certain driver's side airbags manufactured by Takata, installed in certain model year 2015 cars, were defective. The recall impacts 814 of our model year 2015 cars sold in the United States and also relates to up to an additional 1,600 model year 2015 cars in other regions. The defect, caused by pre-assembled airbags supplied by Takata, relates to insufficient gluing of the airbag cover and a possible incorrect installation of the driver's airbag cushion. The replacement component has been produced with improved gluing methods as well as improved airbag assembly measures. We have implemented a recall to remedy this safety defect. In addition, Ferrari cars were included within the NHTSA Consent Order Amendment dated May 4th, 2016 with Takata (the "Amended Consent Order") due to a defect which may arise in the non-desiccated Takata passenger airbag inflators mounted on certain Ferrari cars. As a result of such Amended Consent Order, Ferrari has filed a Part 573 Defect Information Report on May 23, 2016 with NHTSA and has initiated a global recall relating to certain cars produced between 2008 and 2011. In December 2016 NHTSA issued a Third Amendment to the Coordinated Remedy Order ("ACRO") which included the list of Ferrari vehicles sold in the US up to model year 2017 to be recalled. As a consequence of the ACRO, Ferrari has decided to extend the Takata global recall campaign to all vehicles worldwide mounting a non-desiccated Takata passenger airbag inflators. In January 2017 Ferrari, in accordance with the Amended Consent Order and the ACRO, filed with NHTSA a Part 573 Defect Information Report to include Model Year 2012 Zone A vehicles. As a result of the ACRO and the decision to extend the worldwide Takata airbag inflator recall, Ferrari increased its provisions for the estimated charges for Takata airbag inflators recalls to €37 million in the year ended December 31, 2016, to cover the cost of the worldwide global Takata recall due to uncertainty of recoverability of the costs from Takata.

In December 2015 we issued two safety calls reports with NHTSA, after learning that certain low pressure fuel lines manufactured and supplied by Dytech — Dynamic Flued Technologies S.p.A. were defective. The recall impacts 185 California T vehicles and 119 488 GTB vehicles sold in the United States and 65 California T Vehicles and 199 488 GTB vehicles sold in other regions. The defect was due to an improper coating treatment made by the supplier Dytech on the metallic part of the fuel pipe where it connects to the fuel pump. The replacement component has been produced with the proper coating. We have implemented a separate recall on each model to remedy this safety defect.

In 2016, NHTSA published Phase II draft guidelines for driver distraction, for portable and aftermarket devices, and the associated compliance costs may be substantial. These guidelines, together with previously published Phase I provisions focus, among other things, on the need to modify the design of car devices and other driver interfaces to minimize driver distraction. Compliance with these new requirements, as well as other possible future NHTSA requirements, is likely to be difficult and/or costly. Stakeholders are waiting for a feed-back from NHTSA regarding their request of having a single set of guidelines that applies equally to in-vehicle devices and portable devices. We are in the process of evaluating these guidelines and determining what steps, if any, we will need to take to comply with the new requirements.

Operating Results

Results of Operations

Consolidated Results of Operations – 2016 compared to 2015 and 2015 compared to 2014

The following is a discussion of the results of operations for the year ended December 31, 2016 as compared to the year ended December 31, 2015, and for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The presentation includes line items as a percentage of net revenues for the respective periods presented to facilitate year-over-year comparisons.

	For the years ended December 31,					
	2016	Percentage of net revenues	2015	Percentage of net revenues	2014	Percentage of net revenues
	(€ million, except percentages)					
Net revenues	3,105	100.0 %	2,854	100.0 %	2,762	100.0 %
Cost of sales	1,580	50.9 %	1,499	52.5 %	1,506	54.5 %
Selling, general and administrative costs	295	9.5 %	339	11.9 %	300	10.9 %
Research and development costs	614	19.8 %	562	19.7 %	541	19.6 %
Other expenses, net	24	0.8 %	10	0.4 %	26	0.9 %
Result from investments	3	0.2 %	—	— %	—	— %
EBIT	595	19.2 %	444	15.6 %	389	14.1 %
Net financial (expenses)/income	(28)	(0.9)%	(10)	(0.4)%	9	0.3 %
Profit before taxes	567	18.3 %	434	15.2 %	398	14.4 %
Income tax expense	167	5.4 %	144	5.0 %	133	4.8 %
Net profit	400	12.9 %	290	10.2 %	265	9.6 %

Net Revenues

The following table sets forth an analysis of our net revenues for the periods indicated:

	For the years ended December 31,						Increase/(Decrease)			
	2016	Percentage of net revenues	2015	Percentage of net revenues	2014	Percentage of net revenues	2016 vs. 2015		2015 vs. 2014	
	(€ million, except percentages)									
Cars and spare parts ⁽¹⁾	2,180	70.2 %	2,080	72.9 %	1,944	70.4 %	100	4.8 %	136	7.0 %
Engines ⁽²⁾	338	10.9 %	219	7.7 %	311	11.3 %	119	54.5 %	(92)	(29.6)%
Sponsorship, commercial and brand ⁽³⁾	488	15.7 %	441	15.5 %	417	15.1 %	47	10.7 %	24	5.8 %
Other ⁽⁴⁾	99	3.2 %	114	3.9 %	90	3.2 %	(15)	(13.8)%	24	26.7 %
Total net revenues	3,105	100.0%	2,854	100.0%	2,762	100.0%	251	8.8 %	92	3.3 %

(1) Includes net revenues generated from shipments of our cars, including any personalization net revenues generated on these cars and sales of spare parts.

(2) Includes net revenues generated from the sale of engines to Maserati for use in their cars and net revenues generated from the rental of engines to other Formula 1 racing teams.

(3) Includes net revenues earned by our Formula 1 racing team, through sponsorship agreements and our share of the Formula 1 World Championship commercial revenues, and net revenues generated through the Ferrari brand, including merchandising, licensing and royalty income.

(4) Primarily includes interest income generated by the Ferrari Financial Services entities and net revenues from the management of the racetrack.

2016 compared to 2015

Net revenues for 2016 were €3,105 million, an increase of €251 million, or 8.8 percent (an increase of 9.4 percent on a constant currency basis), from €2,854 million for 2015.

The increase in net revenues, including the positive impact of foreign currency hedging instruments, was attributable to the combination of (i) a €100 million increase in cars and spare parts net revenues, (ii) a €119 million increase in engines net revenues and (iii) a €47 million increase in sponsorship, commercial and brand net revenues, partially offset by (iv) a €15 million decrease in other net revenues.

Cars and spare parts

Cars and spare parts net revenues were €2,180 million for 2016, an increase of €100 million, or 4.8 percent, from €2,080 million for 2015. The increase was attributable to a €270 million increase in net revenues from range and special series cars and spare parts, which was partially offset by a decrease in net revenues from supercars and limited edition cars.

The €270 million increase in net revenues from range and special series cars and spare parts was primarily attributable to an increase in shipments of approximately 540 cars (excluding the LaFerrari and LaFerrari Aperta), positive contribution from our personalization programs and a price increase on certain models starting from the fourth quarter of 2016. Shipments of V12 models increased by 20.2 percent, primarily attributable to shipments of the F12tdf and the GTC4Lusso, which commenced in the fourth quarter of 2015 and the third quarter of 2016, respectively. These effects were partially offset by a decrease in shipments of the F12berlinetta, which is in its 5th year of commercialization, and the phase-out of the FF. Shipments of V8 models increased by 4.8 percent, driven by the 488 GTB and the 488 Spider, which were launched in the first quarter of 2015 and the third quarter of 2015, respectively, partially offset by the phase-out of the 458 family in 2015.

The €270 million increase in net revenues from range and special series cars and spare parts reflected increases in all four of our major geographical markets, including (i) €137 million in EMEA, (ii) €89 million in Americas, (iii) €43 million in Rest of APAC and (iv) €1 million in Greater China.

The €137 million increase in EMEA net revenues was attributable to increases of €60 million in Italy, €23 million in Other EMEA, €21 million in Germany, €11 million in Switzerland, €11 million in France, €8 million in the Middle East and €3 million in the UK. Such increases were primarily attributable to positive effects from volume, our personalization programs and positive mix. In particular, Italy, Other EMEA, Germany and France experienced double-digit growth in shipments, primarily driven by the 488 GTB, the 488 Spider, the F12tdf and the GTC4Lusso, partially offset by the phase-out of the 458 family in 2015. The positive mix effect in EMEA was driven by the F12tdf and the GTC4Lusso.

The €89 million increase in Americas net revenues was primarily attributable to positive effects from volume and mix, our personalization programs, the sale of spare parts and favorable foreign currency exchange. Positive volumes were driven by shipments of the 488 GTB, the 488 Spider and the F12tdf, partially offset by the phase-outs of the 458 family and the FF, while positive mix was driven by strong performance from the F12tdf.

The €43 million increase in Rest of APAC net revenues was attributable to increases of €30 million in Japan, €11 million in Australia and €2 million in other Rest of APAC. The €30 million increase in Japan was mainly attributable to positive effects from favorable foreign currency exchange, an increase in shipments and our personalization programs. The €11 million increase in Australia was primarily attributable to a double-digit increase in shipments, driven by the 488 GTB, the 488 Spider and the F12tdf, partially offset by a decrease in shipments of the 458 family.

The €1 million increase in Greater China net revenues was attributable to increases of €5 million in Taiwan and €4 million in mainland China, partially offset by an €8 million decrease in Hong Kong. The increases in Taiwan and mainland China were primarily attributable to increases in shipments that were driven by the 488 GTB and the 488 Spider. The decrease in Hong Kong was primarily related to our decision to terminate the current distributor in Hong Kong.

The decrease in net revenues from supercars and limited edition cars was primarily driven by the LaFerrari which finished its limited series production run, partially offset by shipments of our latest limited edition supercar, the LaFerrari Aperta, which was launched in the third quarter of 2016 and will celebrate our 70th anniversary in 2017, as well as shipments of the non-registered racing car FXX K and the F60 America, our limited edition V12 open air roadster that commemorates 60 years in the United States.

Engines

Net revenues generated from engines were €338 million for 2016, an increase of €119 million, or 54.5 percent, from €219 million for 2015. The €119 million increase was mainly attributable to a €68 million increase in net revenues generated from the sale of engines to Maserati, driven by a 47.2 percent increase in the volume of engines shipped, as well as an increase in net revenues generated from the rental of power units to other Formula 1 teams, primarily as a result of renting power units to three Formula 1 teams for the 2016 season compared with two Formula 1 teams for the 2015 season.

Sponsorship, commercial and brand

Net revenues generated from sponsorship, commercial agreements and brand management activities were €488 million for 2016, an increase of €47 million, or 10.7 percent, from €441 million for 2015. The increase was primarily related to our participation in the Formula 1 World Championship and in particular as a result of our improved ranking in the World Constructor's Championship in 2015 compared to 2014, as well as an increase in net revenues from sponsorship and brand related activities.

Other

Other net revenues were €99 million for 2016, a decrease of €15 million, or 13.8 percent, from €114 million for 2015. The €15 million decrease in other net revenues was primarily driven by other supporting activities, including the deconsolidation of the financial services business in Europe following the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016.

2015 compared to 2014

Net revenues for 2015 were €2,854 million, an increase of €92 million, or 3.3 percent (a decrease of 2.9 percent on a constant currency basis), from €2,762 million for 2014.

The increase in net revenues was attributable to the combination of (i) a €136 million increase in net revenues generated from cars and spare parts, (ii) a €24 million increase in sponsorship, commercial and brand net revenues, and (iii) a €24 million increase in other net revenues, partially offset by (iv) a €92 million decrease in net revenues generated from engines.

Cars and spare parts

Net revenues generated from cars and spare parts were €2,080 million for 2015, an increase of €136 million, or 7.0 percent, from €1,944 million for 2014. The increase was attributable to an €83 million increase in net revenues from supercars and limited edition cars and a €53 million increase in net revenues from range and special series cars and spare parts.

The €83 million increase in net revenues from supercars and limited edition cars was primarily driven by an increase in shipments of the LaFerrari, as well as shipments of the FXX K, which commenced in the second quarter of 2015. In particular, the increase was composed of (i) a €117 million increase in Americas net revenues and (ii) a €12 million increase in Rest of APAC net revenues, partially offset by (iii) a €32 million decrease in EMEA net revenues and (iv) a €14 million decrease in Greater China net revenues.

The €53 million increase in net revenues from range and special series cars and spare parts was primarily driven by higher shipments of V8 models, partially offset by an unfavorable shift in product mix. In particular, shipments of V8 models increased by 16.5 percent, principally related to the California T, the 458 Speciale A, the 488 GTB and the 488 Spider, partially offset by decreases in shipments of the 458 Italia and the 458 Spider, which were phased out during 2015. The proportion of V12 models shipped decreased from 24.3 percent in 2014 to 16.3 percent in 2015, primarily driven by decreases in shipments of the FF and the F12berlinetta, reflecting our typical model lifecycle as these models have been on the market since 2011 and 2012, respectively, and clients tend to focus on more recently introduced cars.

The €53 million increase in net revenues from range and special series cars and spare parts was composed of (i) a €111 million increase in Americas net revenues and (ii) a €37 million increase in Rest of APAC net revenues, partially offset by (iii) a €77 million decrease in EMEA net revenues and (iv) a €18 million decrease in Greater China net revenues.

The €111 million increase in Americas net revenues was primarily attributable to (i) favorable volume impact of €14 million, primarily driven by the California T, 458 Speciale A and 488 GTB, partially offset by a decrease in shipments of the 458 Italia and 458 Spider, and (ii) favorable foreign exchange impact of €107 million primarily attributable to the weakening of the Euro against the U.S. Dollar, partially offset by (iii) unfavorable product mix impact, attributable to a decrease in the proportion of shipments represented by V12 models, from 21.0 percent in 2014 to 17.2 percent in 2015, and (iv) a decrease of €4 million of net revenues from our personalization program and the sale of spare parts.

The €37 million increase in Rest of APAC net revenues was attributable to a €23 million increase in Japan net revenues, a €12 million increase in Australia net revenues and a €2 million increase in other Rest of APAC net revenues. The €23 million increase in Japan net revenues and €12 million increase in Australia net revenues were mainly driven by increases in shipments of 30.2 percent and 47.5 percent, respectively. Such increases in shipments were mainly related to the California T and 458 Speciale A, partially offset by a decrease in shipments of the 458 Spider.

The €77 million decrease in EMEA net revenues was primarily attributable to unfavorable mix, mainly due to the trend towards a higher proportion of V8 models compared to V12 models, unfavorable foreign currency exchange impact and the performance of certain markets within the region. In particular, Germany experienced a slowdown and the Middle East was impacted by a decrease in shipments of 9.6 percent.

The €18 million decrease in Greater China net revenues was primarily attributable to a €32 million decrease in mainland China net revenues, partially offset by a €11 million increase in Hong Kong net revenues and a €3 million increase in Taiwan net revenues. The decrease of €32 million in mainland China net revenues was primarily attributable to (i) unfavorable volume impact of €36 million due to a decrease in shipments of 20.9 percent, driven by the 458 Italia, 458 Spider and F12berlinetta, not yet compensated by the 488 GTB, which arrived in this market in the third quarter of 2015, (ii) unfavorable product mix impact of €19 million and (iii) a €1 million decrease in net revenues generated by our personalization program, partially offset by (iv) favorable foreign exchange impact of €24 million.

Engines

Net revenues generated from engines were €219 million for 2015, a decrease of €92 million, or 29.6 percent, from €311 million for 2014. The €92 million decrease was mainly attributable to an €81 million decrease in net revenues generated from the sale of engines to Maserati, driven by a 31.3 percent decrease in the volume of engines shipped in accordance with planned orders received from Maserati, and an €11 million decrease in net revenues generated from the rental of power units to other Formula 1 teams.

Sponsorship, commercial and brand

Net revenues generated from sponsorship, commercial agreements and brand management activities were €441 million for 2015, an increase of €24 million, or 5.8 percent, from €417 million for 2014. The €24 million increase in sponsorship, commercial and brand net revenues was mainly driven by sponsorship and commercial net revenues, primarily related to our participation in the Formula 1 World Championship, which benefited from the impact of the weakening of the Euro against the U.S. Dollar and brand net revenues.

Other

Other net revenues were €114 million for 2015, an increase of €24 million, or 26.7 percent, from €90 million for 2014. The €24 million increase in other net revenues was primarily driven by other supporting activities, including an increase in interest income due to the increase in our financial services portfolio.

Cost of sales

	For the years ended December 31,						Increase/(Decrease)			
	2016	Percentage of net revenues	2015	Percentage of net revenues	2014	Percentage of net revenues	2016 vs. 2015		2015 vs. 2014	
	(€ million, except percentages)									
Cost of sales	1,580	50.9%	1,499	52.5%	1,506	54.5%	81	5.4%	(7)	(0.5)%

2016 compared to 2015

Cost of sales for 2016 was €1,580 million, an increase of €81 million, or 5.4 percent, from €1,499 million for 2015. As a percentage of net revenues, cost of sales decreased from 52.5 percent in 2015 to 50.9 percent in 2016.

The increase in cost of sales was primarily attributable to (i) an increase in costs of €59 million related to increased volumes and our personalization programs, (ii) an increase in costs of €65 million related to the production of engines for Maserati, engines rented to other Formula 1 racing teams, and other supporting activities, and (iii) charges for Takata airbag inflator recalls of €37 million, partially offset by (i) a decrease in costs of €61 million related to product mix and (ii) a decrease in production costs of €19 million, including direct materials savings and amortization and depreciation.

The €59 million increase in cost of sales related to volumes and personalization programs was driven by the 488 GTB, the 488 Spider, the F12tdf and the GTC4Lusso. The €65 million increase in cost of sales related to the production of engines for Maserati, engines rented to other Formula 1 racing teams and other supporting activities was driven by a 47.2 percent increase in the volume of engines shipped to Maserati and the rental of power units to three Formula 1 teams for the 2016 season compared with two Formula 1 teams for the 2015 season. The €61 million decrease in costs related to product mix was driven by a decrease in shipments of the LaFerrari, which finished its limited series production run, partially offset by shipments of the LaFerrari Aperta, the F60 America and an increase in the proportion of shipments of V12 models compared to V8 models in our range and special series cars, driven by shipments of the F12tdf and the GTC4Lusso. The €19 million decrease in production costs was driven by the LaFerrari, the phase-out of the 458 family and direct material savings.

2015 compared to 2014

Cost of sales for 2015 was €1,499 million, a decrease of €7 million, or 0.5 percent, from €1,506 million for 2014. As a percentage of net revenues, cost of sales was 52.5 percent in 2015 compared to 54.5 percent in 2014.

The decrease in cost of sales was attributable to a combination of (i) decreased costs of €79 million related to lower Maserati engine shipments and (ii) a decrease in amortization and depreciation of €6 million, partially offset by (iii) increased costs of €54 million related to increased volumes and different product mix, (iv) increased costs related to other supporting activities of €15 million, and (v) unfavorable foreign currency exchange impact of €9 million.

The €79 million decrease in cost of sales related to the sale of engines to Maserati was driven by the 31.3 percent decrease volume of engines shipped in accordance with planned orders received from Maserati. The decrease in amortization and depreciation of €6 million was primarily related to the phase out of several 458 models in 2015, not fully compensated by amortization and depreciation of the new models 488 GTB and 488 Spider. The increased costs of €54 million related to increased volumes and product mix was primarily driven by an increase of 5.5 percent in shipments of range and special series cars, as well as higher sales of the LaFerrari and the FXX K, which have higher costs per unit than other cars in our product portfolio. Such effect was only partially offset by an increase in the proportion of V8 models shipped, which in general have a lower cost of sales per unit.

The decrease in cost of sales as a percentage of net revenues was driven by the decrease in Maserati engines shipments as Maserati engines generate lower margins than the sale of cars and spare parts. Therefore, a decrease in Maserati engines shipments results in a positive impact on our margins.

Selling, general and administrative costs

	For the years ended December 31,						Increase/(Decrease)			
	2016	Percentage of net revenues	2015	Percentage of net revenues	2014	Percentage of net revenues	2016 vs. 2015		2015 vs. 2014	
(€ million, except percentages)										
Selling, general and administrative costs	295	9.5%	339	11.9%	300	10.9%	(44)	(12.8)%	39	13.0%

2016 compared to 2015

Selling, general and administrative costs for 2016 were €295 million, a decrease of €44 million, or 12.8 percent, from €339 million for 2015. As a percentage of net revenues, selling, general and administrative costs decreased from 11.9 percent in 2015 to 9.5 percent in 2016.

The decrease in selling, general and administrative costs was mainly attributable to (i) advisory costs incurred in 2015 in relation to the initial public offering of €16 million, (ii) a decrease in allowance for doubtful accounts, primarily related to the effects of a provision recorded in 2015 in relation to a former commercial partner of our Formula 1 activities, (iii) a decrease in costs driven by a different ranking in Formula 1 racing, and (iv) the deconsolidation of FFS GmbH, which were partially offset by (i) the costs of the former CEO's retirement package, (ii) costs related to new directly operated stores, (iii) costs related to the launch of new models and (iv) corporate costs.

2015 compared to 2014

Selling, general and administrative costs for 2015 were €339 million, an increase of €39 million, or 13.0 percent, from €300 million for 2014. As a percentage of net revenues, selling, general and administrative costs were 11.9 percent in 2015 compared to 10.9 percent for 2014.

In particular, the increase in selling, general and administrative costs was mainly attributable to (i) a one-time extra bonus paid to employees for €19 million in connection with the initial public offering and in recognition of financial performance, (ii) advisory costs incurred in relation to the initial public offering amounting to €16 million, (iii) unfavorable foreign currency exchange impact of €8 million, (iv) an increase in the allowance for doubtful accounts of €7 million, primarily related to a commercial partner of the Formula 1 activities, and (v) higher costs of €4 million related to launches of the 488 GTB and 488 Spider, corporate events and directly operated stores, partially offset by (vi) the impact of expenses related to the resignation of the former Chairman of €15 million that were incurred in 2014.

Research and development costs

	For the years ended December 31,						Increase/(Decrease)			
		Percentage of net revenues		Percentage of net revenues		Percentage of net revenues				
	2016		2015		2014		2016 vs. 2015		2015 vs. 2014	
	(€ million, except percentages)									
Amortization of capitalized development costs	104	3.4 %	115	4.0 %	126	4.6 %	(11)	(9.4)%	(11)	(8.7)%
Research and development costs expensed during the year	510	16.4 %	447	15.7 %	415	15.0 %	63	14.1 %	32	7.7 %
Research and development costs	614	19.8 %	562	19.7 %	541	19.6 %	52	9.3 %	21	3.9 %

2016 compared to 2015

Research and development costs for 2016 were €614 million, an increase of €52 million, or 9.3 percent, from €562 million for 2015. As a percentage of net revenues, research and development costs were 19.8 percent in 2016 compared to 19.7 percent in 2015.

The increase in research and development costs was attributable to an increase of €63 million in research and development costs expensed during the year, partially offset by a decrease of €11 million in amortization of capitalized development costs.

The €63 million increase in research and development costs expensed during the year was primarily driven by Formula 1 activities and in particular, our efforts related to power unit projects and chassis area, and to a lesser extent, research and development costs on sports and GT cars.

The €11 million decrease in amortization of capitalized development costs was primarily attributable to the completion of the LaFerrari limited series production run and the phase-out of the 458 family, partially offset by amortization of capitalized development costs related to our newer models.

2015 compared to 2014

Research and development costs for 2015 were €562 million, an increase of €21 million, or 3.9 percent, from €541 million for 2014. As a percentage of net revenues, research and development costs was 19.7 percent in 2015 compared to 19.6 percent in 2014.

The increase in research and development costs was attributable to an increase of €32 million in research and development costs expensed during the year, partially offset by a decrease of €11 million in amortization of capitalized development costs.

The €32 million increase in research and development costs expensed during the year was primarily driven by Formula 1 activities and in particular, the Group's efforts related to power unit projects, and to a lesser extent, research and development costs on sports and GT cars.

The €11 million decrease in amortization of capitalized development costs was primarily due to the completion of amortization of capitalized development costs related to the 458 Italia and 458 Spider, which were phased out in 2015.

Other expenses, net

	For the years ended December 31,			Increase/(Decrease)		
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014	
	(€ million, except percentages)					
Other expenses, net	24	10	26	14	122.0%	(16) (61.5)%

2016 compared to 2015

Other expenses, net for 2016 amounted to net other expenses of €24 million, an increase of €14 million, or 122.0 percent, compared to net other expenses of €10 million for 2015.

For 2016, other expenses, net included other expenses of €30 million, mainly composed of €15 million related to provisions, primarily related to disputes with a distributor, €6 million related to indirect taxes and €9 million related to miscellaneous expenses, partially offset by other income of €6 million, including a €3 million gain on the disposal of property plant and equipment, €2 million related to rental income and €1 million related to miscellaneous income.

For 2015, other expenses, net included other expenses of €32 million, mainly composed of €13 million related to provisions, €7 million related to indirect taxes and €12 million related to miscellaneous expenses, partially offset by other income of €22 million, including a €6 million gain on disposal of assets and liabilities related to investment properties, €6 million related to the release of provisions previously recorded in other expenses, €3 million related to rental income and €7 million related to miscellaneous income.

2015 compared to 2014

Other expenses, net for 2015 amounted to net other expenses of €10 million, compared to net other expenses of €26 million for 2014.

For 2015, other expenses, net included other expenses of €32 million, mainly composed of €13 million related to provisions, €7 million related to indirect taxes and €12 million related to miscellaneous expenses, partially offset by other income of €22 million, including a €6 million gain on disposal of assets and liabilities related to investment properties, €6 million related to the release of provisions previously recorded in other expenses, €3 million related to rental income and €7 million related to miscellaneous income.

For 2014, other expenses, net included other expenses of €39 million, mainly composed of €21 million related to provisions, €6 million related to indirect taxes, and €12 million in miscellaneous expenses, partially offset by other income of €13 million, including €4 million related to the release of provisions previously recorded in other expenses, €3 million related to rental income and €6 million related to miscellaneous income.

The provisions recognized in other expenses in 2015 include €9 million related to legal proceedings and disputes and €4 million related to other risks, primarily related to disputes with suppliers, employees and other parties. The provisions recognized within other expenses in 2014 include €13 million related to legal proceedings and disputes and €8 million attributable to other risks, primarily related to disputes with suppliers, employees and other parties. The most significant accruals to the provision for legal proceedings and disputes recognized in 2014 related to litigation with a former distributor.

Result from investments

	For the years ended December 31,			Increase/(Decrease)	
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014
	(€ million, except percentages)				
Result from investments	3	—	—	3	n.m.

2016 compared to 2015

Result from investments of €3 million in 2016 includes i) the gain on the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016, ii) the gain on the fair value measurement of the non-controlling interest retained in FFS GmbH, and iii) the Group's proportionate share of FFS GmbH's net profit subsequent to the sale in accordance with the equity method of accounting.

EBIT

	For the years ended December 31,					Increase/(Decrease)	
	2016	Percentage of net revenues	2015	Percentage of net revenues	2014	2016 vs. 2015	2015 vs. 2014
	(€ million, except percentages)						
EBIT	595	19.2%	444	15.6%	389	151	33.9%

2016 compared to 2015

EBIT for 2016 was €595 million, an increase of €151 million, or 33.9 percent, from €444 million for 2015. As a percentage of net revenues, EBIT increased from 15.6 percent in 2015 to 19.2 percent in 2016.

The increase in EBIT was primarily attributable to (i) positive volume impact of €69 million, (ii) positive net foreign currency exchange impact of €64 million (including positive €71 million relating to foreign currency hedging instruments), (iii) positive contribution of €54 million related to an increase in engine shipments to Maserati, engines rented to other Formula 1 racing teams and other supporting activities, including sponsorship, commercial and brand activities, and (iv) a decrease in selling, general and administrative costs of €44 million, which were partially offset by (v) unfavorable product mix of €28 million, and (vi) an increase in research and development costs of €52 million.

The positive volume impact of €69 million was attributable to an increase in shipments of approximately 540 cars (excluding the LaFerrari and LaFerrari Aperta), driven by the 488 GTB, the 488 Spider, the F12tdf (all of which were launched in 2015) and the GTC4Lusso (which commenced in the third quarter of 2016), as well as a positive contribution from our personalization programs. The unfavorable product mix of €28 million was primarily attributable to the completion of the LaFerrari limited series production run, the F12berlinetta, which is in its 5th year of commercialization, and the phase-out of the FF, partially offset by the F12tdf, the launch of the LaFerrari Aperta in the third quarter of 2016, shipments of the non-registered racing car FXX K and the F60 America, our limited edition V12 open air roadster that commemorates 60 years in the United States, and a price increase on certain models from the fourth quarter of 2016.

The increase in EBIT as a percentage of net revenues from 15.6 percent in 2015 to 19.2 percent in 2016 was primarily attributable to the combination of the previously mentioned effects on EBIT above and a decrease in cost of sales as a percentage of net revenues from 52.5 percent in 2015 to 50.9 percent in 2016.

2015 compared to 2014

EBIT for 2015 was €444 million, an increase of €55 million, or 14.1 percent, from €389 million for 2014.

The increase in EBIT was mainly attributable to (i) favorable volume impact of €45 million, (ii) positive foreign currency exchange impact of €41 million, (iii) a gain on disposal of assets and liabilities related to investment properties of €6 million, and (iv) a decrease in costs related to other supporting activities of €29 million, partially offset by (v) an increase in selling, general and administrative costs of €39 million, (vii) an increase in research and development costs of €21 million, and (viii) unfavorable mix impact of €6 million.

The favorable volume impact of €45 million was due to a 5.5 percent increase in shipments of range and special series cars, driven by V8 models, which increased by 16.5 percent, and in particular, the California T, the 458 Speciale A and the newly launched 488 GTB and 488 Spider. The positive foreign currency exchange impact was primarily driven by the strengthening of the U.S. Dollar and Pound Sterling against the Euro. The decreased costs related to other supporting activities were primarily attributable to a decrease in financial services costs, brand costs, production efficiencies and to a lesser extent, Formula 1 related costs.

As a percentage of net revenues, EBIT increased from 14.1 percent in 2014 to 15.6 percent in 2015, mainly due to the combination of the previously mentioned impacts and lower cost of sales, which as a percentage of net revenues was 52.5 percent in 2015 compared to 54.5 percent in 2014.

Net financial (expenses)/income

	For the years ended December 31,			Increase/(Decrease)			
	2016	2015	2014	2016 vs. 2015	2015 vs. 2014		
	(€ million, except percentages)						
Net financial (expenses)/income	(28)	(10)	9	(18)	n.m.	(19)	n.m.

2016 compared to 2015

Net financial expenses for 2016 were €28 million compared to €10 million for 2015, representing an increase of €18 million.

The increase in net financial expenses was primarily attributable to interest expenses on debt incurred, directly or indirectly, as a result of the Restructuring which took place in October 2015, and in particular, interest expenses relating to the Term Loan, the Bridge Loan (which was fully repaid in March 2016), which were primarily used to repay a portion of the FCA Note and interest expenses, as well as interest expenses on the bond issued in March 2016. Net financial expenses also included interest expenses on other bank borrowings.

2015 compared to 2014

Net financial expenses for 2015 was €10 million compared to net financial income of €9 million for 2014, representing a change of €19 million.

The change from net financial income to net financial expenses was driven by an increase of €12 million in interest costs, principally due to interest expenses on the FCA Note and the subsequent refinancing. Additionally, foreign currency exchange losses increased by €6 million in 2015. Our financial expenses in future periods are expected to be significantly higher, reflecting our higher net debt position following the Separation.

Income tax expense

	For the years ended December 31,			Increase/(Decrease)			
	2016	2015	2014	2016 vs. 2015		2015 vs. 2014	
	(€ million, except percentages)						
Income tax expense	167	144	133	23	16.3%	11	8.3%

2016 compared to 2015

Income tax expense for 2016 was €167 million, an increase of €23 million, or 16.3 percent, from €144 million for 2015. The increase in income tax expense was primarily attributable to an increase in profit before taxes from €434 million in 2015 to €567 million in 2016, partially offset by a decrease in the effective tax rate net of IRAP from 30.0 percent in 2015 to 25.8 percent in 2016. The decrease in the effective tax rate net of IRAP was primarily attributable to the combined effects of adjustments to deferred taxes assets and liabilities due to a change in Italian tax law to reduce the corporate income tax rate from 27.5 percent to 24.0 percent (effective from 2017) and additional tax deductions in 2016 on eligible research and development costs and on investments and other expenses, in accordance with Italian tax regulations.

2015 compared to 2014

Income tax expense for 2015 was €144 million, an increase of €11 million, or 8.3 percent, from €133 million for the year ended December 31, 2014. The increase in income tax expense was attributable to the combined effect of an increase in profit before taxes from €398 million for 2014 to €434 million for 2015, and an increase in the effective tax rate net of IRAP, from 28.6 percent in 2014 to 30.0 percent in 2015. During 2015 a change in Italian tax law approved a reduction in the corporate income tax rate, from 27.5 percent to 24.0 percent, which will be effective from 2017. As a result we have adjusted deferred tax assets and liabilities that we expect will be reversed in and subsequent to 2017. In addition to the change in tax law, the effective tax rate net of IRAP increased due to the effect of interest expense related to the Restructuring which is non deductible.

Recent Developments

See “Subsequent Events and 2017 Outlook”

Liquidity and Capital Resources

Liquidity Overview

We require liquidity in order to meet our obligations and fund our business. Short-term liquidity is required to purchase raw materials, parts and components for car production, and to fund selling, administrative, research and development, and other expenses. In addition to our general working capital and operational needs, we expect to use cash for capital expenditures to support our existing and future products. We make capital investments mainly in Italy, for initiatives to introduce new products, enhance manufacturing efficiency, improve capacity, and for maintenance and environmental compliance. Our capital expenditure in 2017 is expected to be between €350 million to €360 million, or higher based on the timing of research and development expenditure to transition our product portfolio to hybrid technology. We plan to fund our capital expenditure primarily with cash from our operating activities.

Our business and results of operations depend on our ability to achieve certain minimum car shipment volumes. We have significant fixed costs and therefore, changes in our car shipment volumes can have a significant effect on profitability and liquidity. Prior to the Separation on January 3, 2016, we managed our liquidity through participation in cash management and funding services provided by the treasury functions of the FCA Group. Following the Separation, we terminated such arrangements and we now centrally manage our operating cash management, liquidity and cash flow requirements on a standalone basis with the objective of ensuring effective and efficient management of our funds. We believe that our cash generation together with our current liquidity will be sufficient to meet our obligations and fund our business and capital expenditures.

See “Net Debt and Net Industrial Debt” below for additional details relating to the our liquidity.

Cyclical Nature of our Cash Flows

Our working capital is subject to month to month fluctuations due to, among others, production volumes, activity of our financial services portfolio, timing of tax payments and capital expenditure. In particular, our inventory levels increase in the periods leading up to launches of new models, during the phase out of prior models and at the end of the second quarter when our inventory levels are higher to support the summer plant shutdown.

The payment of taxes also affects our working capital. Historically, as part of the FCA Group tax consolidation, a substantial portion of our taxes were paid in the fourth quarter of the year and a smaller portion in the third quarter. In 2016 our tax payments were higher as it was our first year as a standalone tax group. In 2016 we settled our taxes in two advances, the first payment was made at the end of the second quarter and the second payment was made in the fourth quarter. Also in 2016, we settled our 2015 tax balance from the FCA Group tax consolidation. From 2017 we expect to pay taxes in equal advances, the first advance at either the end of the second quarter or the beginning of the third quarter, and the second advance in the fourth quarter.

Our capital expenditure requirements are, among other things, influenced by the timing of the launch of new models and, in particular, our development costs peak in periods when we develop a significant number of new models to renew or refresh our product range. Capital expenditure is also influenced by the timing of research and developments costs for our Formula 1 activities, for which expenditure is generally higher in the first and last quarter of the year.

We tend to generally receive payment for cars (other than those for which we provide dealer financing) between 30 and 40 days after the car is shipped while we tend to pay most suppliers between 90 and 105 days after we receive the raw materials or components. We maintain sufficient inventory of raw materials and components to ensure continuity of our production lines but delivery of most raw materials and components takes place monthly or more frequently in order to minimize inventories. The manufacture of one of our cars typically takes between 30 and 45 days, depending on the level of automation of the relevant production line, and the car is generally shipped to our dealers three to six days following the completion of production, although to ensure prompt deliveries in certain regions we may warehouse cars in local markets for longer periods of time. As a result, we tend to receive payment for cars shipped before we are required to make payment for the raw material and components used in manufacturing the cars.

Cash Flows

The following table summarizes the cash flows from/(used in) operating, investing and financing activities for each of the years ended December 31, 2016, 2015 and 2014. For additional details of our cash flows, see our Consolidated Financial Statements included elsewhere in this Annual Report.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
Cash flows from operating activities	1,005	707	426
Cash flows used in investing activities	(320)	(317)	(290)
Cash flows used in financing activities	(411)	(351)	(122)
Translation exchange differences	1	10	6
Total change in cash and cash equivalents	275	49	20

Operating Activities — Year Ended December 31, 2016

For the year ended December 31, 2016, our cash flows from operating activities were €1,005 million, primarily the result of:

- (i) profit before tax of €567 million, adjusted to add back €248 million of depreciation and amortization expense and €82 million in provisions, partially offset by €33 million related to other non-cash expenses and income and net gains on disposal of property, plant and equipment and intangible assets, as well as €3 million non-cash result from investments. The €82 million in provisions accrued was primarily attributable to (a) a warranty and recall campaigns provision of €60 million, of which €37 million related to the Takata airbag inflator recalls and the remainder

primarily related to an increase in volumes, and (b) other risks of €22 million, primarily related to disputes with a distributor;

- (ii) €405 million related to cash generated by a decrease in receivables from financing activities, primarily attributable to a cash payment of €432 million received in November 2016 following the sale by the Group of the majority stake in FFS GmbH to FCA Bank, as a result of which FFS GmbH was deconsolidated by the Group and the funding of FFS GmbH is being directly provided by FCA Bank (see Note 17 to the Consolidated Financial Statements), partially offset by an increase in the financial services portfolio in the United States;
- (iii) €7 million relating to cash generated by other operating assets and liabilities, which benefited by approximately €69 million from advances received, mainly related to the LaFerrari Aperta;
- (iv) €16 million related to cash absorbed from the net change in inventories, trade payables and trade receivables. In particular, the movement was attributable to (a) an increase in inventory of €33 million, (b) an increase in trade receivables of €89 million, partially offset by (c) an increase in trade payables of €106 million, all of which were driven by an increase in volumes and Maserati engines; and
- (v) income tax paid of €252 million, primarily related to payments of tax advances on 2016 taxes and the settlement of the 2015 tax balance from the FCA Group tax consolidation.

Operating Activities — Year Ended December 31, 2015

For the year ended December 31, 2015, our cash flows from operating activities were €707 million, primarily the result of:

- (i) profit before tax of €434 million, adjusted to add back €275 million of depreciation and amortization expense, €51 million in provisions accrued and €29 million related to other non-cash expenses and income and net gains on disposal of property, plant and equipment and intangible assets. The €51 million in provisions accrued was composed of (a) warranty provision of €33 million, primarily related to the increase in cars shipped, and to a lesser extent, a change in mix driven by increased shipments of the LaFerrari and the FXX K, which have higher warranty costs compared to range and special series cars, (b) legal proceedings and disputes of €9 million, and (c) other risks and charges of €9 million. The €29 million related to other non-cash expenses and income and net gains on disposal of property, plant and equipment and intangible assets primarily related to the allowances for doubtful accounts of trade and financial receivables and the inventory provision;
- (ii) €121 million related to cash generated by a decrease in receivables from financing activities, primarily attributable to the full reimbursement of the financing of inventory related to the establishment of the Maserati standalone business in China, which at December 31, 2014 was equal to €147 million, and the sale of the financial assets portfolios of Ferrari Financial Services S.p.A. and Ferrari Financial Services Japan KK, partially offset by an increase of the financial services portfolio in the USA;
- (iii) €33 million related to cash absorbed from the net change in inventories, trade payables and trade receivables. In particular, the movement was driven by (a) a decrease in trade payables of €46 million, mainly due to the full production of the LaFerrari in 2014 while at the end of 2015 the product lifecycle was nearing completion and shipments are planned to be completed in the first quarter of 2016, (b) an increase in inventories of €3 million, consistent with increased volumes, partially offset by (c) a decrease in trade receivables of €16 million mainly due to collections of related party receivables;
- (iv) €25 million relating to cash absorbed by other operating cash flows, primarily attributable to the net change in other operating assets and liabilities; and
- (v) income tax paid of €145 million.

Operating Activities — Year Ended December 31, 2014

For the year ended December 31, 2014, our cash flows from operating activities were €426 million, primarily the result of:

- (i) profit before taxes of €398 million adjusted to add back €289 million for depreciation and amortization expense, €66 million in provisions recognized, and €53 million related to other non-cash expenses and income, relating primarily to the accruals to the allowances for doubtful accounts related to trading and financing activities. In particular, the €66 million accruals to provision was composed of (a) increases in the warranty provision of €27 million due to an increase in cars delivered, and to a lesser extent a reassessment of the estimated cost assumptions used to determine the provision, (b) increases in the provision for legal proceedings and disputes of €24 million, and (c) provisions to cover other risks and charges for €15 million;
- (ii) €15 million relating to cash generated by other operating cash flows, primarily attributable to the net change in other operating assets and liabilities;
- (iii) €52 million related to cash absorbed from the net change in inventories, trade payables and trade receivables, primarily driven by (a) an increase in inventories of €66 million, due to increased finished cars at December 31, 2014 as compared to December 31, 2013, and mainly related to inventories of the LaFerrari to be shipped during 2015, partially offset by (b) a €13 million increase in trade payables and (c) a €1 million decrease in trade receivables, driven by management efforts to improve collection rates;
- (iv) €202 million related to cash absorbed by an increase in receivables from financing activities, mainly driven by an increase in business volumes of Ferrari Financial Services Inc., and in particular due to an increase in the contracts relating to the sale of vintage cars, and to a lesser extent, an increase in the number of contracts relating to new cars; and
- (v) income tax paid of €141 million.

Investing Activities — Year Ended December 31, 2016

For the year ended December 31, 2016, our net cash used in investing activities was €320 million, primarily the result of:

- (i) €342 million of capital expenditures, including €176 million related to additions to property, plant and equipment and €166 million relating to additions to intangible assets. For a detailed analysis of additions to property, plant and equipment and intangible assets see “—*Capital Expenditures*” below;

These cash outflows were partially offset by:

- (i) €19 million of proceeds from the sale of a majority stake in FFS GmbH to FCA Bank; and
- (ii) €3 million proceeds from the sale of property, plant and equipment and intangible assets.

Investing Activities — Year Ended December 31, 2015

For the year ended December 31, 2015, our net cash used in investing activities was €317 million, primarily the result of:

- (i) €356 million of capital expenditures, including €185 related to additions to property, plant and equipment and €171 million relating to additions to intangible assets. For a detailed analysis of additions to property, plant and equipment and intangible assets see “—*Capital Expenditures*” below;

These cash outflows were partially offset by:

- (i) €37 million of proceeds from the disposal of assets and liabilities related to investment properties; and

- (ii) €2 million proceeds from the sale of property, plant and equipment and intangible assets and the net change in investments and other financial assets.

Investing Activities — Year Ended December 31, 2014

of: For the year ended December 31, 2014, our net cash used in investing activities was €290 million, primarily the result

- (i) €330 million of capital expenditures, including €169 million related to additions to property, plant and equipment and €161 million relating to additions to intangible assets. For a detailed analysis of additions to property, plant and equipment and intangible assets see “—*Capital Expenditures*”;
- (ii) €39 million related to cash acquired on transactions with the non-controlling interests in Ferrari International Cars Trading (Shanghai) Co. L.t.d.; and
- (iii) €1 million proceeds from the sale of property, plant and equipment and intangible assets and the net change in investments and other financial assets.

Financing Activities — Year Ended December 31, 2016

of: For the year ended December 31, 2016, our net cash used in financing activities was €411 million, primarily the result

- (i) €701 million related to principal repayments of the Term Loan, including voluntary prepayments of €600 million (€300 million in September 2016 and €300 million in December 2016) and mandatory scheduled repayments of €92 million and \$9 million in December 2016;
- (ii) €500 million related to the full repayment of the Bridge Loan;
- (iii) €212 million related to net repayments of other bank borrowings;
- (iv) €87 million cash distribution of reserves; and
- (v) €17 million of dividends paid to non-controlling interests in our Chinese distributor, Ferrari International Cars Trading (Shanghai) Co. Ltd;

These cash outflows were partially offset by:

- (i) €491 million of net proceeds related to the issuance of the bond (see “*Bond*” below);
- (ii) €463 million of proceeds net of repayments related to revolving securitization programs in the USA;
- (iii) €135 million in net proceeds from the settlement of the deposits in FCA Group cash management pools and liabilities with FCA;
- (iv) €16 million related to net change in other debt; and
- (v) €1 million of proceeds from the share premium contribution made by FCA in connection with the Restructuring.

Financing Activities — Year Ended December 31, 2015

of: For the year ended December 31, 2015, net cash used in financing activities was €351 million, primarily the result

- (i) €3,211 million related to net repayments of financial liabilities with FCA, including repayment of the FCA Note for €2,800 million;

- (ii) €54 million related to dividends paid to non-controlling interests in our Chinese distributor, Ferrari International Cars Trading (Shanghai) Co. Ltd;
- (iii) €11 million related to net repayments of other debt; and
- (iv) €8 million related to the acquisition of non-controlling interests of the subsidiary Ferrari Financial Services S.p.A.

These cash outflows were partially offset by:

- (i) €2,119 million related to net proceeds from third-party financial liabilities, including €2,000 million from the new syndicated credit facility, of which €1,500 million under the Term Loan and €500 million under the Bridge Loan were used to repay financial liabilities with FCA, including a portion of the FCA Note, and
- (ii) €814 million related to the net change in deposits in FCA Group cash management pools, mainly used to repay a portion of the FCA Note.

Financing Activities — Year Ended December 31, 2014

For the year ended December 31, 2014, net cash used in financing activities was €122 million, primarily the result of:

- (i) €247 million related to the increase in deposits in FCA's cash management pools;
- (ii) €30 million related to net repayments of bank borrowings and other debt; and
- (iii) €15 million related to dividends paid to non-controlling interest in our Chinese distributor, Ferrari International Cars Trading (Shanghai) Co. L.t.d.

These cash outflows were partially offset by:

- (i) €89 million related to net proceeds from the change in financial liabilities with FCA; and
- (ii) €81 million related to proceeds from third party financial liabilities, driven largely by an increase in borrowings from banks.

Net Debt and Net Industrial Debt

Net Industrial Debt is the primary measure used by us to analyze our financial leverage and capital structure, and is one of the key indicators, together with Net Debt, we use to measure our financial position. These measures are presented by management to aid investors in their analysis of the Group's financial position and financial performance and to compare the Group's financial position and financial performance with that of other companies. Net Industrial Debt is defined as total debt less cash and cash equivalents and deposits in FCA Group cash management pools (Net Debt), further adjusted to exclude the funded portion of the self-liquidating financial receivables portfolio, which is the portion of our receivables from financing activities that we fund with external debt or intercompany loans. The following table sets forth a reconciliation of Net Debt and Net Industrial Debt at December 31, 2016 and 2015.

	At December 31,	
	2016	2015
	(€ million)	
Cash and cash equivalents	458	183
Deposits in FCA Group cash management pools	—	139
Total liquidity	458	322
Term Loan	(800)	(1,496)
Bridge Loan	—	(499)
Other borrowings from banks	(37)	(250)
Bond	(498)	—
Securitizations	(486)	—
Other debt	(27)	(12)
Financial liabilities with FCA Group	—	(3)
Total debt	(1,848)	(2,260)
Net Debt	(1,390)	(1,938)
Funded portion of the self-liquidating financial receivables portfolio	737	1,141
Net Industrial Debt	(653)	(797)

Cash and cash equivalents

Cash and cash equivalents were €458 million at December 31, 2016 compared to €183 million at December 31, 2015. The increase in cash and cash equivalents was primarily driven by €685 million of Free Cash Flow, partially offset by €411 million of cash flows used in financing activities. See “Cash Flows” above for further details.

Approximately 70 percent of our cash and cash equivalents were denominated in Euro at December 31, 2016. Our cash and cash equivalents denominated in currencies other than the Euro are available mostly to Ferrari S.p.A. and certain subsidiaries which operate in areas other than the United States and Europe. Cash held in such countries may be subject to transfer restrictions depending on the jurisdictions in which these subsidiaries operate. In particular, cash held in China, which amounted to €48 million at December 31, 2016 (€106 million at December 31, 2015), is subject to certain repatriation restrictions and may only be repatriated as dividends. Based on our review, we do not currently believe that such transfer restrictions have an adverse impact on our ability to meet our liquidity requirements. During 2015, Maserati fully settled a receivable deriving from the financing of inventory related to the establishment of the Maserati standalone business in China, resulting in an increase in cash and cash equivalents denominated in Chinese Yuan, which we have subsequently reduced through the payment of dividends.

Cash collected from the settlement of receivables or lines of credit pledged as collateral is subject to certain restrictions regarding its use and is principally applied to repay principal and interest of the funding. Such cash amounted to €19 million at December 31, 2016.

The following table sets forth an analysis of the currencies in which our cash and cash equivalents were denominated at the dates presented:

	At December 31,	
	2016	2015
	(€ million)	
Euro	318	22
Chinese Yuan	58	106
Japanese Yen	37	41
U.S. Dollar	16	1
Other currencies	29	13
Total	458	183

Deposits in FCA Group cash management pools

Deposits in FCA Group cash management pools related to our participation in a group-wide cash management system at FCA prior to the Separation. Before these arrangements were terminated in connection with the Separation, we accessed funds deposited in these accounts on a daily basis and had the contractual right to withdraw our funds on demand and terminate the cash management arrangements depending on FCA's ability to pay at the relevant time. The carrying value of deposits in FCA Group cash management pools approximated fair value in light of the short maturity of these investments. Of the total €139 million of deposits in FCA Group cash management pools at December 31, 2015, €119 million was denominated in Euro and €20 million was denominated in U.S. Dollars. Upon termination of these arrangements amounts on deposit were paid back to Ferrari in January 2016.

Total Available Liquidity

Our total available liquidity (defined as cash and cash equivalents plus deposits in FCA Group cash management pools plus undrawn committed credit lines) at December 31, 2016 was €958 million (€822 million at December 31, 2015).

The following table summarizes our total available liquidity:

	At December 31,	
	2016	2015
	(€ million)	
Cash and cash equivalents	458	183
Deposits in FCA Group cash management pools	—	139
Undrawn committed credit lines	500	500
Total available liquidity	958	822

The undrawn committed credit lines relate to a revolving credit facility. See “*The Facility*” below for further details.

The Facility

On November 30, 2015, the Company, as borrower and guarantor, and certain other members of the Group, as borrowers, entered into a €2.5 billion facility with a syndicate of banks (the “Facility”). The Facility comprises a bridge loan of €500 million (the “Bridge Loan”), a term loan of €1,500 million (the “Term Loan”) and a revolving credit facility of €500 million (the “RCF”).

In December 2015 the Bridge Loan and Term Loan were fully drawn down for the purposes of repaying financial liabilities with FCA, including the FCA Note that originated as a result of the Restructuring. At December 31, 2015, the Bridge Loan was fully drawn down by the Company, whilst €1,425 million of the Term Loan was drawn down by the Company and the remaining €75 million (\$92 million) was drawn down by FFS Inc.

In March 2016, the Bridge Loan was fully repaid, primarily using the proceeds from the bond (see “*Bond*” below).

The Company made voluntary prepayments of €600 million on the Term Loan, paying €300 million in September 2016 and €300 million in December 2016. Also in December 2016, the Company and FFS Inc made mandatory scheduled repayments of €92 million and \$9 million, respectively.

At December 31, 2016 and 2015 the RCF was undrawn. Proceeds of the RCF may be used from time to time for general corporate and working capital purposes of the Group.

The Term Loan and the RCF each have a maturity of five years. The Term Loan bears interest at a rate per annum equal to the aggregate of EURIBOR, plus a margin ranging from 50 basis points to 105 basis points depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. The RCF bears interest at a rate per annum equal to the aggregate of EURIBOR with respect to loans denominated in Euro, or LIBOR with respect to loans denominated in other currencies, plus a margin ranging from 35 basis points to 80 basis points depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. Loans under the RCF may be drawn in Euro or an alternative currency at Company's option.

The Facility is unsecured and provides for mandatory prepayments, affirmative and negative covenants and events of default in a form customary for bank financings of investment grade borrowers in the European syndicated loan market. The Facility has no financial maintenance covenants. Mandatory prepayments are required, subject to certain exceptions, in the event of a change of control. Subject to various exceptions and qualifications, negative covenants include (i) limitations on the Company's ability to provide security for other financial indebtedness, (ii) restrictions on the financial indebtedness that the Company's subsidiaries may incur or have outstanding, and (iii) restrictions on the Company's ability to make certain disposals of assets. Events of default include (i) failure to make payments when due, (ii) other breaches under the Facility not remedied within a 30-day grace period, (iii) breaches of representations and warranties, (iv) attachment by creditors of, or distress, execution, sequestration or other process enforced upon, the whole or any material part of the Group's assets, (v) cross-payment default or cross-acceleration with certain other financial indebtedness, (vi) cessation of business, (vii) seizure, nationalization or expropriation of material assets; or (viii) bankruptcy or other insolvency proceedings.

As of December 31, 2016 and 2015 the Company was in compliance with all covenants under the Facility.

The Facility is limited in recourse to the Company and the other members of the Group which borrow under the Facility.

Other borrowings from banks

Other borrowings from banks mainly relate to financial liabilities of FFS Inc to support the financial services operations, and in particular (i) a \$100 million U.S. Dollar denominated credit facility entered into on November 17, 2015 (and renewed in December 2016 for an additional 12 months), the proceeds of which were used to repay financial liabilities with FCA in the United States. The facility, which bears interest at a fixed rate, was drawn down for \$25 million at December 31, 2016 and was fully drawn down at December 31, 2015; (ii) a \$150 million U.S. Dollar denominated credit facility that was fully repaid during 2016, primarily with funds from the leasing securitization program. The facility, which bore interest at a variable rate of LIBOR plus a spread of 110 basis points, was fully drawn down at December 31, 2015. Other borrowings from banks also included €13 million at December 31, 2016 (€20 million at December 31, 2015) relating to various short and medium-term credit facilities.

Bond

On March 16, 2016, the Company issued a 1.5 percent coupon bond due 2023, having a principal of €500 million. The bond was issued at a discount for an issue price of 98.977 percent, resulting in net proceeds of €490.7 million after the debt discount and issuance costs. The net proceeds were used, together with additional cash held by the Company, to fully repay the €500 million Bridge Loan under the Facility. The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amount outstanding at December 31, 2016 includes accrued interest of €5.9 million.

The notes impose covenants on Ferrari including: (i) negative pledge clauses which require that, in case any security interest upon assets of Ferrari is granted in connection with other notes or debt securities with the consent of Ferrari are, or are intended to be, listed, such security should be equally and ratably extended to the outstanding notes, subject to certain permitted exceptions; (ii) pari passu clauses, under which the notes rank and will rank pari passu with all other present and future unsubordinated and unsecured obligations of Ferrari; (iii) events of default for failure to pay principal or interest or comply with other obligations under the notes with specified cure periods or in the event of a payment default or acceleration of indebtedness

or in the case of certain bankruptcy events; and (iv) other clauses that are customarily applicable to debt securities of issuers with a similar credit standing. A breach of these covenants may require the early repayment of the notes. As of December 31, 2016, Ferrari was in compliance with the covenants of the notes.

Securitizations

In 2016 FFS Inc pursued a strategy of self-financing, further reducing dependency on intercompany funding and increasing the portion of self-liquidating debt with various securitization transactions.

On January 19, 2016, FFS Inc performed a revolving securitization program for funding of up to \$250 million by pledging retail financial receivables in the United States as collateral. On December 16th, 2016, the funding limit of the program was increased to US\$275 million. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 70 basis points. Proceeds from the first sale of financial receivables were \$242 million and were primarily used to repay intercompany loans. The securitization agreement requires the maintenance of an interest rate cap.

On October 20, 2016, FFS Inc performed a revolving securitization program for funding of up to \$200 million by pledging leasing financial receivables in the United States as collateral. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 70 basis points. Proceeds from the first sale of financial receivables were \$175 million and were primarily used to repay the \$150 million U.S. Dollar denominated credit facility. The securitization agreement requires the maintenance of an interest rate cap.

Finally, on December 28, 2016, FFS Inc performed a revolving securitization program for funding of up to \$120 million by pledging credit lines to Ferrari customers secured by personal vehicle collections and personal guarantees in the United States as collateral. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 150 basis points. Proceeds from the first sale of financial receivables were \$64 million and were primarily used to partially repay the \$100 million U.S. Dollar denominated credit facility. The securitization agreement does not require an interest rate cap.

The total amount outstanding under the securitization programs at December 31, 2016 was €485.7 million.

Cash collected from the settlement of receivables or lines of credit pledged as collateral is subject to certain restrictions regarding its use and is principally applied to repay principal and interest of the funding. Such cash amounted to €19 million at December 31, 2016.

Other debt

Other debt mainly relates to Ferrari S.p.A. for the financing of investments in research and development.

Financial liabilities with FCA Group

Financial liabilities with FCA Group were fully settled upon completion of the Separation on January 3, 2016 (€3 million at December 31, 2015).

Free Cash Flow and Free Cash Flow from Industrial Activities

Free Cash Flow and Free Cash Flow from Industrial Activities are two of our primary key performance indicators to measure the Group's performance. These measures are presented by management to aid investors in their analysis of the Group's financial performance and to compare the Group's financial performance with that of other companies. Free Cash Flow is defined as cash flows from operating activities less cash flows used in investing activities. Free Cash Flow from Industrial Activities is defined as Free Cash Flow adjusted for the change in the self-liquidating financial receivables portfolio, which is the change in our receivables from financing activities. The following table sets forth our Free Cash Flow and Free Cash Flow from Industrial Activities for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
Cash flows from operating activities	1,005	707	426
Cash flows used in investing activities	(320)	(317)	(290)
Free Cash Flow	685	390	136
Change in the self-liquidating financial receivables portfolio	(405)	39	109
Free Cash Flow from Industrial Activities	280	429	245

Free Cash Flow for the year ended December 31, 2016 was €685 million compared to €390 million for the year ended December 31, 2015. For an explanation of the drivers in Free Cash Flow see "*Cash Flows*" above.

Free Cash Flow from Industrial Activities for the year ended December 31, 2016 was €280 million compared to €429 million for the year ended December 31, 2015. The decrease was primarily attributable to the impact in 2015 of (i) the one-time reimbursement of the financing of inventory related to the establishment of the Maserati standalone business in China of €160 million and (ii) proceeds of €37 million from Maserati S.p.A. for the disposal of assets and liabilities relating to investment properties.

Excluding these one-time effects in 2015, Free Cash Flow from Industrial Activities of €280 million in 2016 represented an increase of €48 million compared to €232 million of Free Cash Flow from Industrial Activities in 2015. Such increase is mainly attributable to an increase in Adjusted EBITDA from €748 million in 2015 to €880 million in 2016, as well as a positive change in net working capital in 2016 compared to 2015 and advances received for the LaFerrari Aperta, which were partially offset by an increase in income taxes paid, primarily attributable to payments of 2016 tax advances and settlement of the 2015 tax balance.

Free Cash Flow for the year ended December 31, 2015 was €390 million compared to €136 million for the year ended December 31, 2014. For an explanation of the drivers in Free Cash Flow see "*Cash Flows*" above.

Free Cash Flow from Industrial Activities for the year 2015 was €429 million, an increase from €245 million for the year 2014. The increase in Free Cash Flow from Industrial Activities was primarily attributable to an increase in cash from operating activities, driven by Adjusted EBITDA and the following one-time cash inflows in 2015: (i) the one-time reimbursement of the financing of inventory related to the establishment of the Maserati standalone business in China of €160 million; (ii) proceeds of €37 million from Maserati S.p.A. for the disposal of assets and liabilities relating to investment properties; and (iii) proceeds of €57 million from the sale of the financial assets portfolios of FFS S.p.A. and FFS KK; which were partially offset by the extra bonus paid to Ferrari employees of €15 million in 2015.

Non-GAAP Financial Measures

We monitor and evaluate our operating and financial performance using several non-GAAP financial measures including: EBITDA, Adjusted EBITDA, Adjusted EBIT, Adjusted Net Profit, Adjusted Basic and Diluted Earnings per Common Share, Net Debt, Net Industrial Debt, Free Cash Flow and Free Cash Flow from Industrial Activities, as well as a number of financial metrics measured on a constant currency basis. We believe that these non-GAAP financial measures provide useful and relevant information regarding our performance and our ability to assess our financial performance and financial position. They also provide us with comparable measures that facilitate management's ability to identify operational trends, as well as make decisions regarding future spending, resource allocations and other operational decisions. While similar measures are widely used in the industry in which we operate, the financial measures we use may not be comparable to other similarly titled measures used by other companies nor are they intended to be substitutes for measures of financial performance or financial position as prepared in accordance with IFRS.

EBITDA and Adjusted EBITDA

EBITDA is defined as net profit before income tax expense, net financial expenses/(income) and depreciation and amortization. Adjusted EBITDA is defined as EBITDA as adjusted for income and costs that are significant in nature but expected to occur infrequently. The following table sets forth the calculation of EBITDA and Adjusted EBITDA for the years ended December 31, 2016, 2015 and 2014, and provides a reconciliation of these non-GAAP measures to net profit. EBITDA is presented by management to aid investors in their analysis of the performance of the Group and to assist investors in the comparison of the Group's performance with that of other companies. Adjusted EBITDA is presented to demonstrate how the underlying business has performed prior to the impact of the adjusted items which may obscure underlying performance and impair comparability of results between periods.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
Net profit	400	290	265
Income tax expense	167	144	133
Net financial expenses/(income)	28	10	(9)
Amortization and depreciation	248	275	289
EBITDA	843	719	678
Charges for Takata airbag inflator recalls	37	—	—
Expenses incurred in relation to the IPO	—	16	—
Employees extra bonus	—	19	—
Gain recognized on disposal of investment property assets and liabilities	—	(6)	—
Expense related to the resignation of the former Chairman	—	—	15
Adjusted EBITDA	880	748	693

Adjusted EBIT

Adjusted EBIT represents EBIT as adjusted for income and costs that are significant in nature but expected to occur infrequently. We present such information in order to present how the underlying business has performed prior to the impact of such items, which may obscure underlying performance and impair comparability of results between the periods. The following table sets forth the calculation of Adjusted EBIT for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
EBIT	595	444	389
Charges for Takata airbag inflator recalls	37	—	—
Expenses incurred in relation to the IPO	—	16	—
Employees extra bonus	—	19	—
Gain recognized on disposal of investment property assets and liabilities	—	(6)	—
Expense related to the resignation of the former Chairman	—	—	15
Adjusted EBIT	632	473	404

Adjusted Net Profit

Adjusted Net Profit represents net profit as adjusted for income and costs (net of tax effect), which are significant in nature, but expected to occur infrequently. The tax effect is calculated by applying the corporate tax rate in Italy and the Italian Regional Income Tax (“IRAP”), which were 27.5% and 3.9%, respectively, for the periods presented. We present such information in order to present how the underlying business has performed prior to the impact of such items, which may obscure underlying performance and impair comparability of results between the periods. The following table sets forth the calculation of Adjusted Net Profit for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
Net profit	400	290	265
Charges for Takata airbag inflator recalls (net of tax effect)	25	—	—
Expenses incurred in relation to the IPO (net of tax effect)	—	11	—
Employees extra bonus (net of tax effect)	—	13	—
Gain recognized on disposal of investment property assets and liabilities (net of tax effect)	—	(4)	—
Expense related to the resignation of the former Chairman (net of tax effect)	—	—	10
Adjusted Net Profit	425	310	275

Adjusted Basic and Diluted Earnings per Common Share

Adjusted Basic and Diluted Earnings per Common Share represents earnings per share, as adjusted for income and costs (net of tax effect), which are significant in nature, but expected to occur infrequently. The tax effect is calculated by applying the corporate tax rate in Italy and the Italian Regional Income Tax (“IRAP”), which were 27.5% and 3.9%, respectively, for the periods presented. We present such information in order to present how the underlying business has performed prior to the impact of such items, which may obscure underlying performance and impair comparability of results between the periods. The following table sets forth the calculation of Adjusted Basic and Diluted Earnings per Common Share for the years ended December 31, 2016, 2015 and 2014.

		For the years ended December 31,		
		2016	2015	2014
Net profit attributable to owners of the Company	€ million	399	288	261
Charges for Takata airbag inflator recalls (net of tax effect)	€ million	25	—	—
Expenses incurred in relation to the IPO (net of tax effect)	€ million	—	11	—
Employees extra bonus (net of tax effect)	€ million	—	13	—
Gain recognized on disposal of investment property assets and liabilities (net of tax effect)	€ million	—	(4)	—
Expense related to the resignation of the former Chairman (net of tax effect)	€ million	—	—	10
Adjusted profit attributable to owners of the Company	€ million	424	308	271
Weighted average number of common shares	thousand	188,923	188,923	188,923
Adjusted basic earnings per common share	€	2.25	1.63	1.44
Weighted average number of common shares for diluted earnings per common share	thousand	188,946	188,923	188,923
Adjusted diluted earnings per common share ⁽¹⁾	€	2.24	1.63	1.44

(1) For the year ended December 31, 2016 the weighted average number of shares for diluted earnings per share was increased to take into consideration the theoretical effect of the potential common shares that would be issued for the Non-Executive Directors' compensation agreement.

Net Debt and Net Industrial Debt

Net Industrial Debt is the primary measure used by us to analyze our financial leverage and capital structure, and is one of the key indicators, together with Net Debt, we use to measure our financial position. These measures are presented by management to aid investors in their analysis of the Group's financial position and financial performance and to compare the Group's financial position and financial performance with that of other companies. Net Industrial Debt is defined as total debt less cash and cash equivalents and, prior to the Separation, deposits in FCA Group cash management pools (Net Debt), further adjusted to exclude the funded portion of the self-liquidating financial receivables portfolio, which is the portion of our receivables from financing activities that we fund with external debt or intercompany loans.

The following table sets forth a reconciliation of Net Debt and Net Industrial Debt at December 31, 2016, and 2015.

		At December 31,	
		2016	2015
		(€ million)	
Cash and cash equivalents		458	183
Deposits in FCA's cash management pools		—	139
Financial liabilities with third parties		(1,848)	(2,257)
Financial liabilities with FCA Group		—	(3)
Net Debt		(1,390)	(1,938)
Funded portion of the self-liquidating financial receivables portfolio		737	1,141
Net Industrial Debt		(653)	(797)

The decrease in the funded portion of the self-liquidating financial receivables portfolio primarily relates to the deconsolidation of FFS GmbH following the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016.

Free Cash Flow and Free Cash Flow from Industrial Activities

Free Cash Flow and Free Cash Flow from Industrial Activities are two of our primary key performance indicators to measure the Group's performance. These measures are presented by management to aid investors in their analysis of the Group's

financial performance and to compare the Group's financial performance with that of other companies. Free Cash Flow is defined as cash flows from operating activities less cash flows used in investing activities. Free Cash Flow from Industrial Activities is defined as Free Cash Flow adjusted for the change in the self-liquidating financial receivables portfolio, which is the change in our receivables from financing activities. The following table sets forth our Free Cash Flow and Free Cash Flow from Industrial Activities for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(€ million)		
Cash flows from operating activities	1,005	707	426
Cash flows used in investing activities	(320)	(317)	(290)
Free Cash Flow	685	390	136
Change in the self-liquidating financial receivables portfolio	(405)	39	109
Free Cash Flow from Industrial Activities	280	429	245

The change in the self-liquidating financial receivables portfolio in 2016 primarily relates to the deconsolidation of FFS GmbH following the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016.

Constant Currency Information

The “Results of Operations” discussion below includes information about our net revenues on a constant currency basis. We use this information to assess how the underlying business has performed independent of fluctuations in foreign currency exchange rates. We calculate constant currency by applying the prior-period average foreign currency exchange rates to current period financial data expressed in local currency in which the relevant financial statements are denominated, in order to eliminate the impact of foreign currency exchange rate fluctuations (see Note 2 “Significant Accounting Policies” to the Consolidated Financial Statements, included in this document, for information on the foreign currency exchange rates applied). Although we do not believe that these measures are a substitute for GAAP measures, we do believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the operating performance on a local currency basis.

In particular, the U.S. Dollar experienced significant fluctuations compared to the Euro in 2015 compared to 2014. For example, if a U.S. entity with U.S. Dollar functional currency recorded net revenues of U.S. \$100 million for 2015 and 2014, we would have reported €90 million in net revenues for 2015 (using the 2015 average exchange rate of 1.1094) or a €15 million increase over the €75 million reported for 2014 (using the 2014 average exchange rate of 1.3287). The constant currency presentation would translate the 2015 net revenues using the 2014 foreign currency exchange rates, and therefore indicate that the underlying net revenues on a constant currency basis were unchanged year-on-year.

The U.S. Dollar did not experience significant fluctuations compared to the Euro in 2016 compared to 2015. For example, the effect of translating net revenues of \$100 million for 2016 using the 2015 average exchange rate would have been a difference of €0.2 million.

Subsequent Events and 2017 Outlook

Subsequent events

On February 17, 2017, the Group announced that it has selected the 87th edition of the Geneva International Motor Show for the world premiere of the 812 Superfast, the new 12-cylinder berlinetta. The 812 Superfast is the most powerful and fastest Ferrari in history and marks the official start of Ferrari's 70th anniversary year.

On February 22, 2017, the Group received approximately \$11.4 million in cash (including \$2.7 million of previously undistributed dividends), 145 thousand Liberty Media shares and \$911 thousand of Liberty Media exchangeable notes in relation to the Delta Topco option. The Group had previously exercised the Delta Topco option as a result of the sale of Delta Topco (a company belonging to the Formula 1 Group) to Liberty Media Corporation, which was completed on January 23, 2017.

On February 23, 2017, the Group and Luxottica Group announced that they have signed a multi-year licensing contract according to which Luxottica will develop, produce and market a range of eyewear branded Ferrari and Ray-Ban. The two companies also signed a multi-year renewal of a sponsorship agreement between Scuderia Ferrari and Luxottica for the Ray-Ban brand to appear on the Ferrari Formula 1 single-seater cars.

On February 24, 2017, the Group presented the new car for the 2017 Formula 1 World Championship through a live television broadcast.

On March 1, 2017, the Board of Directors approved a distribution to the holders of common shares of €0.635 per common share, corresponding to a total distribution to shareholders of approximately €120 million. The distribution remains subject to the adoption of the Company's 2016 Annual Accounts at the Annual General Meeting of Shareholders to be held on April 14, 2017.

2017 Outlook

The Group indicates the following guidance for 2017:

- Shipments: ~8,400 including supercars
- Net revenues > Euro 3.3 billion
- Adjusted EBITDA > Euro 950 million
- Net Industrial Debt: ~500 million including a cash distribution to the holders of common shares and excluding potential share repurchases.

March 3, 2017

Sergio Marchionne
Amedeo Felisa
John Elkann
Piero Ferrari
Delphine Arnault
Louis C. Camilleri
Eddy Cue
Giuseppina Capaldo
Sergio Duca
Lapo Elkann
Adam Keswick
Maria Patrizia Grieco
Elena Zambon

Major Shareholders

Exor is the largest shareholder of Ferrari through its 23.5 percent shareholding interest in our outstanding common shares (as of February 28, 2017). See “Overview - The Separation” As a result of the loyalty voting mechanism, Exor’s voting power is approximately 33.4 percent. In addition, Mr. Piero Ferrari holds 10 percent of our outstanding common shares and, as a result of the loyalty voting mechanism, his voting power is approximately 15.4 percent.

Exor and Mr. Piero Ferrari informed us that they have entered into a shareholder agreement, summarized below under “Shareholders’ Agreement”.

Exor resulted from a cross-border merger of its predecessor entity, Exor S.p.A. with and into Exor N.V. As a result of the merger, which was completed on December 11, 2016, all activities of Exor S.p.A. are continued by Exor under universal succession, including with respect to the holding of our shares. Exor is controlled by Giovanni Agnelli B.V., (“G.A.”) which holds 52.99 percent of its share capital. G.A. is a limited partnership with interests represented by shares (*Societa’ in Accomandita per Azioni*), founded by Giovanni Agnelli and currently held by members of the Agnelli and Nasi families, descendants of Giovanni Agnelli, founder of Fiat. Its present principal business activity is to purchase, administer and dispose of equity interests in public and private entities and, in particular, to ensure the cohesion and continuity of the administration of its controlling equity interests. The managing directors of G.A. are John Elkann, Tiberto Brandolini d’Adda, Alessandro Nasi, Andrea Agnelli, Gianluigi Gabetti, Gianluca Ferrero, Luca Ferrero de’ Gubernatis Ventimiglia and Maria Sole Agnelli.

Based on the information in Ferrari’s shareholder register, regulatory filings with the Netherlands Authority for the Financial Markets (*stichting Autoriteit Financiële Markten*, the “AFM”) and the SEC and other sources available to us, the following persons owned, directly or indirectly, common shares holding voting rights in excess of three percent of the common shares of Ferrari, as of February 28, 2017:

Shareholder	Number of common shares	Percentage owned ⁽¹⁾
Exor N.V. ⁽²⁾	44,435,280	23.5%
Piero Ferrari ⁽²⁾	18,893,798	10.0%
T. Rowe Price Associates, Inc. ⁽³⁾	17,139,889	9.1%
Other public shareholders	108,474,950	57.4%

(1) The percentages of share capital set out in this table are calculated as the ratio of (i) the aggregate number of outstanding common shares beneficially owned by the shareholder to (ii) the total number of outstanding common shares (net of treasury shares) of Ferrari. These percentages may slightly differ from the percentages of share capital included in the public register held by the AFM of all notifications made pursuant to the disclosure obligations under chapter 5.3 of the Dutch Act on financial supervision (*Wet op het financieel toezicht*; the “AFS”), such, *inter alia*, because any shares held in treasury by Ferrari are included in the relevant denominators for purposes of the AFS disclosure obligations.

(2) Each of Exor and Piero Ferrari participate in the loyalty voting program of Ferrari and therefore, as discussed above in this section, their voting power in Ferrari is higher than the percentage of common shares beneficially held as presented in this table.

(3) Based on filings with the SEC, T. Rowe Price Associates, Inc. is an investment adviser registered under Section 203 of the U.S. Investment Advisers Act of 1940 and, out of the common shares beneficially owned as set forth in the table, it has sole voting power over 5,702,776 common shares.

Based on the information in Ferrari’s shareholder register and other sources available to us, as of February 28, 2017, approximately 50.5 million Ferrari common shares, or 26.7 percent of the outstanding Ferrari common shares, were held in the United States. As of the same date, approximately 1,600 record holders had registered addresses in the United States

Shareholders’ Agreement

On December 23, 2015, Exor and Piero Ferrari entered into a Shareholders’ Agreement, which became effective upon the completion of the Separation on January 3, 2016 (the “Shareholders Agreement”) and prior to the admission to listing and trading of the common shares of Ferrari on the MTA (as defined below). Ferrari is not a party to the Shareholders Agreement and does not have any rights or obligations thereunder. Below is a summary of the principal provisions of the Shareholders Agreement based on regulatory filings made by Exor and Piero Ferrari.

Consultation

For the purposes of forming and exercising, to the extent possible, a common view on the items on the agenda of any

General Meeting, Exor and Piero Ferrari will consult with each other prior to each General Meeting. For the purposes of this consultation right and duties, representatives of each of Exor and Piero Ferrari shall meet in order to discuss in good faith whether they have or can find a common view as to the matters on the agenda of the immediately following General Meeting. This consultation right does not include an obligation to vote in any certain way nor does it constitute a veto right in favor of Piero Ferrari.

AFS mandatory offer rules - acting in concert

Exor and Piero Ferrari acknowledged and agreed that the Dutch public offer rules as laid down in chapter 5.1 of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*, the “AFS”), as of January, 4 2016, the date on which trading in the common shares of Ferrari on the Mercato Telematico Azionario (“MTA”) commenced, be applicable to Ferrari and the shareholders. As - upon the Separation becoming effective and prior to the first trading date on the MTA - (i) Exor individually, and Exor and Piero Ferrari combined, will continue to have a voting interest of more than 30% in Ferrari as a result of which Exor individually, and Exor and Piero Ferrari combined, are deemed to have a controlling influence over Ferrari within the meaning of Dutch law. Therefore, Exor individually and Exor and Piero Ferrari combined, as well as any ultimate controlling persons of either of them, will benefit from an exemption from the Dutch mandatory takeover offer requirements.

Pre-emption right in favor of Exor and right of first offer of Piero Ferrari

In the event that Piero Ferrari intends to transfer (in whole or in part) his Ferrari common shares or he receives a third party offer for the acquisition of all or part of his Ferrari common shares, Exor will have the right to purchase all (but not less than all) of the common shares Piero Ferrari intends to transfer on the terms of the original proposed transfer by Piero Ferrari or, in case the original proposed transfer was for no consideration, at market prices determined pursuant to the agreement.

In the event Exor intends to transfer (in whole or in part) its common shares to a third party, either solicited or unsolicited, Piero Ferrari will have the right to make a binding, unconditional and irrevocable all cash offer for the purchase of such common shares.

The foregoing will not apply to in case of transfers of common shares: (i) by any party to the Shareholders Agreement, to a party that qualifies as a “Loyalty Transferee” (as defined in the Articles of Association) of such party, (ii) by Exor, to any affiliate of Giovanni Agnelli B.V., to a successor in business of Giovanni Agnelli B.V. and to any affiliate of a successor in business of Giovanni Agnelli B.V., and (iii) by any party to the Shareholders Agreement that is an individual, to an entity wholly owned and controlled by that same party. In addition, the provisions regarding the pre-emption right in favor of Exor and right of first offer of Piero Ferrari shall not apply in relation to, and Piero Ferrari shall be free and allowed to carry out, market sales to third parties of his common shares which in the aggregate do not exceed, during the whole period of validity of the Shareholders Agreement, 0.5% of the number of common shares owned by Piero Ferrari upon completion of the Separation.

Term

The Shareholders Agreement entered into force upon completion of the Separation on January 3, 2016 and shall remain in force until the fifth anniversary of the effective date of the Separation, provided that if neither of the parties to the Shareholders Agreement terminates the Shareholders Agreement within six months before the end of the initial term, then the Shareholders Agreement shall be renewed automatically for another five year term.

The Shareholders Agreement shall terminate and cease to have any effect as a result of the transfer of all the common shares owned by either Exor or Piero Ferrari to a third party.

Governing law and jurisdiction

The Shareholders Agreement is governed by and must be interpreted according to the laws of the Netherlands. Any disputes arising out of or in connection with the Shareholders Agreement are subject to the exclusive jurisdiction of the competent court in Amsterdam, the Netherlands, without prejudice to the right of appeal and appeal to the Supreme Court.

Corporate Governance

Introduction

Ferrari N.V. (the “Company”) is a public limited liability company, incorporated under the laws of the Netherlands. The Company is the holding company of the Ferrari group following the separation of the Ferrari business from Fiat Chrysler Automobiles N.V. (“FCA”), through a series of transactions (the “Separation”) described under “Overview—The Separation”. In this section, the “Company” also refers to Ferrari N.V. predecessor, formerly known as New Business Netherlands N.V., as the context may require. Such predecessor of Ferrari N.V. was the holding of the Ferrari group following completion of the restructuring intended to facilitate Ferrari’s IPO. When in this section reference is made to Ferrari N.V., it solely relates to the current Ferrari N.V. (previously known as FE New N.V.), which acquired Ferrari N.V. predecessor under universal title through a merger under Dutch law. The Company qualifies as a foreign private issuer under the New York Stock Exchange (“NYSE”) listing standards and its common shares are listed on the NYSE and on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A. (“MTA”).

In accordance with the NYSE Listed Company Manual, the Company is permitted to follow its home country practice with regard to certain corporate governance standards. The Company has adopted, except as discussed below, the best practice provisions of the Dutch corporate governance code issued by the Dutch Corporate Governance Code Committee, which entered into force on January 1, 2009 (the “Dutch Corporate Governance Code”) and contains principles and best practice provisions that regulate relations between the board of directors of a company and its shareholders. The Dutch Corporate Governance Code became applicable to Ferrari as of October 21, 2015 (the date of the listing of the common shares of the company on NYSE).

In this report the Company addresses its overall corporate governance structure. The Company discloses, and intends to disclose any material departure from the best practice provisions of the Dutch Corporate Governance Code in its future annual reports.

Board of Directors

Pursuant to the Company’s articles of association (the “Articles of Association”), its board of directors (the “Board of Directors”) may have three or more directors (the “Directors”). With a shareholders’ resolution adopted on April 15, 2016 the number of the Directors was set at thirteen and the current slate of Directors was appointed, effective as of January 2, 2016. The term of office of the current Board of Directors will expire on the next annual shareholders general meeting, currently scheduled on April 14, 2017 and the Company’s general meeting of shareholders is expected to elect a new Board of Directors for approximately a one-year term. Each Director may be reappointed at any subsequent annual general meeting of shareholders.

The Board of Directors as a whole is responsible for the strategy of the Company. The Board of Directors is composed of two executive Directors (i.e., Mr. Marchionne, Chairman and Chief Executive Officer, and Mr. Felisa, Executive Director) and eleven non-executive Directors, who do not have such day-to-day responsibility within the Company or the Group. Pursuant to Article 17 of the Articles of Association, the general authority to represent the Company shall be vested in the Board of Directors and the Chief Executive Officer.

On May 2, 2016 Mr. Amedeo Felisa retired as Chief Executive Officer. His role has been taken by Mr. Sergio Marchionne who has assumed the Chief Executive Officer’s responsibilities while also retaining his role as Chairman of the Company. Mr. Felisa continues to serve on the Board of Directors of Ferrari as Executive Director with a specific consultancy contract until the next Annual General Meeting of Shareholders to be held in April 2017 following which it has been proposed that Mr. Felisa will serve as non-executive director subject to the appointment by Shareholders Meeting.

On October 21, 2015 with regard to predecessor Ferrari and effective on January 3, 2016 with regard to Ferrari N.V. the Board of Directors appointed the following internal committees: (i) an Audit Committee, (ii) a Governance and Sustainability Committee, and (iii) a Compensation Committee.

Seven directors qualified as independent (representing a majority) for purposes of NYSE rules, Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Dutch Corporate Governance Code.

The non-executive directors of the Company met to discuss the functioning of the Board and its committees, the functioning of the executive directors as an organ of the company, or the corporate strategy and the main risks of the business, pursuant to best practice provisions III.1.7 and III.1.8 of the Dutch Corporate Governance Code.

The Board of Directors has resolved to grant the following titles:

- Sergio Marchionne: Chairman and Chief Executive Officer;
- John Elkann: Vice-Chairman;
- Piero Ferrari: Vice-Chairman; and
- Louis Camilleri: Senior Non-Executive Director.

The Board of Directors has also resolved to appoint Louis Camilleri as chairman of the Board, as referred to in the Dutch Civil Code, who will in such capacity have the title Chair (*Voorzitter*).

The following members are independent within the meaning of the Dutch Corporate Governance Code:

- Delphine Arnault;
- Eddy Cue;
- Giuseppina Capaldo;
- Sergio Duca;
- Maria Patrizia Grieco;
- Adam Keswick; and
- Elena Zambon.

Directors are expected to prepare themselves for and to attend all Board of Directors meetings, the annual general meeting of shareholders and the meetings of the committees on which they serve, with the understanding that, on occasion, a Director may be unable to attend a meeting.

From January 1, 2016 to the year-end there were eight meetings of the Board of Directors. The attendance rate at these meetings was 94 percent.

The current composition of the Board of Directors is the following:

Sergio Marchionne (executive director) - Mr. Marchionne is the CEO and Chairman of Ferrari and has been the Chairman of Ferrari S.p.A. since October 2014 and the Chief Executive Officer since May 2016. Mr. Marchionne currently serves as Chief Executive Officer of FCA and Chairman, Chief Executive Officer and Chief Operating Officer of FCA U.S. Mr. Marchionne leads FCA's Group Executive Council and has been Chief Operating Officer of its NAFTA region since September 2011. He also serves as Executive Chairman of CNH Industrial N.V. ("CNHI"). He was the chairman of Fiat Industrial and CNH Global N.V. until the integration of these companies into CNHI in 2013. Prior to joining FCA, Mr. Marchionne served as Chief Executive Officer of SGS SA, Chief Executive Officer of the Lonza Group Ltd. and Chief Executive Officer of Alusuisse Lonza (Algroup). He also served as Vice President of Legal and Corporate Development and Chief Financial Officer of the Lawson Group after serving as Vice President of Finance and Chief Financial Officer of Acklands Ltd. and Executive Vice President of Glenex Industries. Mr. Marchionne holds a Bachelor of Laws from Osgoode Hall Law School at York University in Toronto, Canada and a Master of Business Administration from the University of Windsor, Canada. Mr. Marchionne also holds a Bachelor of Arts with a major in Philosophy and minor in Economics from the University of Toronto. Mr. Marchionne serves on the Board of Directors of Philip Morris International Inc. and as Executive Chairman of SGS SA headquartered in Geneva. Additionally, Mr. Marchionne is a director of Exor. Mr. Marchionne is a member of the Board of Directors of ACEA (European Automobile Manufacturers Association). He previously served as appointed non-executive Vice Chairman and Senior Independent Director of UBS AG.

Born in 1952, Canadian and Italian citizenship.

Amedeo Felisa (executive director) - Mr. Felisa, who joined Ferrari in 1990, is Executive Director of Ferrari and was the Chief Executive Officer of Ferrari S.p.A. from 2008 until June 2016. From 2006 to 2008 he served as General Manager and Deputy General Manager of Ferrari S.p.A. From 1996 to 2004 he was the General Manager of our GT department, coordinating the product development, powertrains and vehicle departments of both Ferrari and Maserati with respect to the market positioning of the two brands. In the 1990s, as a Technical Senior Vice President, Mr. Felisa oversaw the planning, coordination and management of the entire technical department, including defining new business model plans, supervising the development of both innovation and products and managing the product development teams, including ensuring employee growth. Prior to joining Ferrari, he was a product development team leader at Alfa Romeo S.p.A. Mr. Felisa holds a degree in mechanical engineering from the Milan Politecnico.

Born in 1946, Italian citizenship.

John Elkann (Vice Chairman and non-executive director) - Mr. John Elkann is Vice Chairman of Ferrari, Chairman and Chief Executive Officer of EXOR and Chairman of Fiat Chrysler Automobiles N.V. Born in New York in 1976, Mr. Elkann obtained a scientific baccalaureate from the Lycée Victor Duruy in Paris and graduated in Engineering from Politecnico, the Engineering University of Turin. While at university, he gained work experience in various companies of the Fiat Group in the UK and Poland (manufacturing) as well as in France (sales and marketing). He started his professional career in 2001 at General Electric as a member of the Corporate Audit Staff, with assignments in Asia, the USA and Europe. Mr. John Elkann is Chairman of Giovanni Agnelli B.V., of PartnerRe and Italiana Editrice and board member of The Economist Group. Mr. John Elkann is a trustee of MoMA. He also serves as Vice Chairman of the Italian Aspen Institute and of the Giovanni Agnelli Foundation. Mr. John Elkann is the brother of Mr. Lapo Edovard Elkann (Non-Executive Director).

Born in 1976, Italian citizenship.

Piero Ferrari (Vice Chairman and non-executive director) - Mr. Ferrari is Vice Chairman of Ferrari and has been Vice Chairman of Ferrari S.p.A. since 1988. He also serves as Chairman of HPE-COXA, is board member of Ferretti Group and a board member and Vice President of CRN Ancona (Ferretti Group). He was President of Piaggio Aero Industries S.p.A. from 1998 to 2014 and served as Chairman of the Italian Motor Sport Commission (CSAI) from 1998 to 2001 and BA SERVICE from 2000 to 2015. He was also a board member and Vice President of Banca Popolare dell'Emilia Romagna in Modena from 2002 to 2011 and from 2001 to 2014 respectively. The son of Ferrari's founder Enzo Ferrari, Mr. Piero Ferrari covered a variety of management positions in the motor sport division of Ferrari from 1970 to 1988 with increasing responsibilities. His first position with Ferrari dates back to 1965 working on the production of the Dino 206 Competizione racing car. Mr. Piero Ferrari received an honorary degree in Aerospace Engineering from the University of Naples Federico II in 2004 and an Honorary Degree in Mechanical Engineering from the University of Modena and Reggio Emilia in 2005. In 2004, Mr. Piero Ferrari was awarded the title of "Cavaliere del Lavoro".

Born in 1945, Italian citizenship.

Delphine Arnault (non-executive director) - Ms. Arnault was born in 1975, graduated from the EDHEC Business School and the London School of Economics. She began her career at McKinsey & Company, the global management consultancy firm, where she was a Consultant for two years. In 2001, she joined the Executive Committee of Christian Dior Couture where she directed several product lines. She was appointed Deputy General Manager of Christian Dior Couture in 2008 and in September 2013 Deputy General Manager of Louis Vuitton Malletier. She has been a main board director of LVMH Moët Hennessy Louis Vuitton SA since 2003. Delphine was appointed to the board of Château Cheval Blanc, the Saint-Emilion premier grand cru classé, and also sits on the supervisory board of *Les Echos*, the leading French business daily. In 2002 she joined the board of Loewe, the celebrated Spanish leather goods company, and was appointed to Pucci's board of directors in 2007. She was appointed to the boards of Céline in December 2011, Christian Dior SA in April 2012 and 21st Century Fox in June 2013. In December 2015 she joined the board of the Italian jeweler Repossi, in which LVMH is a shareholder. Delphine Arnault has also been a member of the supervisory board of M6 Group since November 2009 and of Havas since May 2013.

Born in 1975, French citizenship.

Louis C. Camilleri (non-executive director) - Mr. Camilleri is Senior Non-Executive Director and Chairman of the Board of Directors of Ferrari. Mr. Camilleri currently serves as Chairman of the Board of Philip Morris International Inc. ("PMI"). From March 2008 to May 2013, he served as Chairman and Chief Executive Officer of PMI. From April 2002 and August 2002 until March 2008, he was Chief Executive Officer and Chairman of Altria Group, Inc., respectively. From November 1996 to April 2002, he served as Senior Vice President and Chief Financial Officer of Altria Group, Inc. He had been employed continuously

by Altria Group, Inc. and its subsidiaries (including PMI) in various capacities since 1978. Mr. Camilleri was appointed to the Board of Directors of América Móvil, S.A.B. de C.V. in April 2011, and previously served on the Board of Telmex International SAB from December 2009. Mr. Camilleri was a director of Kraft Foods Inc. (“Kraft”) from March 2001 to December 2007 and was Kraft’s Chairman from September 2002 to March 2007. Mr. Camilleri received a degree in Economics and Business Administration from HEC Lausanne, the Faculty of Business & Economics of the University of Lausanne (Switzerland).

Born in 1955, British citizenship.

Eddy Cue (non-executive director) - Mr. Cue currently serves as Apple Inc.’s Senior Vice President of Internet Software and Services. He joined Apple in 1989 and oversees Apple’s industry-leading content stores including the iTunes Store, the App Store and the iBooks Store, as well as Apple Pay, Siri, Maps, iAd, the iCloud services, and Apple’s productivity and creativity apps. Mr. Cue earned a bachelor’s degree in Computer Science and Economics from Duke University. He was recognized by renowned cancer research center City of Hope with their 2014 Spirit of Life Award, honoring an individual whose work has fundamentally impacted the music, film and entertainment industry.

Born in 1964, American citizenship.

Giuseppina Capaldo (non-executive director) - Ms. Capaldo is Full Professor of Private Law, at “La Sapienza” University of Rome. She is an independent member of the Board of Directors of Salini Impregilo S.p.A. (2012-present) and Credito Fondiario S.p.A. (2014-present). She was an independent member of the Board of Directors of Exor S.p.A. from 2012 to 2015. She was a member of the Board of Directors of Ariscom S.p.A. (an Italian insurance company) from 2012-2015 and A.D.I.R. - Assicurazioni di Roma (2006-2010). She collaborated with the law firm Macchi di Cellere Gangemi in the Banking and Finance, Corporate and M&A departments (2004-2007). She has been Deputy Rector for Resource Planning and Assets (since 2014) at La Sapienza University; Director of LLM “Financial Markets Law” (since 2009). Previously, she served as Deputy Rector for Strategic Planning (2008-2014); Head of Department of “Law and Business” (2007-2013); and (2007-2011) Director of PhD “Contract Law and Business”. Ms. Capaldo has a degree in Economics and a degree in Law from “La Sapienza” University of Rome, has been a licensed certified public accountant since 1992 and is listed in the Register of Independent Auditors since 1999. In addition, Ms. Capaldo has been qualified to practice law in Italy since 2003. She authored several publications in the areas of contract law, insurance law, financial law and market legal theory.

Born in 1969, Italian citizenship.

Sergio Duca (non-executive director). Mr. Duca is the Chairman of the Board of Statutory Auditors of Enel S.p.A. since April 2010. He also serves as Chairman of the Board of Auditors of the Fondazione per la Scuola of Compagnia di San Paolo and ISPI (Institute for the Study of International Politics), as well as a member of the board of auditors of the Intesa San Paolo Foundation Onlus. Mr. Duca has previously served as Chairman of the Board of Directors of Orizzonte SGR S.p.A. from 2008 until 2016, Chairman of the Board of Statutory Auditors of Exor S.p.A. until May 2015, Chairman of the Board of Statutory Auditors and effective auditor of GTech S.p.A. until April 2015, Chairman of the Board of Statutory Auditors of Tosetti Value SIM and an independent director of Sella Gestione SGR until April 2010. From 1997 until July 2007, Mr. Duca was the Chairman of PricewaterhouseCoopers S.p.A.. In addition, he has previously served as Chairman of the board of auditors of the Compagnia di San Paolo until May 2016, member of the Edison Foundation’s advisory board and the University Bocconi in Milan’s development committee, as well as Chairman of the Bocconi’s Alumni Association’s board of auditors and a member of the board of auditors of the ANDAF (Italian Association of Chief Financial Officers). As a certified chartered accountant and auditor, he acquired broad experience through the PricewaterhouseCoopers network as the external auditor of a number of significant Italian listed companies. Mr. Duca graduated with honors in Economics and Business from University Bocconi in Milan.

Born in 1947, Italian citizenship.

Lapo Edovard Elkann (non-executive director) - Mr. Lapo Edovard Elkann is Chairman and Founder of Italia Independent Group and of Garage Italia Customs. He was born in New York in 1977 and studied in France and England. After gaining experience as assistant to Henry Kissinger, Mr. Lapo Edovard Elkann became the Worldwide Brand Promotion Director for Fiat Group where he successfully carried out several projects in below-the-line marketing and participated in the relaunch of the Fiat 500. In 2007 he undertook the entrepreneurial path founding the lifestyle brand “Italia Independent”, the creative factory “Independent Ideas” and the Holding “Italia Independent Group”, which was listed on the Italian Stock Exchange in June 2013. In 2011 he consulted Ferrari in the creation of the Tailor Made Unit. In March 2015 he founded Garage Italia Customs, a customization service for the motion industry. In July 2013 he was inducted in the Automotive Hall of Fame, the American institution dedicated to preserving and celebrating outstanding automotive achievement. Mr. Lapo Edovard Elkann also serves

on the board of directors of Pinacoteca Giovanni e Marella Agnelli and of Good Films S.r.l. Mr. Lapo Edovard Elkann is the brother of Mr. John Elkann (Vice Chairman and Non-Executive Director).

Born in 1977, Italian citizenship.

Adam Keswick (non-executive director) - Mr. Keswick first joined the Matheson Group in 2001 before being appointed to the Board in 2007. He was Deputy Managing Director from 2012 to 2016, and became chairman of Matheson & Co. in August 2016. Mr Keswick is also deputy chairman of Jardine Lloyd Thompson and a director of Dairy Farm, Hongkong Land, Jardine Strategic and Mandarin Oriental. He is also a Supervisory Board Member of Rothschild & Co..

Born in 1973, British citizenship.

Maria Patrizia Grieco (non-executive director) - Ms. Grieco has been the Chairman of the Board of Directors of Enel since May 2014. After graduating in law at the University of Milan, she started her career in 1977 at Italtel, where in 1994 she became Chief of Legal and General Affairs. In 1999, she was appointed General Manager to re-organize and reposition the company, and in 2002 she became Chief Executive Officer. Subsequently, she held the positions of Chief Executive Officer of Siemens Informatica, Partner of Value Partners and Chief Executive Officer of the Group Value Team (today NTT Data). From 2008 to 2013, she was Chief Executive Officer of Olivetti, where she also held the role of Chairman from 2011. She has been a director of Fiat Industrial and she is currently on the boards of Anima Holding, Amplifon, Bocconi University and the Italian Foundation MAXXI - National Museum of XXI Century Arts. Mrs. Grieco is also a member of the steering committee of Assonime.

Born in 1952, Italian citizenship.

Elena Zambon (non-executive director) - Ms. Zambon is President of Zambon S.p.A., a multinational pharmaceutical company founded in Vicenza in 1906, Vice President of ZaCh - Zambon Chemicals and member of the Board of Zambon Company S.p.A., holding company of the group. Ms. Zambon is the founder of Secofind, the multi-family office of the Zambon family and President of the Foundation Zoé, Zambón Open Education. Ms. Zambon is a member of the Board of Unicredit and of Fondo Strategico Italiano, the Italian Sovereign Fund, as well as a member of the Board of IIT- Istituto Italiano di Tecnologia (Italian Institute of Technology). Furthermore, Ms. Zambon is President of AidAF, the Italian Association of Family Businesses, and Vice President of Aspen Institute Italia. In June 2014 she was nominated “Cavaliere del Lavoro” by the President of the Italian Republic and has received the award “Imprenditore Olivettiano 2010” (Olivetti entrepreneur) and “Marisa Belisario 2010”, annually assigned to women who have distinguished themselves in the business world. From 1989 to 1994, Ms. Zambon worked for Citibank. Ms. Zambon was born in Vicenza in 1964, and received a bachelor degree in Business Administration at the University “Bocconi” in Milan.

Born in 1964, Italian citizenship.

Board Regulations

Effective as of October 21, 2015 for Ferrari N.V.’s predecessor and effective as of January 3, 2016 for Ferrari N.V., the Board of Directors adopted its regulations. Such regulations deal with matters that concern the Board of Directors and its committees internally.

The regulations contain provisions concerning the manner in which meetings of the Board of Directors are called and held, including the decision-making process. The regulations provide that meetings may be held by telephone conference or video-conference, provided that all participating Directors can follow the proceedings and participate in real time discussion of the items on the agenda.

The Board of Directors can only adopt valid resolutions when the majority of the Directors in office shall be present at the meeting or be represented thereat.

A Director may only be represented by another Director authorized in writing. A Director may not act as a proxy for more than one other Director.

All resolutions shall be adopted by the favorable vote of the majority of the Directors present or represented at the meeting, provided that the regulations may contain specific provisions in this respect. Each Director shall have one vote.

The Board of Directors shall be authorized to adopt resolutions without convening a meeting if all Directors shall have expressed their opinions in writing, unless one or more Directors shall object in writing to the resolution being adopted in this way prior to the adoption of the resolution.

The Audit Committee

The Audit Committee is responsible for assisting and advising the Board of Directors' oversight of: (i) the integrity of the Company's financial statements, (ii) the Company's policy on tax planning, (iii) the Company's financing, (iv) the Company's applications of information and communication technology, (v) the systems of internal controls that management and the Board of Directors have established, (vi) the Company's compliance with legal and regulatory requirements, (vii) the Company's compliance with recommendations and observations of internal and independent auditors, (viii) the Company's policies and procedures for addressing certain actual or perceived conflicts of interest, (ix) the independent auditors' qualifications, independence, remuneration and any non-audit services for the Company, (x) the performance of the Company's internal auditors and of the independent auditors, (xi) risk management guidelines and policies, and (xii) the implementation and effectiveness of the Company's ethics and compliance program.

The Audit Committee currently consists of Mr. Duca (Chairperson), Ms. Capaldo and Ms. Grieco, each of whom are independent within the meaning of the Dutch Corporate Governance Code. The Audit Committee is elected by the Board of Directors and is comprised of at least three non-executive Directors. Audit Committee members are also required (i) not to have any material relationship with the Company or to serve as auditors or accountants for the Company, (ii) to be "independent", for purposes of NYSE rules, Rule 10A-3 of the Exchange Act and the Dutch Corporate Governance Code, and (iii) to be "financially literate" and have "accounting or selected financial management expertise" (as determined by the Board of Directors). At least one member of the Audit Committee shall be a "financial expert" as defined by the Sarbanes-Oxley Act and the rules of the U.S. Securities and Exchange Commission and best practice provision III.5.7 of the Dutch Corporate Governance Code. No Audit Committee member may serve on more than four audit committees for other public companies, absent a waiver from the Board of Directors. Unless decided otherwise by the Audit Committee, the independent auditors of the Company attend its meetings while the Chief Executive Officer and Chief Financial Officer are free to attend the meetings.

In 2016 the Audit Committee met thirteen times and the average attendance rate was 100 percent. At these meetings several matters were discussed, including the audit committee role and responsibilities, the Company's financial control and risk framework, risk assessment, internal control over financial reporting pursuant to the applicable rules, and a financial overview of operating results.

The Compensation Committee

The Compensation Committee is responsible for, among other things, assisting and advising the Board of Directors in: (i) determining executive compensation consistent with the Company's remuneration policy, (ii) reviewing and approving the remuneration structure for the executive Directors, (iii) administering equity incentive plans and deferred compensation benefit plans, and (iv) discussing with management the Company's policies and practices related to compensation and issuing recommendations thereon.

The Compensation Committee currently consists of Mr. Camilleri (Chairperson), Mr. Elkann and Ms. Zambon. The Compensation Committee is elected by the Board of Directors and is comprised of at least three non-executive directors. Unless decided otherwise by the Compensation Committee, the Head of Human Resources of the Company attends its meetings.

In 2016 the Compensation Committee met one time.

The Governance and Sustainability Committee

The Governance and Sustainability Committee is responsible for, among other things, assisting and advising the Board of Directors with: (i) the identification of the criteria, professional and personal qualifications for candidates to serve as Directors, (ii) periodical assessment of the size and composition of the Board of Directors, (iii) periodical assessment of the functioning of individual Directors and reporting on this to the Board of Directors, (iv) proposals for appointment of executive and non-executive Directors, (v) supervision of the selection criteria and appointment procedure for senior management, (vi) monitoring and evaluating reports on the Group's sustainable development policies and practices, management standards, strategy, performance and governance globally, and (vii) reviewing, assessing and making recommendations as to strategic guidelines for sustainability-related issues, and reviewing the annual Sustainability Report.

The Governance and Sustainability Committee currently consists of Mr. Elkann (Chairperson), Mr. Cue, Mr. Duca and Mr. Ferrari. The Governance and Sustainability Committee is elected by the Board of Directors and is comprised of at least three Directors. No more than two members may be non-independent, and at most one of the members may be an executive Director.

In 2016 the Governance and Sustainability Committee met one time.

In addition, as described above, the charters of the Audit Committee, Compensation Committee and Governance and Sustainability Committee set forth independence requirements for their members for purposes of the Dutch Corporate Governance Code. Audit Committee members are also required to qualify as independent for purposes of NYSE rules and Rule 10A-3 of the Exchange Act.

Indemnification of Directors

Under Dutch law, indemnification provisions may be included in a company's articles of association. Under the Company's Articles of Association, the Company is required to indemnify any and all of its directors, officers, former directors, former officers and any person who may have served at its request as a director or officer of another company in which it owns shares or of which it is a creditor, who were or are made a party or are threatened to be made a party to or are involved in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative (each a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, against any and all liabilities, damages, reasonable and documented expenses (including reasonably incurred and substantiated attorneys' fees), financial effects of judgments, fines, penalties (including excise and similar taxes and punitive damages) and amounts paid in settlement in connection with such Proceeding by any of them. Such indemnification shall not be deemed exclusive of any other rights to which those indemnified may be entitled otherwise. Notwithstanding the above, no indemnification shall be made in respect of any claim, issue or matter as to which any of the above-mentioned indemnified persons shall be adjudged to be liable for gross negligence or willful misconduct in the performance of such person's duty to Ferrari. Ferrari has purchased directors' and officers' liability insurance for the members of the Board of Directors and certain other officers, substantially in line with that purchased by similarly situated companies.

Conflict of Interest

A Director shall not participate in discussions and decision making of the Board of Directors with respect to a matter in relation to which he or she has a direct or indirect personal interest that is in conflict with the interests of the Company and the business associated with the Company ("Conflict of Interest").

In addition, the Board of Directors as a whole may, on an ad hoc basis, resolve that there is such a strong appearance of a Conflict of Interest of an individual Director in relation to a specific matter, that it is deemed in the best interest of a proper decision making process that such individual Director be excused from participation in the decision making process with respect to such matter even though such Director may not have an actual Conflict of Interest.

At least annually, each Director shall assess in good faith whether (i) he or she is independent under (A) best practice provision III.2.2. of the Dutch Corporate Governance Code, (B) the requirements of Rule 10A-3 under the Exchange Act, and (C) Section 303A of the NYSE Listed Company Manual; and (ii) he or she would have a Conflict of Interest in connection with any transactions between the Company and a significant shareholder or related party of the Company, including affiliates of a significant shareholder (such conflict, a "Related-Party Conflict"), it being understood that currently Exor B.V. ("Exor") would be considered a significant shareholder.

The Directors shall inform the Board of Directors through the Senior Non-executive Director or the Secretary of the Board of Directors as to all material information regarding any circumstances or relationships that may impact their characterization as "independent," or impact the assessment of their interests, including by responding promptly to the annual D&O questionnaires circulated by or on behalf of the Secretary that are designed to elicit relevant information regarding business and other relationships.

Based on each Director's assessment described above, the Board of Directors shall make a determination at least annually regarding such Director's independence and such Director's Related-Party Conflict. These annual determinations shall be conclusive, absent a change in circumstances from those disclosed to the Board of Directors, that necessitates a change in such determination.

Mr. Marchionne is a director, and Mr. Camilleri is chairman of the board of directors of Philip Morris International Inc. (“PMI”). PMI has been Scuderia Ferrari’s official sponsor for over forty years and continues to sponsor our Formula 1 activities. See “Overview of our Business- Formula 1 Activities” and Note 28 “Related Party Transactions” to our Consolidated Financial Statements. Mr. Marchionne is also Chief Executive Officer of Fiat Chrysler Automobiles N.V. and a director of Exor, our and FCA’s largest shareholder. FCA, Exor and a number of companies in the FCA and Exor groups are related parties to Ferrari, see “Risk Factors- We may have potential conflicts of interest with FCA and Exor and its related companies” and Note 28 to our Consolidated Financial Statements. Finally, Mr. Ferrari controls COXA S.p.A, from which Ferrari purchases components for Formula 1 racing cars, and HPE S.r.l., which provides consultancy services to Ferrari, see Note 28 to our Consolidated Financial Statements.

Loyalty Voting Structure

In connection with the Separation, Ferrari issued special voting shares with a nominal value of one Euro cent (€0.01) per share, to FCA, Piero Ferrari and FCA shareholders holding FCA special voting shares prior to the Separation including Exor, in addition to Ferrari common shares.

After the Separation Exor holds approximately 23.5 percent of our outstanding common shares and approximately 33.4 percent of the voting power in us, Piero Ferrari holds approximately 10 percent of our outstanding common shares and approximately 15.4 percent of the voting power in us and public shareholders hold approximately 51.2 percent of the voting power in us. For more information on the Separation, see "Overview - The Separation".

Subject to meeting certain conditions, our common shares can be registered in our loyalty register (the “Loyalty Register”) and all such common shares may qualify as qualifying common shares (“Qualifying Common Shares”). The holder of Qualifying Common Shares is entitled to receive without consideration one special voting share in respect of each such Qualifying Common Share. Pursuant to the Terms and Conditions, and for so long as the Ferrari common shares remain in the Loyalty Register, such Ferrari common shares shall not be sold, disposed of, transferred, except in very limited circumstances (*i.e.*, transfers to affiliates or to relatives through succession, donation or other transfers (defined in the Terms and Conditions as “Loyalty Transferee”), but a shareholder may create or permit to exist any pledge, lien, fixed or floating charge or other encumbrance over such Ferrari common shares, provided that the voting rights in respect of such Ferrari common shares and any corresponding special voting shares remain with such shareholder at all times. Ferrari’s shareholders who want to directly or indirectly sell, dispose of, trade or transfer such Ferrari common shares or otherwise grant any right or interest therein, or create or permit to exist any pledge, lien, fixed or floating charge or other encumbrance over such Ferrari common shares with a potential transfer of voting rights relating to such encumbrances will need to submit a de-registration request as referred to in the Terms and Conditions, in order to transfer the relevant Ferrari common shares to the regular trading system (the “Regular Trading System”) except that a Ferrari shareholder may transfer Ferrari common shares included in the Loyalty Register to a Loyalty Transferee (as defined in the Terms and Conditions) of such Ferrari shareholder without transferring such shares from the Loyalty Register to the Regular Trading System.

Ferrari’s shareholders who seek to qualify to receive special voting shares can also request to have their Ferrari common shares registered in the Loyalty Register. Upon registration in the Loyalty Register such shares will be eligible to be treated as Qualifying Common Shares, provided they meet the conditions.

Notwithstanding the fact that Article 13 of the Ferrari Articles of Association permits the Board of Directors of Ferrari to approve transfers of special voting shares, the special voting shares cannot be traded and are transferable only in very limited circumstances (*i.e.*, to a Loyalty Transferee described above, or to Ferrari for no consideration (*om niet*)).

Pursuant to Article 23 of the Ferrari Articles of Association, Ferrari shall maintain a special capital reserve to be credited against the share premium exclusively for the purpose of facilitating any issuance or cancellation of special voting shares. The special voting shares shall be issued and paid up against this special capital reserve.

The special voting shares have immaterial economic entitlements. Such economic entitlements are designed to comply with Dutch law but are immaterial for investors. The special voting shares carry the same voting rights as Ferrari common shares.

Section 10 of the Terms and Conditions include liquidated damages provisions intended to deter any attempt by holders to circumvent the terms of the special voting shares. Such liquidated damages provisions may be enforced by Ferrari by means of a legal action brought by Ferrari before competent courts of Amsterdam, the Netherlands. In particular, a violation of the provisions of the Terms and Conditions concerning the transfer of special voting shares, Electing Common Shares (common shares registered in the Loyalty Register for the purpose of becoming Qualifying Common Shares in accordance with the Ferrari

Articles of Association) and Qualifying Common Shares may lead to the imposition of liquidated damages. Because we expect the restrictions on transfers of the special voting shares to be effective in practice we do not expect the liquidated damages provisions to be used.

Pursuant to Section 12 of the Terms and Conditions, any amendment to the Terms and Conditions (other than merely technical, non-material amendments and unless such amendment is required to ensure compliance with applicable law or regulations or the listing rules of any securities exchange on which the Ferrari common shares are listed) may only be made with the approval of the general meeting of shareholders of Ferrari.

At any time, a holder of Qualifying Common Shares or Electing Common Shares may request the de-registration of such shares from the Loyalty Register to enable free trading thereof in the Regular Trading System. Upon the de-registration from the Loyalty Register, such shares will cease to be Electing Common Shares or Qualifying Common Shares as the case may be and will be freely tradable and voting rights attached to the corresponding special voting shares will be suspended with immediate effect and such special voting shares shall be transferred to Ferrari for no consideration (*om niet*).

A shareholder who is a holder of Qualifying Common Shares or Electing Common Shares must promptly notify the Agent and Ferrari upon the occurrence of a “change of control” as defined in the Ferrari Articles of Association, as described below. The change of control will trigger the de-registration of the relevant Electing Common Shares or Qualifying Common Shares or the relevant Ferrari common shares in the Loyalty Register. The voting rights attached to the special voting shares issued and allocated in respect of the relevant Qualified Common Shares will be suspended upon a direct or indirect change of control in respect of the relevant holder of such Qualifying Common Shares that are registered in the Loyalty Register.

For the purposes of this section a “change of control” shall mean, in respect of any Ferrari shareholder that is not an individual (*natuurlijk persoon*), any direct or indirect transfer in one or a series of related transactions as a result of which (i) a majority of the voting rights of such shareholder, (ii) the de facto ability to direct the casting of a majority of the votes exercisable at general meetings of shareholders of such shareholder and/or (iii) the ability to appoint or remove a majority of the directors, executive directors or board members or executive officers of such shareholder or to direct the casting of a majority or more of the voting rights at meetings of the board of directors, governing body or executive committee of such shareholder has been transferred to a new owner, provided that no change of control shall be deemed to have occurred if (a) the transfer of ownership and/or control is an intra-group transfer under the same parent company, (b) the transfer of ownership and /or control is the result of the succession or the liquidation of assets between spouses or the inheritance, *inter vivos* donation or other transfer to a spouse or a relative up to and including the fourth degree or (c) the fair market value of the Qualifying Common Shares held by such shareholder represents less than twenty percent (20 percent) of the total assets of the Transferred Group at the time of the transfer and the Qualifying Common Shares held by such shareholder, in the sole judgment of the Company, are not otherwise material to the Transferred Group or the change of control transaction. “Transferred Group” shall mean the relevant shareholder together with its affiliates, if any, over which control was transferred as part of the same change of control transaction within the meaning of the definition of change of control.

If Ferrari is dissolved and liquidated, whatever remains of Ferrari’s equity after all its debts have been discharged shall first be applied to distribute the aggregate balance of share premium reserves and other reserves (other than the special dividend reserve), to holders of Ferrari common shares in proportion to the aggregate nominal value of the Ferrari common shares held by each holder; secondly, from any balance remaining, an amount equal to the aggregate amount of the nominal value of the Ferrari common shares will be distributed to the holders of Ferrari common shares in proportion to the aggregate nominal value of Ferrari common shares held by each of them; thirdly, from any balance remaining, an amount equal to the aggregate amount of the special voting shares dividend reserve will be distributed to the holders of special voting shares in proportion to the aggregate nominal value of the special voting shares held by each of them; fourthly, from any balance remaining, the aggregate amount of the nominal value of the special voting shares will be distributed to the holders of special voting shares in proportion to the aggregate nominal value of the special voting shares held by each of them; and, lastly, any balance remaining will be distributed to the holders of Ferrari common shares in proportion to the aggregate nominal value of Ferrari common shares held by each of them.

Disclosures pursuant to Decree Article 10 EU-Directive on Takeovers

In accordance with the Dutch *Besluit artikel 10 overnamerichtlijn* (the Decree), the Company makes the following disclosures:

- a. For information on the capital structure of the Company, the composition of the issued share capital and the existence of the two classes of shares, please refer to Note 14 to the Company financial statements in this

Annual Report. For information on the rights attached to the common shares, please refer to the Articles of Association which can be found on the Company's website. To summarize, the rights attached to common shares comprise pre-emptive rights upon issue of common shares, the entitlement to attend the general meeting of Shareholders and to speak and vote at that meeting and the entitlement to distributions of such amount of the Company's profit as remains after allocation to reserves. For information on the rights attached to the special voting shares, please refer to the Articles of Association and the Terms and Conditions for the Special Voting Shares which can both be found on the Company's website and more in particular to the paragraph "Loyalty Voting Structure" of this Annual Report in the chapter "Corporate Governance". After the Separation, the issued share capital of the Company consisted of 193,923,499 common shares, representing approximately 77.4 percent of the aggregate issued share capital, and 56,497,618 special voting shares, representing approximately 22.6 percent of the aggregate issued share capital.

- b. The Company has imposed no limitations on the transfer of common shares. The Articles of Association provide in Article 13 for transfer restrictions for special voting shares.
- c. For information on participations in the Company's capital in respect of which pursuant to Sections 5:34, 5:35 and 5:43 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*) notification requirements apply, please refer to the chapter "Major Shareholders" of this Annual Report. There you will find a list of Shareholders who are known to the Company to have holdings of 3% or more at the stated date.
- d. No special control rights or other rights accrue to shares in the capital of the Company.
- e. A mechanism for verifying compliance with a scheme allowing employees to subscribe for or to acquire shares in the capital of the company or a subsidiary if the employees do not arrange for such verification directly is not applicable to the Company.
- f. No restrictions apply to voting rights attached to shares in the capital of the Company, nor are there any deadlines for exercising voting rights. The Articles of Association allow the Company to cooperate in the issuance of registered depository receipts for common shares, but only pursuant to a resolution to that effect of the Board of Directors. The Company is not aware of any depository receipts having been issued for shares in its capital.
- g. The Company is not aware of the existence of any agreements with Shareholders which may result in restrictions on the transfer of shares or limitation of voting rights except for the shareholders' agreement, dated December 23, 2015 between Exor (formerly Exor S.p.A.) and Piero Ferrari, which became effective upon the completion of the Separation on January 3, 2016 (the "Shareholders Agreement"). The Shareholders Agreement includes certain preemption rights of Exor in the event of a proposed transfer of common shares by Piero Ferrari, and certain rights of first offer of Piero Ferrari in the event of a proposed transfer of common shares by Exor, in each case subject to the exceptions set forth in the Shareholders Agreement. The Shareholders Agreement will remain in force until the fifth anniversary of the Separation provided that if neither of the parties to the Shareholders Agreement terminates the Shareholders Agreement within six months before the end of the initial term, then the Shareholders Agreement shall be renewed automatically for another five year term.
- h. The rules governing the appointment and dismissal of members of the Board of Directors are stated in the Articles of Association of the Company. All members of the Board of Directors are appointed by the general meeting of Shareholders. The term of office of all members of the Board of Directors is for a period of approximately one year after appointment, such period expiring on the day the first Annual General Meeting of Shareholders is held in the following calendar year. The general meeting of Shareholders has the power to suspend or dismiss any member of the Board of Directors at any time. The rules governing an amendment of the Articles of Association are stated in the Articles of Association and require a resolution of the general meeting of Shareholders which can only be passed pursuant to a prior proposal of the Board of Directors.
- i. The general powers of the Board of Directors are stated in the Articles of Association of the Company. For a period of five (5) years from January 2, 2016, the Board of Directors has been irrevocably authorized to issue shares up to the maximum aggregate amount of shares as provided for in the Company's authorized share capital as set out in Article 4.1 of the Articles of Association, as amended from time to time. The Board of Directors has also been designated for the same period as the authorized body to limit or exclude the rights of pre-emption of shareholders in connection with the authority of the Board of Directors to issue common shares and grant rights to subscribe for common shares as referred to above. In the event of an issuance of special voting shares, shareholders have no right of pre-emptions. The Company has the authority to acquire fully paid-up shares in its own share capital, provided that such acquisition is made for no consideration. Further rules governing the acquisition of shares by the Company in its own share capital are set out in article 8 of the Articles of Association.
- j. The Company is not a party to any significant agreements which will take effect, will be altered or will be terminated upon a change of control of the Company as a result of a public offer within the meaning of Section

5:70 of the Dutch Financial Supervision Acts (*Wet op het financieel toezicht*), provided that certain of the loan agreements entered into by the Company contain clauses that, as is customary for financing agreements of similar type, may require early repayment or termination in the event of a change of control of the Company.

- k. The Company did not enter into any agreement of the company with a director or employee providing for a payment / distribution upon termination of employment as a result of a public offer within the meaning of article 5:70 of the Dutch Financial Supervision Acts.

General Meeting of Shareholders

At least one general meeting of shareholders shall be held every year, which meeting shall be held within six months after the close of the financial year.

Furthermore, general meetings of shareholders shall be held in the case referred to in Section 2:108a of the Dutch Civil Code as often as the Board of Directors, the Chairman or the Chief Executive Officer deems it necessary to hold them or as otherwise required by Dutch law, without prejudice to what has been provided in the next paragraph hereof.

Shareholders solely or jointly representing at least ten percent (10%) of the issued share capital may request the Board of Directors, in writing, to call a general meeting of shareholders, stating the matters to be dealt with.

If the Board of Directors fails to call a meeting, then such shareholders may, on their application, be authorized by the interim provisions judge of the court (*voorzieningenrechter van de rechtbank*) to convene a general meeting of shareholders. The interim provisions judge (*voorzieningenrechter van de rechtbank*) shall reject the application if he is not satisfied that the applicants have previously requested the Board of Directors in writing, stating the exact subjects to be discussed, to convene a general meeting of shareholders.

General meetings of shareholders shall be held in Amsterdam or Haarlemmermeer (Schiphol Airport), the Netherlands, and shall be called by the Board of Directors, the Chairman or the Chief Executive Officer, in such manner as is required to comply with the law and the applicable stock exchange regulations, not later than on the forty-second day prior to the day of the meeting.

All convocations of general meetings of shareholders and all announcements, notifications and communications to shareholders shall be made by means of an announcement on the Company's corporate website and such announcement shall remain accessible until the relevant general meeting of shareholders. Any communication to be addressed to the general meeting of shareholders by virtue of Dutch law or the Articles of Association, may be either included in the notice, referred to in the preceding sentence or, to the extent provided for in such notice, on the Company's corporate website and/or in a document made available for inspection at the office of the Company and such other place(s) as the Board of Directors shall determine.

Convocations of general meetings of shareholders may be sent to Shareholders through the use of an electronic means of communication to the address provided by such Shareholders to the Company for this purpose.

The notice shall state the place, date and hour of the meeting and the agenda of the meeting as well as the other data required by law.

An item proposed in writing by such number of Shareholders who, by Dutch law, are entitled to make such proposal, shall be included in the notice or shall be announced in a manner similar to the announcement of the notice, provided that the Company has received the relevant request, including the reasons for putting the relevant item on the agenda, no later than the sixtieth day before the day of the meeting.

The agenda of the annual general meeting of shareholders shall contain, inter alia, the following items:

- a. adoption of the annual accounts;
- b. the implementation of the remuneration policy;
- c. the policy of the Company on additions to reserves and on dividends, if any;
- d. granting of discharge to the Directors in respect of the performance of their duties in the relevant financial year;

- e. the appointment of Directors;
- f. if applicable, the proposal to pay a dividend;
- g. if applicable, discussion of any substantial change in the corporate governance structure of the Company; and
- h. any matters decided upon by the person(s) convening the meeting and any matters placed on the agenda with due observance of applicable Dutch law.

The Board of Directors shall provide the general meeting of shareholders with all requested information, unless this would be contrary to an overriding interest of the Company. If the Board of Directors invokes an overriding interest, it must give reasons.

When convening a general meeting of shareholders, the Board of Directors shall determine that, for the purpose of Article 19 and Article 20 of the Articles of Association, persons with the right to vote or attend meetings shall be considered those persons who have these rights at the twenty-eighth day prior to the day of the meeting (the “Record Date”) and are registered as such in a register to be designated by the Board of Directors for such purpose, irrespective whether they will have these rights at the date of the meeting. In addition to the Record Date, the notice of the meeting shall further state the manner in which shareholders and other parties with meeting rights may have themselves registered and the manner in which those rights can be exercised.

The general meeting of shareholders shall be presided over by the Chairman or, in his absence, by the person chosen by the Board of Directors to act as chairman for such meeting.

One of the persons present designated for that purpose by the chairman of the meeting shall act as secretary and take minutes of the business transacted. The minutes shall be confirmed by the chairman of the meeting and the secretary and signed by them in witness thereof.

The minutes of the general meeting of shareholders shall be made available, on request, to the shareholders no later than three months after the end of the meeting, after which the shareholders shall have the opportunity to react to the minutes in the following three months. The minutes shall then be adopted in the manner as described in the preceding paragraph.

If an official notarial record is made of the business transacted at the meeting then minutes need not be drawn up and it shall suffice that the official notarial record be signed by the notary.

As a prerequisite to attending the meeting and, to the extent applicable, exercising voting rights, the shareholders entitled to attend the meeting shall be obliged to inform the Board of Directors in writing within the time frame mentioned in the convening notice. At the latest this notice must be received by the Board of Directors on the day mentioned in the convening notice.

Shareholders and those permitted by Dutch law to attend the general meetings of shareholders may cause themselves to be represented at any meeting by a proxy duly authorized in writing, provided they shall notify the Company in writing of their wish to be represented at such time and place as shall be stated in the notice of the meetings. For the avoidance of doubt, such attorney is also authorized in writing if the proxy is documented electronically. The Board of Directors may determine further rules concerning the deposit of the powers of attorney; these shall be mentioned in the notice of the meeting.

The Company is exempt from the proxy rules under the U.S. Securities Exchange Act of 1934, as amended.

The chairman of the meeting shall decide on the admittance to the meeting of persons other than those who are entitled to attend.

For each general meeting of shareholders, the Board of Directors may decide that shareholders shall be entitled to attend, address and exercise voting rights at such meeting through the use of electronic means of communication, provided that shareholders who participate in the meeting are capable of being identified through the electronic means of communication and have direct cognizance of the discussions at the meeting and the exercising of voting rights (if applicable). The Board of Directors may set requirements for the use of electronic means of communication and state these in the convening notice. Furthermore, the Board of Directors may for each general meeting of shareholders decide that votes cast by the use of electronic means of communication prior to the meeting and received by the Board of Directors shall be considered to be votes cast at the meeting.

Such votes may not be cast prior to the Record Date. Whether the provision of the foregoing sentence applies and the procedure for exercising the rights referred to in that sentence shall be stated in the notice.

Prior to being allowed admittance to a meeting, a shareholder and each person entitled to attend the meeting, or its attorney, shall sign an attendance list, while stating his name and, to the extent applicable, the number of votes to which he is entitled. Each shareholder and other person attending a meeting by the use of electronic means of communication and identified in accordance with the above shall be registered on the attendance list by the Board of Directors. In the event that it concerns an attorney of a shareholder or another person entitled to attend the meeting, the name(s) of the person(s) on whose behalf the attorney is acting, shall also be stated. The chairman of the meeting may decide that the attendance list must also be signed by other persons present at the meeting.

The chairman of the meeting may determine the time for which shareholders and others entitled to attend the general meeting of shareholders may speak if he considers this desirable with a view to the orderly conduct of the meeting as well as other procedures that the chairman considers desirable for the efficient and orderly conduct of the business of the meeting.

Every share (whether common or special voting) shall confer the right to cast one vote.

Shares in respect of which Dutch law determines that no votes may be cast shall be disregarded for the purposes of determining the proportion of shareholders voting, present or represented or the proportion of the share capital present or represented.

All resolutions shall be passed with an absolute majority of the votes validly cast unless otherwise specified herein. Blank votes shall not be counted as votes cast.

All votes shall be cast in writing or electronically. The chairman of the meeting may, however, determine that voting by raising hands or in another manner shall be permitted.

Voting by acclamation shall be permitted if none of the shareholders present or represented objects.

No voting rights shall be exercised in the general meeting of shareholders for shares owned by the Company or by a subsidiary of the Company. Pledgees and usufructuaries of shares owned by the Company and its subsidiaries shall however not be excluded from exercising their voting rights, if the right of pledge or usufruct was created before the shares were owned by the Company or a subsidiary. Neither the Company nor any of its subsidiaries may exercise voting rights for shares in respect of which it holds a right of pledge or usufruct.

Without prejudice to the Articles of Association, the Company shall determine for each resolution passed:

- a) the number of shares on which valid votes have been cast;
- b) the percentage that the number of shares as referred to under a. represents in the issued share capital;
- c) the aggregate number of votes validly cast; and
- d) the aggregate number of votes cast in favor of and against a resolution, as well as the number of abstentions.

Issuance of shares

The general meeting of shareholders or alternatively the Board of Directors, if it has been designated to do so by the general meeting of shareholders, shall have authority to resolve on any issuance of shares and rights to subscribe for shares. The general meeting of shareholders shall, for as long as any such designation of the Board of Directors for this purpose is in force, no longer have authority to decide on the issuance of shares and rights to subscribe for shares.

For a period of five years from January 2, 2016 the Board of Directors has been irrevocably authorized to issue shares and rights to subscribe for shares up to the maximum aggregate amount of shares as provided for in the company's authorized share capital as set out in Article 4.1 of the Articles of Association, as amended from time to time.

The general meeting of shareholders or the Board of Directors if so designated in accordance with the Articles of Association, shall decide on the price and the further terms and conditions of issuance, with due observance of what has been provided in relation thereto in Dutch law and the Articles of Association.

If the Board of Directors is designated to have authority to decide on the issuance of shares or rights to subscribe for shares, such designation shall specify the class of shares and the maximum number of shares or rights to subscribe for shares that can be issued under such designation. When making such designation the duration thereof, which shall not be for more than five years, shall be resolved upon at the same time. The designation may be extended from time to time for periods not exceeding five years. The designation may not be withdrawn unless otherwise provided in the resolution in which the designation is made.

Payment for shares shall be made in cash unless another form of consideration has been agreed. Payment in a currency other than euro may only be made with the consent of the Company.

The Board of Directors has also been designated as the authorized body to limit or exclude the rights of pre-emption of shareholders in connection with the authority of the Board of Directors to issue common shares and grant rights to subscribe for common shares as referred to above.

In the event of an issuance of common shares every holder of common shares shall have a right of pre-emption with regard to the common shares or rights to subscribe for common shares to be issued in proportion to the aggregate nominal value of his common shares, provided however that no such right of pre-emption shall exist in respect of shares or rights to subscribe for common shares to be issued to employees of the Company or of a group company pursuant to any option plan of the Company.

A shareholder shall have no right of pre-emption for shares that are issued against a non-cash contribution.

In the event of an issuance of special voting shares to qualifying shareholders, shareholders shall not have any right of pre-emption.

The general meeting of shareholders or the Board of Directors, as the case may be, shall decide when passing the resolution to issue shares or rights to subscribe for shares in which manner the shares shall be issued and, to the extent that rights of pre-emption apply, within what period those rights may be exercised.

Corporate offices

The Company is incorporated under the laws of the Netherlands. It has its corporate seat in Amsterdam, the Netherlands, and the place of effective management of the Company is Via Abetone Inferiore n. 4 I-41053 Maranello (MO) Italy.

The business address of the Board of Directors and the senior managers is Via Abetone Inferiore n. 4 I-41053 Maranello (MO) Italy.

The Company is registered at the Dutch trade register under number 64060977.

The Netherlands is the Company's home member state for the purposes of the EU Transparency Directive (Directive 2004/109/EC, as amended).

Internal Control System

The Company has in place an internal control system (the "System"), based on the model provided by the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission Report - Enterprise Risk Management model) and the principles of the Dutch Corporate Governance Code, which consists of a set of policies, procedures and organizational structures aimed at identifying, measuring, managing and monitoring the principal risks to which the Company is exposed. The System is integrated within the organizational and corporate governance framework adopted by the Company and contributes to the protection of corporate assets, as well as to ensuring the efficiency and effectiveness of business processes, reliability of financial information and compliance with laws, regulations, the Articles of Association and internal procedures.

The System, which has been developed on the basis of international best practices, consists of the following three levels of control:

- Level 1: operating areas, which identify and assess risk and establish specific actions for management of such risk;
- Level 2: departments responsible for risk control, which define methodologies and instruments for managing risk and monitoring such risk;
- Level 3: Internal Audit, which conducts independent evaluations of the System in its entirety.

Principal Characteristics of the Internal Control System and Internal Control over Financial Reporting

The Company has in place a system of risk management and internal control over financial reporting based on the model provided by the COSO Framework, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide reasonable assurance of the achievement of corporate objectives.

In relation to the financial reporting process, reliability, accuracy, completeness and timeliness of the information contribute to the achievement of such corporate objectives. Risk management is an integral part of the internal control system. A periodic evaluation of the system of internal control over financial reporting is designed to ensure the overall effectiveness of the components of the COSO Framework (control environment, risk assessment, control activities, information and communication, and monitoring) in achieving those objectives.

The Company has a system of administrative and accounting procedures in place that ensure a high degree of reliability in the system of internal control over financial reporting.

The approach adopted by the Company for the evaluation, monitoring and continuous updating of the system of internal control over financial reporting, is based on a ‘top-down, risk-based’ process consistent with the COSO Framework. This enables focus on areas of higher risk and/or materiality, where there is risk of significant errors, including those attributable to fraud, in the elements of the financial statements and related documents. The key components of the process are:

- identification and evaluation of the source and probability of material errors in elements of financial reporting;
- assessment of the adequacy of key controls in enabling ex-ante or ex-post identification of potential misstatements in elements of financial reporting; and
- verification of the operating effectiveness of controls based on the assessment of the risk of misstatement in financial reporting, with testing focused on areas of higher risk.

Identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a risk assessment process that uses a top-down approach to identify the organizational entities, processes and the related accounts, in addition to specific activities, which could potentially generate significant errors. Under the methodology adopted by the Company, risks and related controls are associated with the accounting and business processes upon which accounting information is based.

Significant risks identified through the assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.

In accordance with international best practices, the Group has two principal types of control in place:

- controls that operate at Group or subsidiary level, such as delegation of authorities and responsibilities, separation of duties, and assignment of access rights to IT systems; and
- controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes, controls for financial closing processes and cross-sector controls carried out by captive service providers. These controls can be preventive (i.e., designed to prevent errors or fraud that could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud that have already occurred). They may also be classified as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

An assessment of the design and operating effectiveness of key controls is carried out through tests performed by Internal Audit, both at group and subsidiary level, using sampling techniques recognized as best practices internationally.

The assessment of the controls may require the definition of compensating controls and plans for remediation and improvement. The results of monitoring are subject to periodic review by the manager responsible for the Company's financial reporting and communicated by him to senior management and to the Audit Committee (which in turn reports to the Board of Directors).

Code of Conduct

We have adopted a Code of Conduct which applies to all of our employees, including our principal executive, principal financial and principal accounting officers. Our Code of Conduct is posted on our website at http://corporate.ferrari.com/sites/ferrari15ipo/files/codice_condotta_ferrari_end_def.pdf. If the provisions of our Code of Conduct that apply to our principal executive officer, principal financial officer or principal accounting officer are amended, or if a waiver is granted, we will disclose such amendment or waiver.

The Code of Conduct represents a set of values recognized, adhered to and promoted by the Company which understands that conduct based on the principles of diligence, integrity and fairness is an important driver of social and economic development.

The Code of Conduct is a pillar of the governance system which regulates the decision-making processes and operating approach of the Company and its employees in the interests of stakeholders. The Code of Conduct amplifies aspects of conduct related to the economic, social and environmental dimensions, underscoring the importance of dialog with stakeholders. Explicit reference is made to the UN's Universal Declaration on Human Rights, the principal Conventions of the International Labor Organization (ILO), the OECD Guidelines for Multinational Enterprises and the U.S. Foreign Corrupt Practices Act (FCPA). The Code of Conduct was amended to include specific guidelines relating to: the Environment, Health and Safety, Business Ethics and Anti-corruption, Suppliers, Human Resource Management, Respect of Human Rights, Conflicts of Interest, Community Investment, Data Privacy, Use of IT and Communications Equipment, Antitrust and Export Controls

The Code of Conduct applies to the directors and all employees of the Company and its subsidiaries and other individuals or companies that act in the name and on behalf of the Company or its subsidiaries.

The Company promotes adoption of the Code of Conduct as a best practice standard of business conduct by partners, suppliers, consultants, agents, dealers and others with whom it has a long-term relationship. In fact, the Company's contracts worldwide include specific clauses relating to recognition and adherence to the principles underlying the Code of Conduct and related guidelines, as well as compliance with local regulations, particularly those related to corruption, money-laundering, terrorism and other crimes constituting liability for legal persons.

Insider Trading Policy

As of January 3, 2016 the Company's Board of Directors adopted an insider trading policy setting forth guidelines and recommendations to all Directors, officers and employees of the Group with respect to transactions in the Company's securities. This policy, which also applies to immediate family members and members of the households of persons covered by the policy, is designed to prevent insider trading or allegations of insider trading, and to protect the Company's for integrity and ethical conduct.

Compliance with Dutch Corporate Governance Code

The Company endorses the principles and best practice provisions of the Dutch Corporate Governance Code, except for the following best practice provisions which are explained below:

- *Best practice provision III.1.1 of the Dutch Corporate Governance Code: The division of duties within the supervisory board and the procedure of the supervisory board shall be laid down in terms of reference. The supervisory board's terms of reference shall include a paragraph dealing with its relations with the management board, the general meeting and the central works council or works council. The terms of reference shall be posted on the company's website.*

The Board Regulations do not contain any provisions dealing with the relations of the board of directors with the general meeting and the works council as referred to in best practice provision III.1.1 of the Dutch Corporate Governance Code. The

reason the Board Regulations do not contain a paragraph in respect of the latter is that the Company has no works council. As regards the relations with the general meeting, the Company feels this is sufficiently addressed in its Articles of Association.

Best practice provision III.2.1 of the Dutch Corporate Governance Code: All supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2.

Each of Mr Camilleri, Mr Ferrari, Mr. John Elkann and Mr. Lapo Elkann are deemed non-independent non-executive directors within the meaning of best practice provision III.2.2 of the Dutch Corporate Governance Code. The Company believes that each of Mr. Ferrari, the son of Ferrari's founder, Mr. John Elkann and Mr. Lapo Elkann bring valuable contributions to the Board in light of their knowledge of the automotive and luxury industries, as well as the Company's business, and therefore the Company believes it is appropriate for such Directors to participate in the Company's board in addition to Mr. Camilleri. For these reasons the Company does not apply this provision of the Dutch Corporate Governance Code.

Best practice provision III.3.6 of the Dutch Corporate Governance Code: The supervisory board shall draw up a retirement schedule in order to avoid, as far as possible, a situation in which many supervisory board members retire at the same time. The retirement schedule shall be made generally available and shall be posted on the company's website.

The Articles of Association provide for a term of office of member of the Board of Directors for a period of approximately one year after appointment, such period expiring on the day the first annual general meeting of shareholders is held in the following calendar year. Short terms of office for board members are customary for companies listed in the U.S. In light of this term of office, the Company does not have a retirement schedule in place.

- *Best practice provision III.5.1 of the Dutch Corporate Governance Code: The supervisory board shall draw up terms of reference for each committee. The terms of reference shall indicate the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. The terms of reference may provide that a maximum of one member of each committee may not be independent within the meaning of best practice provision III.2.2. The terms of reference and the composition of the committees shall be posted on the company's website.*

The Company's Governance and Sustainability Committee currently has two independent members and two non-independent members, deviating from paragraph III.5.1. of the Dutch Corporate Governance Code, although the committee charter allows for the Governance and Sustainability Committee to have no more than two non-independent members.

- *Best practice provision III.7.1 of the Dutch Corporate Governance Code: A supervisory board member may not be granted any shares and/or rights to shares by way of remuneration.*

The best practice provisions of the Dutch Corporate Governance Code primarily refer to companies with a two-tier board structure (consisting of a management board and a separate supervisory board), while the Company has implemented a one-tier board. The best practice provisions reflected in the Dutch Corporate Governance Code for supervisory board members apply by analogy to non-executive directors. Unlike supervisory board members of companies with a two-tier board to which provision III.7.1 of the Dutch Corporate Governance Code applies, non-executive directors of the Company also have certain management tasks. In view hereof, non-executive directors have the opportunity to elect whether (part of) their annual retainer fee will be made in Common Shares.

IN CONTROL STATEMENT

Internal Control System

The Board of Directors is responsible for designing, implementing and maintaining internal controls, including proper accounting records and other management information suitable for running the business.

The principal characteristics of the Internal Control System and Internal Control over Financial Reporting adopted by the Company are described in the specific paragraph mentioned above.

Based on the assessment performed and to the best of its knowledge and belief, the Board of Directors states that the internal risk management and control systems provide a reasonable assurance that the financial reporting does not contain any errors of material importance and have worked adequately in 2016.

March 3, 2017

Sergio Marchionne

Chairman and Chief Executive Officer

RESPONSIBILITIES IN RESPECT TO THE ANNUAL REPORT

The Board of Directors is responsible for preparing the Annual Report, inclusive of the Consolidated and Company Financial Statements and Board Report, in accordance with Dutch law and International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the European Union (IFRS).

In accordance with Section 5:25c, paragraph 2 of the Dutch Financial Supervision Act, the Board of Directors states that, to the best of its knowledge, the Consolidated and Company Financial Statements prepared in accordance with IFRS as adopted by the European Union provide a true and fair view of the assets, liabilities, financial position and profit or loss for the year of the Company and its subsidiaries and that the Board Report provides a true and a fair view of the performance of the business during the financial year and the position at balance sheet date of the Company and its subsidiaries, together with a description of the principal risks and uncertainties that the Company and the Group face.

March 3, 2017

Board of Directors

Sergio Marchionne

Amedeo Felisa

John Elkann

Piero Ferrari

Delphine Arnault

Louis C. Camilleri

Eddy Cue

Giuseppina Capaldo

Sergio Duca

Lapo Elkann

Adam Keswick

Maria Patrizia Grieco

Elena Zambon

Sustainability Disclosure

Sustainability

Ferrari is fully committed to promoting an environment and a culture of sustainability that will promote the long-term well-being of its people, its clients and its stakeholders. In particular, Ferrari focuses on the environmental and the social impacts of its production facilities through (i) energy efficiency and the promotion of alternative energy sources, (ii) the design of eco-friendly facilities, (iii) the development of vehicles with reduced emission levels, and (iv) the welfare of its people. Through years of designing and producing the world's most recognizable luxury performance sports cars, Ferrari knows that the best individual and team performances are achieved when people are in the right environment and with the right resources. Ferrari offers a variety of benefits to its employees and their families, which focus on creating a first-class working environment with the safety and welfare of its people firmly in mind.

Environmental Factors

Energy efficiency and promotion of alternative energy sources

Ferrari is committed to minimizing the impact of its activities on the environment, particularly in relation to energy consumption and production facilities. In 2016, Ferrari obtained the renewal of the certification of its environmental management system according to the new standard ISO 14001:2015.

Renewable energy is a top priority for Ferrari. In 2008, Ferrari installed its first solar panels and from 2009 (the second in 2011 and the third in 2015) it began producing electricity and hot and cold water using natural gas at the "trigeneration plant", which at the time was the biggest energy producing plant in Italy. The trigeneration plant produced in 2016 90% of the electricity needed for the Ferrari plant in Maranello, while the remaining 10% was generated by renewable sources.

New eco-friendly facilities

All new facilities are designed and built to the highest eco-friendly standards. In 2015, Ferrari inaugurated its new Formula 1 team headquarters. The building was designed to facilitate and encourage collaboration between departments in a functional and comfortable environment. The building is designed to maximize the availability of natural light and, similar to many of the other facilities, benefits from several internal and external green areas.

The new building has lower power consumption levels than a Class A-ranked building under Italian energy efficiency standards (standardized consumption over a winter cycle is 3.6 KWh/m³ per year compared to 8.0 KWh/m³ per year for eligibility for Class A). The building was also designed to comply with the new net zero energy building protocols (NetZeb), meaning that the total amount of energy used by the building is approximately equal to the amount of renewable energy it generates. In particular, the building is installed with low-temperature radiating panel climate control systems that also use hot water produced by the thermal solar panels. The photovoltaic system produces more than 500 KW at peak level and provides a significant portion of the electric power required by the lighting system and auxiliary climate control systems.

In 2016, both the office and production buildings were revamped. In order to reduce energy consumption we implemented several actions such as the replacement from traditional illumination systems to LED technology and the use of pumps with inverter technology in the industrial water distribution system. In 2016, Ferrari also undertook the projects of new buildings expansion: "Nuova Gestione Sportiva" and "New Design Department" that will be realized in 2017 and 2018. In both cases, the new buildings will be Class A-ranked in order to reduce energy consumption.

Vehicle emissions

In 2007, Ferrari set a target of achieving a 40% reduction in consumption and emissions for its cars by the end of 2012 through improvements in energy efficiency (increasing the energy produced for the same level of input and reducing the car's energy requirements).

Following the achievement of this target, Ferrari continued focusing on researching technologies that further reduced emissions and, in early 2013, introduced the LaFerrari, the first of its cars to use hybrid technology.

Through innovations in areas such as turbochargers, engine downsizing, transmission, electric steering and hybrid technologies, Ferrari continues to target further reductions in CO₂ emissions and has set a target to reduce by 2020 CO₂ emission by 15% (compared to 2014) on its entire product range.

The Welfare of its People

One of the key aspects in Ferrari's approach to sustainability is the "Formula Uomo" initiative, a program which places its people at the heart of the Company, recognizing that the quality of the cars is inextricably linked to the quality of life of those who work at Ferrari.

Working environment: wellbeing and safety

Ferrari is particularly focused on the wellbeing and safety of employees in the working environment. Initiatives include:

- Investments to increase green areas inside and outside of the Ferrari premises. In particular, the green areas in Maranello cover a surface of 165,000 square meters, with 25,000 flowerbeds and a variety of gardens and trees, both indoors and outdoors.
- Investments in health and safety, including on-site safety and continuous staff training programs.
- Programs designed to highlight "near misses", which are events that would have resulted in an accident without the effective intervention of employees.
- Defibrillators and other essential medical supplies and equipment placed throughout the Ferrari premises.

Employee benefits

Ferrari offers a wide range of benefits to its employees, including but not limited to:

- *Onsite Wellness "Formula Benessere"* - Aimed at providing preventative healthcare to employees and their families, including a free annual check-up focused on general health and fitness. Medical specialists are also available for consultation in areas such as cardiology, osteopathy and dermatology, among others. **In 2016, approximately 1,500 employees benefitted from this service.** Children of Ferrari's employees between the ages of 5 and 15 are also entitled to a free annual check-up. In 2016, approximately **600 children benefitted from this service.**
- *Summer Day Camp "Formula Estate Junior"* - Free day camp during the summer vacation for children aged 3 to 13, with various programs including: sports, outdoor activities, excursions and workshops. In 2016, approximately **600 children attended the summer day camp program.**
- *Scholarships & Education* - Promotes the importance of education, whereby Ferrari reimburses the cost of school textbooks, as well as textbooks for employees in continued education. Ferrari also awards scholarships to exceptional junior high, high school and university students. **In 2016, Ferrari reimbursed 500 employees for their children's textbooks and awarded 30 scholarships.**

The Satisfaction of Ferrari Customers

Clients are the backbone of Ferrari's business and Ferrari consistently strives to maximize their satisfaction by focusing on specific strategic events that promote the Ferrari experience and create sustainable, long-lasting relationships built on trust and quality. The Maranello Experience, which includes a Ferrari factory tour provided to Ferrari clients, is at the core of the engagement strategy and offers clients the opportunity of meeting our people, exploring our facilities and viewing our sustainability efforts in action.

Responsibility to Local Communities

Founded in Maranello in the 1940's by Enzo Ferrari, the IPSIA Ferrari professional technical institute offers students education in the areas of specialized mechanics and engineering. As part of the program, highly skilled and specialized Ferrari mechanics provide education and training, and students subsequently have the opportunity to take on internship positions within the Company. Ferrari financially supports the school to ensure that the students are offered a high-quality level of education with the latest available technologies and materials. The institute is considered one of the best examples in Italy of integration between education and the industrial world.

Additionally, Ferrari is a sponsor of the Higher Institute for Mechanical Engineering, Mechatronics, Mechanics and Packaging (ITS Maker). With several sites, including Bologna and Modena, Italy, ITS Maker offers an array of specialized programs, such as higher technician in vehicles specializing in endothermic, hybrid and electric motors. Through close

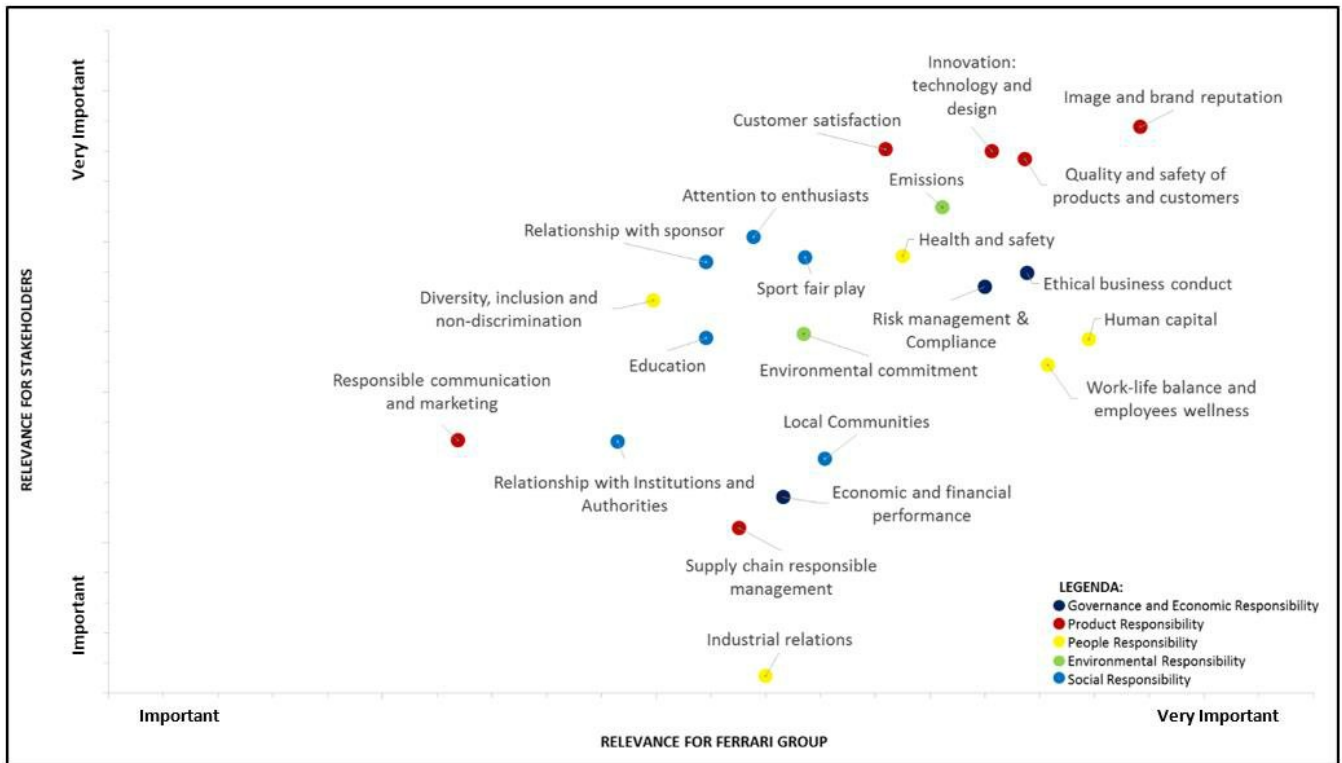
collaboration with the Enzo Ferrari Engineering Department of the University of Modena and Reggio Emilia, highly trained technicians illustrate to students the newest technologies developed by Ferrari.

Materiality Matrix of Ferrari Group

In 2016, the Group started a path that will result in the publication of its first Sustainability Report related to the 2017 fiscal year, in line with the “GRI Sustainability Reporting Standards” issued in 2016 by the Global Reporting Initiative (GRI). In this context, the Group has conducted an analysis of the most relevant sustainability topics (materiality analysis), in particular, the analysis aimed at identifying and assessing the importance of the sustainability topics that can affect the Group’s ability to create value and that are of importance to the Group’s stakeholders.

In the first phase of the analysis the topics potentially relevant to the Group and its stakeholders were identified. This was done by taking into consideration sector benchmarking analysis, UN Sustainable Development Goals (SDGs), online press reviews, and international studies and publications, such as the “Sustainability Topics for Sectors: What do stakeholders want to know?” (GRI, 2013).

During the second phase, the top management of the Group, while taking into account their knowledge of stakeholders’ perception, assessed through a questionnaire the importance of the identified topics for the Group and for its stakeholders. The quantitative analysis has been complemented by a qualitative analysis that resulted in the materiality matrix below, which has been shared with the Executive Officers of the Group and approved by the Governance and Sustainability Committee.



The materiality matrix represents the assessed aspects that are most relevant for the Group and its stakeholders and that represent a strategic priority for Ferrari, for which the Group will define actions, plans and targets.

In particular, the most relevant topics are related to product responsibility and customer relation: image and brand reputation, quality and safety of product and customers, customer satisfaction, and innovation. The analysis also highlighted the importance of topics related to people responsibility, such as the development of human capital, work-life balance and employees’ wellness, health and safety, diversity and inclusion, and industrial relations. Special attention was also paid to topics related to compliance, risk management, ethical business conduct, and economic and financial performance. The commitment of the Group towards the environment is also important, with a particular focus on emissions. Social responsibility completes the list of topics identified as the most relevant, with the Group’s attention focused on local communities, education (intended as partnership

with universities and talent development), relationships with sponsors, institutions and authorities and the attention to enthusiasts, as well as the commitment of Ferrari in being a positive example in motorsports.

This results in a sustainability approach of the Group characterized by:

1. A high attention and care for products and relationships with clients
 - 1.1 Image and Brand reputation
 - 1.2 Quality and safety of products and customers
 - 1.3 Innovation: Technology and Design
2. Feasible thanks to the effort of the people working in Ferrari
 - 2.1 Human Capital
 - 2.2 Work-life balance and employees' wellness
3. With a specific attention to compliance and a strong business ethic
 - 3.1 Emissions
 - 3.2 Ethical business conduct and Sports and fair play
 - 3.3 Risk management and compliance
4. Keeping alive the Ferrari essence
 - 4.1 Attention to enthusiasts
 - 4.2 Relationship with sponsors

Sustainability for the Future

Ferrari recognizes that its past and future success are directly related to the attention and care for its products as well as the relationship with clients feasible thanks to the wellbeing of its people and the promotion of environmentally friendly operations. Ferrari confirms its commitment to pioneering innovative and sustainable solutions for the future.

Risk, Risk Management and Control Systems

Our risk management approach is an important business driver and it is integral to the achievement of the Group's long-term business plan. We take an integrated approach to risk management, where risk and opportunity assessment are at the core of the leadership team agenda. The Board of Directors is responsible for considering the ability to control strategic, operational, compliance, financial and reporting risks crucial to achieving its identified business targets, and for the continuity of the Group. For this reason, Ferrari has developed varying appetites to achieve different strategic objectives, focusing attention at all relevant risk levels, from risk management to internal control.

Ferrari has adopted the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission Report - Enterprise Risk Management Model) as the foundation of its risk management framework. The Group Executive Council ("GEC"), which is supported by senior management, is responsible for identifying, prioritizing and mitigating risks and for the establishment and maintenance of a risk management system across our business functions. As the decision making body led by the CEO and composed of the heads of the operating segments and certain central functions, the GEC reviews the risk management framework and the Company's key global risks on a regular basis. For those risks deemed to be significant, comprehensive mitigating action plans are developed and reviewed on a regular basis to ensure the action plans are relevant and sufficient. At least annually, our risk management framework and risks are discussed with the Group's Audit Committee.

Risk Appetite

The risk appetite of Ferrari, (i.e. the level of risk that Ferrari is willing to accept to achieve its objectives), is in the process of being defined by the Board of Directors based on the parameters identified below and will be applied to our strategy, Code of Conduct, company values and policies. Ferrari does not rank by importance the individual risks identified in this section because it believes such ranking would be an arbitrary exercise as all risks mentioned have relevance for the Group and the business. The type of risks identified are as follows:

Risk category	Risk description	Risk appetite
Strategic risks (S)	Risks which affect or are created by Ferrari's business strategy and could affect Ferrari's long-term positioning and performance.	Low - moderate
Operational risks (O)	Risk which affect Ferrari's ability to execute its business plan.	Low - moderate
Compliance risks (C)	Risks of non-compliance with laws, regulations, local standards, code of conduct, internal policies and procedures.	Zero tolerance
Financial risks (F)	Risks include areas such as valuation, currency, liquidity and impairment risks.	Low
Financial reporting risks (FR)	Risks primarily relate to internal controls.	Zero tolerance

Key Risks and Risk Trends

Ferrari assesses risks according to their potential impact and the Company's vulnerability (including the related mitigating actions). The risk impact could result in a material direct or indirect adverse effect on Ferrari's business, operations, volumes, financial condition and performance, reputation and/or other interests. Below we identify and discuss our key Company-specific risks. The risks listed and the response plans are not exhaustive and may be adjusted from time to time. Ferrari expects that the controls which have been implemented will mitigate the risks up to the level of the risk appetite.

Brand Image (S)

The preservation and enhancement of the value of the Ferrari brand is crucial in driving demand for our cars and our revenues. The perception and recognition of the Ferrari brand are of strategic importance and depend on many factors such as the design, performance, quality and image of our cars, the appeal of our dealerships and stores, the success of our client activities, as well as our general profile, including our brand's image of exclusivity.

The prestige, identity and appeal of the Ferrari brand also depend on the continued success of the Scuderia Ferrari racing team in the Formula 1 World Championship.

Key aspects	Response plans:
- Preserving brand value - Success of the Formula 1 team	- Selective licensees of the Ferrari brand - Monitor and maximize residual values of Ferrari cars - Selective franchising partners - Dealer score card - Ferrari Academy - Ferrari theme parks - Road and track events - Highly skilled drivers and engineers - Focus on quality and personalization

Unfavorable global economic conditions (S)

Deteriorating general economic conditions may affect disposable incomes and reduce consumer wealth, which in turn may impact client demand, particularly for luxury goods, which may negatively impact our profitability and put downward pressure on our prices and volumes. Furthermore, during recessionary periods, social acceptability of luxury purchases may decrease and higher taxes may be more likely to be imposed on certain luxury goods including our cars.

In general, although our sales have historically been comparatively resilient in periods of economic turmoil, sales of luxury goods tend to decline during recessionary periods when the level of disposable income tends to be lower or when consumer confidence is low.

Key aspects	Response plans:
- Dependency on mature economies, particularly in EMEA and the United States - Global economic developments	- Expanding in emerging markets, diversifying and monitoring economic trends; developing growth plans in line with growth of High Net Worth Individuals and Ultra High Net Worth Individuals - Closely monitoring all market developments and continuously reviewing the countries in which we do business and their geo-political events - Monitoring budget and timing of capital expenditures - Monitoring backlog orders

COMPETITION (S)

We face competition in all product categories and markets in which we operate. We compete with other international luxury performance car manufacturers which own and operate well-known brands of high-quality cars, some of them are part of larger automotive groups and may have greater financial resources and bargaining power with suppliers more than us, particularly in light of our policy to maintain low volumes in order to preserve and enhance the exclusivity of our cars. We believe that we compete primarily thanks to our brand image, the performance and design of our cars and our reputation for quality.

Several global luxury automotive manufacturers have increased competitive pressure for luxury cars particularly in EMEA and the United States. Considering that these are mature markets, we anticipate that existing market participants will try to aggressively protect or increase their market share. Increased competition may result in pricing pressure, reduction of marginality and our inability to meet our shipment targets, which could have a material adverse effect on our results of operations and financial condition.

Key aspects	Response plans:
- Margin pressure - Shipments	- Financing of pre-owned to keep residual values high - Focus on client relationships, including Maranello Experience, selected participation for new model launches and Ferrari clubs - Close contact with dealers and clients programs - Personalization services (Atelier and Tailor Made) - Road and track events - Limited Edition Supercars and Fuoriserie

Dependence on manufacturing facilities in Maranello and Modena and relationship with single source suppliers (O)

All cars sold and assembled by us and all engines we use for our cars or we sell to Maserati are manufactured at our production facility in Maranello, Italy, where we also have our corporate headquarters and Formula 1 activities. We manufacture all our car chassis in a nearby facility in Modena, Italy.

In the event that we were unable to continue production at either of these two facilities, we would need to seek alternative manufacturing arrangements which would take time and reduce our ability to produce sufficient cars to meet demand.

Our Maranello or Modena plants could become unavailable either permanently or temporarily for a number of reasons, including contamination, power shortage or labor unrest. In addition, Maranello and Modena are located Emilia-Romagna region, which has the potential for seismic activity. If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, pandemics or other events occur, our headquarters, Formula 1 and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our cars.

Despite our business depends on a significant number of suppliers, which provide raw materials, parts and systems we require to manufacture cars and parts to run our business. We source materials from a limited number of suppliers. In addition, similar to other small volume car manufacturers, most of the key components we use in our cars are purchased from single source suppliers.

Key aspects	Response plans:
- Dependence on two manufacturing facilities located in close proximity next to each other - Single source suppliers for components - Dependence on limited number of suppliers for raw materials	- Design of business continuity plan - Disaster recovery plan for IT systems - Investments in the last 15 years to reduce the effect of possible damage from earthquakes - Insurance coverage - High quality reputable suppliers assessed through the “Supplier Risk Committee” - Contingency plans to replace suppliers that no longer meet our standards - Procurement guidelines and procedures - Scouting and benchmarking activities

Attraction, development and retention of talents (O)

Our success depends on the ability of our senior executives and other members of management to effectively manage our business as a whole and individual areas of the business. In particular, our management team benefits from the leadership of our CEO and our Chairman.

The prestige, identity, and appeal of the Ferrari brand depend on the continued success of the Scuderia Ferrari racing team in the Formula 1 World Championship, which depends on our ability to attract and retain top drivers, racing management and engineering talent.

If we are unable to attract, retain and incentivize senior executives, drivers, team managers and key employees to succeed in international competitions or devote the capital necessary to fund successful racing activities, new models and innovative technology, this may adversely affect potential clients’ enthusiasm for the Ferrari brand and their perception of our cars, which could have an adverse effect on our business, results of operations and financial condition.

Key aspects	Response plans:
- Requirement for skilled engineers - Requirement to attract and retain the best drivers - Management potential - Labor unions	- Preparing current successful employees for future key positions - Improving talent development program for key resources - Succession plan - Retention plan - Training - Improving employee engagement - Long term incentive plan

Non-compliance with laws, regulations, local standards (including tax) and codes (C)

We are subject to comprehensive and constantly evolving laws, regulations and policies throughout the world. We expect the legal and regulatory requirements affecting our business and our costs of compliance to keep increasing significantly in scope and complexity in the future. In Europe and the United States, for example, significant governmental regulation is driven by environmental, fuel economy, vehicle safety and noise emission concerns and regulatory enforcement has become

more active. Evolving regulatory requirements could significantly affect our product development plans and may limit the number and types of cars we sell and where we sell them, which may affect our revenue.

Our compliance controls, policies, and procedures may not in every instance protect us from acts committed by our employees, agents, contractors or collaborators that would violate the laws or regulations of the jurisdictions in which we operate, including employment, foreign corrupt practices, environmental, competition, and other laws and regulations. In particular, our business activities may be subject to anticorruption laws, regulations or rules of other countries in which we operate. If we fail to comply with any of these regulations, it could adversely impact our operating results, financial condition and reputation.

Key aspects	Response plans:
- Requirement to be compliant with changes in Formula 1 regulations and ability to adapt on a timely basis - HSE (Health, Safety and Environment) - Tax - Human Resources - Legal - Anti-Bribery & Corruption - Code of Conduct - Export - Import	- Continuous monitoring of changes in the Formula 1 regulations and identification of early remediation plans - Participation in Formula 1 Strategic Group - Increasing knowledge and awareness of laws, regulations, standards and codes - Monitoring, reviewing, reporting and adapting to relevant changes in rules and regulations - Strengthening IT infrastructure for standard operational procedures and guidance - Implement and update global HSE system - Risk-based reviews of operations by HSE professionals - Increasing internal compliance awareness and effective communication between central compliance team and managers working in the subsidiaries - Communicating and implementing business conduct standards internally - Maintaining a global whistle blower procedure - Developing key procedures and policies for all relevant financial and business areas

Exchange rate fluctuations, interest rate changes, credit risk and other market risks (F)

Ferrari operates in numerous markets worldwide and is exposed to market risks stemming from fluctuations in currency and interest rates. The exposure to currency risk is mainly linked to our cash flows from sales which are denominated in currencies different from those connected to purchases or production activities. We incur a large portion of our capital and operating expenses in Euros while we receive the majority of our revenues in currencies other than Euro. In addition, foreign exchange movements might also negatively affect the relative purchasing power of our clients which could also have an adverse effect on our results of operations.

The main foreign currency exchange rate to which Ferrari is exposed is the Euro/U.S. Dollar for sales in the United States and Mexico and other markets where the U.S. Dollar is the reference currency. In 2016, the value of commercial activity exposed to changes in the Euro/U.S. Dollar exchange rate accounted for about 60 percent of the total currency risk from commercial activity. It is Ferrari's policy to use derivative financial instruments to hedge a certain percentage of the exposure, on average between 50 percent and 90 percent, over a 12-month rolling period.

Several subsidiaries are located in countries that are outside the Eurozone exposing Ferrari to conversion exchange risk, in particular the United States, the United Kingdom, Switzerland, China, Hong Kong, Japan, Australia and Singapore. The Group monitors its principal exposure to conversion exchange risk, although there was no specific hedging in this respect at the reporting date.

Ferrari always had exceptionally high solvency rates. The company did not use any long-term credit lines and boasted favorable liquidity positions and bank facilities that accommodate the day-to-day management of the working capital. As part of the Restructuring, Ferrari incurred additional long-term debt to finance the acquisition of Ferrari SpA which bear floating rates of interest. Considering the current economic environment, Ferrari has not entered into any interest rate derivatives in connection with such new long-term debt, however, the exposure is continually monitored.

Ferrari's most important financial assets are its financial services portfolios secured on the titles of cars or with other guarantees, spread over more than 5,200 clients mainly in the US, United Kingdom and Germany. Impairment risk mainly relates to the financial services portfolio which is evaluated on an individual basis for material credit positions. The amount of the write-down is based on an estimate of the recoverable cash flows, their timing, recovery costs and the fair value of any guarantees received.

Further information is included in Note 30 to the Consolidated Financial Statements.

Key aspects	Response plans:
- Exposure to foreign exchange movements from non-Euro related sales - Exposure to interest rate movements on financial assets and liabilities - Credit risk of default or insolvency of a dealer or customer	- Foreign exchange hedging instruments in line with the Company's risk management policy - Monitoring interest rate movements for hedging purposes - Credit approval policies applied to dealers and retail clients - Personal guarantees and security of the vehicle

Financial Reporting (FR)

Starting from October 2015 Ferrari N.V. is listed at the New York Stock Exchange (NYSE), while from January 2016 Ferrari N.V. is listed also at the Italian Stock Exchange (Mercato Telematico Azionario - MTA).

Listing in regulated markets involves being compliant with the related local and specific regulations. In particular, publicly traded companies filing financial statements with the US Securities and Exchange Commission are required to comply with the Sarbanes Oxley Act requirements, in particular sections 302, 404 and 906 that involve a periodical management assessment of internal controls and CEO and CFO Certifications of Periodic Financial Reports and SEC Filings (in addition, our independent registered public accounting firm is also required to report on the effectiveness of the internal control over financial reporting).

Under the COSO Internal Control-Integrated Framework, according to which the internal control system is defined as a set of rules, procedures and tools designed to provide reasonable assurance of the achievement of corporate objectives, Ferrari has developed an Internal Control System over the Financial Reporting in order to assure completeness, accuracy and reliability of the group financial reporting.

Within the above mentioned context, identification and evaluation of the risk of misstatements which could have material effects on financial reporting is carried out through a risk assessment process that uses a top-down approach to identify the organizational entities, processes and the related accounts, in addition to specific activities, which could potentially generate significant errors. Under the methodology adopted by the Company, risks and related controls are associated with the accounting and business processes upon which accounting information is based.

Significant risks identified through the assessment process require definition and evaluation of key controls that address those risks, thereby mitigating the possibility that financial reporting will contain any material misstatements.

In accordance with international best practices, the Group has two principal types of control in place:

- controls that operate at Group or subsidiary level, such as delegation of authorities and responsibilities, separation of duties, and assignment of access rights to IT systems; and
- controls that operate at process level, such as authorizations, reconciliations, verification of consistencies, etc. This category includes controls for operating processes, controls for financial closing processes and controls carried out by specific service providers. These controls can be preventive (i.e., designed to prevent errors or fraud that could result in misstatements in financial reporting) or detective (i.e., designed to reveal errors or fraud that have already occurred). They may also be classified as manual or automatic, such as application-based controls relating to the technical characteristics and configuration of IT systems supporting business activities.

An assessment of the design and operating effectiveness of key controls is carried out through tests performed periodically during the year, both at Group and subsidiary level, using sampling techniques recognized as best practices internationally.

The assessment of the controls may require the definition of compensating controls and plans for remediation and improvement. The results of monitoring are subject to periodic review by the manager responsible for the Company's financial reporting and communicated by him to senior management and to the Audit Committee.

During 2016, in addition to the current activities of specific committees (e.g. financial reporting committee, disclosure committee, internal control committee) already set up in the past, many others have been carried out in order to improve our group internal control system over the financial reporting:

- introduction of new/updated policies and procedures;
- implementation of new IT systems, mainly with reference to treasury, accounting and financial reporting;
- development and completion of a SOX 404 compliance program, including setting and testing of operating controls; and
- organization of training sessions on compliance matters.

Remuneration of Directors

Introduction

This description below summarizes the remuneration policy applicable to the executive and non-executive directors of the Company and the remuneration paid to these individuals for the year ended on December 31, 2016. The form and amount of compensation received by the directors of Ferrari for the year ended on December 31, 2016 was determined in accordance with the remuneration policy. The Company expects that further elements of the remuneration policy will be implemented in future periods.

Remuneration Policy for Executive Directors

The Board of Directors determines the compensation for our executive directors at the recommendation of the Compensation Committee and with reference to the remuneration policy. The remuneration policy is approved by our shareholders and is published on our corporate website www.ferrari.com.

The objective of the remuneration policy is to provide a compensation structure that allows us to attract and retain the most highly qualified executive talent and by motivating such executives to achieve business and financial goals that create value for shareholders in a manner consistent with our core business and leadership values.

The policy is aligned with Dutch law and the Dutch Corporate Governance Code.

Features of the remuneration for executive directors

The remuneration policy aims to provide total compensation that:

- attracts, retains and motivates qualified executives;
- is competitive as compared to the compensation paid by comparable companies;
- reinforces our performance driven culture and meritocracy; and
- is aligned to shareholders interests.

The compensation structure for executive directors includes a fixed component and a variable component based on short and long-term performance. We believe that this compensation structure promotes the interests of Ferrari in the short and the long-term and is designed to encourage the executive directors to act in the best interests of Ferrari. In determining the level and structure of the compensation of the executive directors, the non-executive directors will take into account, among other things, Ferrari's financial and operational results and other business objectives. We establish target compensation levels using a market-based approach and we periodically benchmark our executive compensation program against peer companies and monitor compensation levels and trends in the market.

Remuneration elements

On the basis of the remuneration policy objectives, the compensation of executive directors consists, *inter alia*, of the following elements:

Fixed component

The primary objective of the base salary (the fixed part of the annual cash compensation) for executive directors is to attract and retain highly qualified senior executives. Our policy is to periodically benchmark comparable salaries paid to executives with similar experience by comparable companies.

Variable components

Executive directors are also eligible to receive variable compensation subject to the achievement of pre-established financial and other identified performance targets. The short and long term components of executive directors' variable remuneration are linked to predetermined, assessable targets.

Short-term incentives

The primary objective of performance based short-term variable cash based incentives is to incentivize the executive directors to focus on the business priorities for the current or next year. The executive directors' variable remuneration is linked to the achievement of short-term (i.e. annual) financial and other identified objectives proposed by the Compensation Committee and approved by the non-executive directors each year.

To determine the executive directors' annual performance bonus, the Compensation Committee and the non-executive directors:

- approve the executive directors' targets and maximum allowable bonuses;
- select the appropriate metrics and their weighting;
- set the stretch objectives;
- consider any unusual items in a performance year to determine the appropriate measurement of achievement; and
- approve the final bonus determination.

In addition, upon proposal of the Compensation Committee, the non-executive directors have authority to grant periodic bonuses for specific transactions that are deemed exceptional in terms of strategic importance and effect on Ferrari's results. The form of any such bonus (cash, common shares of Ferrari or options to purchase common shares) is determined by the non-executive directors from time to time.

Long term-incentives

On March 1, 2017, the Board of Directors of Ferrari, upon the recommendation of its Compensation Committee, approved an equity incentive plan. Our equity incentive plan provides for grants to reward our Chief Executive Officer, members of the Group Executive Council ("GEC") and key leaders for achieving significant returns to our shareholders over the long-term. We believe that the equity incentive plan increases the alignment between the Company's performance and shareholder interests, by linking the Chief Executive Officer's compensation opportunity to increasing shareholder value.

The awards granted to our Chief Executive Officer under the equity incentive plan are based on shareholders return performance relative to the Group's peers, as defined below, over the Company's five-year strategic horizon.

The equity incentive plan grant for our Chief Executive Officer was proposed by the Compensation Committee, approved by the Non-Executive Directors of the Company and will be subject to approval at the shareholders meeting scheduled for April 2017. The Compensation Committee believes that focusing on the long-term component of compensation is appropriate for the Chief Executive Officer position because it emphasizes the Company's long-term strategy and provides a significant retention element.

The Company determined to award to the Chief Executive Officer 450 thousand performance share units ("PSUs"), subject to approval at the shareholders' meeting scheduled to be held in April 2017, under the equity incentive plan, which represent the right to receive an equal number of common shares of the Company. The Chief Executive Officer's equity incentive plan grant covers a five-year performance period from 2016 to 2020, consistent with the Company's strategic horizon.

The Chief Executive Officer's awards are conditional on Company performance as described below. The PSUs vest in equal tranches in February 2019, 2020 and 2021, subject to the achievement of a market performance condition related to Total Shareholder Return ("TSR"). The interim partial vesting periods are independent of one another and any under-achievement in one period can be offset by over-achievement in subsequent periods. With respect to the Chief Executive Officer, upon vesting, the payout ranges from 50 percent of the target amount of PSUs if the Company's TSR is ranked fifth among the industry specific peer group of eight, including the Company (the "Peer Group"), up to a maximum of 150 percent of the target amount of PSUs if the Company's TSR is ranked first among the Peer Group (120 percent if second, 100 percent if third and 75 percent if fourth).

There is no partial vesting of the PSUs of the Chief Executive Officer if the Company's TSR is ranked lower than fifth among the Peer Group.

Listed below is the relative TSR Peer Group.

Hermes	Burberry	Brunello Cucinelli	Ferragamo
LVMH	Moncler	Richemont	

The Company's target setting process for the equity incentive plan is built on the foundation of our rigorous business planning process which is determined by our long term strategic pillars.

The Company also determined to award to members of the GEC and key leaders a total of approximately 118 thousand Retention Restricted Share Units ("RSUs") and 237 thousand PSUs. For the avoidance of doubt, the Chief Executive Officer has not received any RSUs. The RSUs granted to GEC members and key leaders, each of which represents the right to receive one common share of the Company, will vest in three equal tranches in February 2019, 2020 and 2021, subject to continued employment with the Company at the time of vesting. The PSUs granted to GEC members and key leaders vest in equal tranches at the same vesting dates as the Chief Executive Officer's PSUs, subject to the achievement of TSR performance conditions. The target amount of PSUs of the GEC and key leaders will vest if the Company's TSR is ranked third among the Peer Group, 120 percent of the target amount of PSUs will vest if the Company's TSR is ranked second, and 150 percent of the target amount of PSUs will vest if the Company's TSR is ranked first among the Peer Group. There is no partial vesting of the PSUs of the GEC and key leaders if the Company's TSR is ranked lower than third among the Peer Group.

The Company is in the process of determining the fair value of the awards under the equity incentive plan.

Other benefits

Executive directors may also be entitled to customary fringe benefits such as personal use of aircraft, company car and driver, personal/home security, medical insurance, accident insurance, tax preparation and financial counseling. The Compensation Committee may grant other benefits to the executive directors in particular circumstances.

Remuneration Policy for Non-Executive Directors

Remuneration of non-executive directors is approved by the shareholders and periodically reviewed by the Compensation Committee.

The current annual remuneration for the non-executive directors is:

- \$200,000 for each non-executive director.
- An additional \$10,000 for each member of the Audit Committee and \$20,000 for the Audit Committee Chairman.
- An additional \$5,000 for each member of the Compensation Committee and the Governance and Sustainability Committee and \$15,000 for the Compensation Committee Chairman and the Governance and Sustainability Committee Chairman.
- An additional \$25,000 for the lead non-executive director.

Non-executive directors elect whether their annual cash retainer fee will be converted, on the date payment is made, (i) half in Ferrari common shares or (ii) 100% in Ferrari common shares, provided that Ferrari will at all times have the option, in its discretion, to settle any retainer fee entirely in cash; whereas, the committee membership and committee chair fee payments will be made all in cash (providing a Board fee structure common to other large multinational companies to help attract a multinational Board membership). Remuneration of non-executive directors is fixed and not dependent on the Ferrari's financial results. Non-executive directors are not eligible for variable compensation and do not participate in any incentive plans.

Implementation of Remuneration Policy in 2017

The Company is proposing amendments to the remuneration policy for its non-executive directors at the upcoming Shareholders' Meeting. If, and to the extent, any changes to 2017 remuneration are made, those changes will be in line with the approved Remuneration Policy. In addition, the Board of Directors will determine stock ownership guidelines for directors and employees.

Directors' Compensation

The following table summarizes the remuneration received by the members of the Board of Directors for the year ended December 31, 2016 from Ferrari and its subsidiaries.

Name	Office held	In office from/to	Fixed compensation			Variable compensation		Total
In Euro			Base salary ⁽³⁾	Pension premium	Other	Cash	Other ⁽⁴⁾	
Sergio Marchionne ⁽¹⁾	Chairman, Chief Executive Officer ⁽¹⁾ and Executive Director	01/01/16-05/02/16	—	—	—	—	—	—
Amedeo Felisa ⁽²⁾	Chief Executive Officer ⁽²⁾ and Executive Director	01/01/16-05/02/16	980,856	269,459	5,500,000	—	—	6,750,315
John Elkann	Vice Chairman and Non-Executive Director	04/15/16-12/31/16	142,864	—	—	—	—	142,864
Piero Ferrari	Vice Chairman and Non-Executive Director	01/01/16-12/31/16	184,686	8,924	—	—	—	193,610
Delphine Arnault	Non-Executive Director	04/15/16-12/31/16	130,637	—	—	—	—	130,637
Louis C. Camilleri	Senior Non-Executive Director	01/01/16-12/31/16	214,987	—	—	—	—	214,987
Eddy Cue	Non-Executive Director	01/01/16-12/31/16	186,170	—	—	—	—	186,170
Giuseppina Capaldo	Non-Executive Director	01/01/16-12/31/16	195,162	—	—	—	—	195,162
Sergio Duca	Non-Executive Director	01/01/16-12/31/16	204,333	8,173	—	—	—	212,506
Lapo Elkann	Non-Executive Director	04/15/16-12/31/16	130,637	3,028	—	—	—	133,665
Adam Keswick	Non-Executive Director	04/15/16-12/31/16	130,637	—	—	—	—	130,637
Maria Patrizia Grieco	Non-Executive Director	04/15/16-12/31/16	136,750	—	—	—	—	136,750
Elena Zambon	Non-Executive Director	01/01/16-12/31/16	189,138	—	—	—	—	189,138

(1) On May 2, 2016 Mr. Sergio Marchionne has assumed the role of Chief Executive Officer while retaining his role as Chairman of the Company. No fixed compensation was paid by Ferrari or any of its subsidiaries to Mr. Marchionne in his capacity of Chairman and Chief Executive Officer for the year ended December 31, 2016.

(2) On May 2, 2016 Mr. Amedeo Felisa retired as Chief Executive Officer. His role has been taken by Mr. Sergio Marchionne who has assumed the Chief Executive Officer's responsibilities while also retaining his role as Chairman of the Company. Mr. Felisa continues to serve on the Board of Directors of Ferrari as Executive Director with a specific consultancy contract until the next Annual General Meeting of Shareholders to be held in April 2017 following which it has been proposed that Mr. Felisa will serve as non-executive director subject to the appointment by Shareholders Meeting. Base premium salary includes €814 thousand for his role as Chief Executive Officer from 1 January 2016 to 1 May 2016 and €167 thousand pursuant to such consultancy contract from 2 May 2016 to year ended 31 December 2016. Other includes €5,500 thousand for retirement package.

(3) Non-Executive Directors receive a portion of their annual retainer fee in common shares of Ferrari.

(4) Includes any annual shares, options and pension rights that have been awarded and other emoluments, where applicable.

Compensation of the members of the GEC

The compensation paid during the year ended December 31, 2016 by Ferrari and its subsidiaries to the members of the GEC amounted to €12.3 million in aggregate (excluding the compensation paid to Mr. Felisa in his capacity of Chief Executive Officer, which is reflected in the amount included under "Directors' Compensation").

Director and Officer Overlaps

There are overlaps among the directors and officers of FCA and our directors and officers. For example, Mr. Marchionne is also the Chief Executive Officer of FCA, and certain of our other directors and officers may also be directors or officers of FCA or Exor, including Mr. John Elkann, who is our Vice Chairman, the Chairman of FCA and the Chairman and Chief Executive Officer of Exor. Exor holds approximately 23.5 percent of our outstanding common shares and approximately 33.4 percent of the voting power in us, while it holds approximately 29.4 percent of the common shares and 43.3 percent of the voting power in FCA. These individuals owe duties both to us and to the other companies that they serve as officers and/or directors, which may raise certain conflicts of interest. See “We may have potential conflicts of interest with FCA and Exor and its related companies.”

Ferrari N.V.

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Ferrari N.V.
CONSOLIDATED INCOME STATEMENT
for the years ended December 31, 2016, 2015 and 2014

	Note	For the years ended December 31,		
		2016	2015	2014
		(€ thousand)		
Net revenues	4	3,105,084	2,854,369	2,762,360
Cost of sales	5	1,579,690	1,498,806	1,505,889
Selling, general and administrative costs	6	295,242	338,626	300,090
Research and development costs	7	613,635	561,582	540,833
Other expenses, net	8	24,501	11,035	26,080
Result from investments	9	3,066	—	—
EBIT		595,082	444,320	389,468
Net financial (expenses)/income	10	(27,729)	(10,151)	8,765
Profit before taxes		567,353	434,169	398,233
Income tax expense	11	167,635	144,115	133,218
Net profit		399,718	290,054	265,015
Net profit attributable to:				
<i>Owners of the parent</i>		398,762	287,816	261,371
<i>Non-controlling interests</i>	3	956	2,238	3,644
Basic and diluted earnings per common share (in €)	13	2.11	1.52	1.38

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the years ended December 31, 2016, 2015 and 2014

	Note	For the years ended December 31,		
		2016	2015	2014
		(€ thousand)		
Net profit		399,718	290,054	265,015
Items that will not be reclassified to the consolidated income statement in subsequent periods:				
Gains/(losses) on remeasurement of defined benefit plans	21	(1,448)	898	(4,739)
Related tax impact	21	(18)	(308)	1,061
Total items that will not be reclassified to the consolidated income statement in subsequent periods		(1,466)	590	(3,678)
Items that may be reclassified to the consolidated income statement in subsequent periods:				
Gains/(losses) on cash flow hedging instruments	21	51,086	8,234	(148,341)
Exchange differences on translating foreign operations	21	4,118	13,344	27,836
Related tax impact	21	(16,943)	(2,600)	46,588
Total items that may be reclassified to the consolidated income statement in subsequent periods		38,261	18,978	(73,917)
Total other comprehensive income/(loss), net of tax		36,795	19,568	(77,595)
Total comprehensive income		436,513	309,622	187,420
Total comprehensive income attributable to:				
<i>Owners of the parent</i>		<i>435,691</i>	<i>306,699</i>	<i>181,375</i>
<i>Non-controlling interests</i>		<i>822</i>	<i>2,923</i>	<i>6,045</i>

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at December 31, 2016, and 2015

		At December 31,	
	Note	2016	2015
		(€ thousand)	
Assets			
Goodwill	14	785,182	787,178
Intangible assets	15	354,394	307,810
Property, plant and equipment	16	669,283	626,130
Investments and other financial assets	17	33,935	11,836
Deferred tax assets	11	119,357	122,622
Total non-current assets		1,962,151	1,855,576
Inventories	18	323,998	295,436
Trade receivables	19	243,977	158,165
Receivables from financing activities	19	790,377	1,173,825
Current tax receivables	19	1,312	15,369
Other current assets	19	53,729	46,477
Current financial assets	20	16,276	8,626
Deposits in FCA Group cash management pools	19	—	139,172
Cash and cash equivalents		457,784	182,753
Total current assets		1,887,453	2,019,823
Total assets		3,849,604	3,875,399
Equity/(Deficit) and liabilities			
Equity/(Deficit) attributable to owners of the parent		324,995	(25,123)
Non-controlling interests		4,810	5,720
Total equity/(deficit)	21	329,805	(19,403)
Employee benefits	22	91,024	78,373
Provisions	23	215,227	141,847
Deferred tax liabilities	11	13,111	23,345
Debt	24	1,848,041	2,260,390
Other liabilities	25	656,275	654,784
Other financial liabilities	20	39,638	103,332
Trade payables	26	614,888	507,499
Current tax payables		41,595	125,232
Total equity/(deficit) and liabilities		3,849,604	3,875,399

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF CASH FLOWS
for the years ended December 31, 2016, 2015 and 2014

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Cash and cash equivalents at beginning of the year	182,753	134,278	113,786
Cash flows from operating activities:			
Profit before taxes	567,353	434,169	398,233
Amortization and depreciation	247,717	274,757	288,982
Provision accruals	82,418	50,873	66,274
Result of investments	(3,066)	—	—
Other non-cash (income) / expenses	(30,291)	36,230	53,348
Net gains on disposal of property, plant and equipment and intangible assets	(2,652)	(6,964)	(742)
Change in inventories	(33,187)	(2,885)	(65,548)
Change in trade receivables	(88,847)	15,693	824
Change in trade payables	106,163	(45,792)	12,986
Change in receivables from financing activities	404,568	120,902	(201,692)
Change in other operating assets and liabilities	7,149	(24,698)	14,322
Income tax paid	(252,026)	(145,017)	(140,920)
Total	1,005,299	707,268	426,067
Cash flows used in investing activities:			
Investments in property, plant and equipment	(175,647)	(184,910)	(169,363)
Investments in intangible assets	(166,340)	(171,033)	(160,635)
Change in investments and other financial assets	—	377	(358)
Cash acquired in change in scope of consolidation	—	—	38,751
Proceeds from the sale of property, plant and equipment and intangible assets	2,931	1,370	1,828
Proceeds from the sale of assets and liabilities related to investment properties	—	37,130	—
Proceeds from the sale of a majority stake in FFS GmbH	18,595	—	—
Total	(320,461)	(317,066)	(289,777)
Cash flows used in financing activities:			
Proceeds from Term Loan and Bridge Loan	—	1,994,712	—
Repayment of Term Loan	(700,846)	—	—
Repayment of Bridge Loan	(500,000)	—	—
Net change in other bank borrowings	(211,832)	123,993	79,030
Proceeds from securitizations, net of repayments	462,700	—	—
Proceeds from bond	490,729	—	—
Net change in deposits in FCA Group cash management pools and financial liabilities with FCA Group	135,094	(2,396,422)	(157,959)
Net change in other debt	15,847	(11,114)	(27,638)
Acquisition of non-controlling interest	—	(8,500)	—
Change in equity	1,384	—	—
Cash distribution of reserves	(86,905)	—	—
Dividends paid to non-controlling interest	(17,207)	(53,942)	(15,050)
Total	(411,036)	(351,273)	(121,617)
Translation exchange differences	1,229	9,546	5,819
Total change in cash and cash equivalents	275,031	48,475	20,492
Cash and cash equivalents at end of the year	457,784	182,753	134,278

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the years ended December 31, 2016, 2015 and 2014

	Share capital	Retained earnings and other reserves	Cash flow hedge reserve	Currency translation differences	Remeasurement of defined benefit plans	Equity attributable to owners of the parent	Non-controlling interests	Total
	(€ thousand)							
At January 1, 2014	3,778	2,242,315	43,196	4,477	(4,260)	2,289,506	26,776	2,316,282
Dividends declared	—	—	—	—	—	—	(79,369)	(79,369)
Transaction with non-controlling interest	—	(1,263)	—	—	—	(1,263)	55,243	53,980
Net profit	—	261,371	—	—	—	261,371	3,644	265,015
Other comprehensive income/(loss)	—	—	(101,753)	25,435	(3,678)	(79,996)	2,401	(77,595)
Reclassification ⁽¹⁾	—	1,191	—	—	(1,191)	—	—	—
At December 31, 2014	3,778	2,503,614	(58,557)	29,912	(9,129)	2,469,618	8,695	2,478,313
Transaction with non-controlling interest	—	(2,602)	—	—	—	(2,602)	(5,898)	(8,500)
Net profit	—	287,816	—	—	—	287,816	2,238	290,054
Other comprehensive (loss)/income	—	—	5,634	12,659	590	18,883	685	19,568
Restructuring ⁽²⁾	—	(2,800,000)	—	—	—	(2,800,000)	—	(2,800,000)
Share premium contribution ⁽³⁾	—	1,162	—	—	—	1,162	—	1,162
Reclassification ⁽¹⁾	—	(2,117)	—	—	2,117	—	—	—
At December 31, 2015	3,778	(12,127)	(52,923)	42,571	(6,422)	(25,123)	5,720	(19,403)
Net profit	—	398,762	—	—	—	398,762	956	399,718
Other comprehensive income/(loss)	—	—	34,143	4,252	(1,466)	36,929	(134)	36,795
Cash distribution of reserves	—	(86,905)	—	—	—	(86,905)	—	(86,905)
Dividends to non-controlling interests	—	—	—	—	—	—	(1,732)	(1,732)
Share-based compensation	—	1,110	—	—	—	1,110	—	1,110
Separation ⁽⁴⁾	(1,274)	1,496	—	—	—	222	—	222
At December 31, 2016	2,504	302,336	(18,780)	46,823	(7,888)	324,995	4,810	329,805

- (1) Relates to the reclassification of the actuarial gain recognized on the remeasurement of the defined benefit pension plan of the former Chairman of the Group.
- (2) Relates to the remaining principal amount of the FCA Note recognized in connection with the Restructuring. See “Background and Basis of Presentation”.
- (3) Relates to the effect of a share premium contribution made by FCA N.V. in connection with the Restructuring.
- (4) Reflects the effects of the Separation. See Note 21 “Equity” for additional details.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
at December 31, 2016 and 2015

1. BACKGROUND AND BASIS OF PRESENTATION

Background

Ferrari is among the world's leading luxury brands. The activities of Ferrari N.V. (herein referred to as "Ferrari" or the "Company" and together with its subsidiaries the "Group") and its subsidiaries are focused on the design, engineering, production and sale of luxury performance sports cars. The cars are designed, engineered and produced in Maranello and Modena, Italy and sold in more than 60 markets worldwide through a network of 170 authorized dealers operating 188 points of sale. The Ferrari brand is licensed to a selected number of producers and retailers of luxury and lifestyle goods, with Ferrari branded merchandise also sold through a network of 16 Ferrari-owned stores and 29 franchised stores (including 8 Ferrari Store Junior), as well as on the Group's website. To facilitate the sale of new and used cars, the Group provides various forms of financing, through cooperation and other agreements, to both clients and dealers. Ferrari also participates in the Formula 1 World Championship through Scuderia Ferrari. The activities of Scuderia Ferrari are the core element of Ferrari marketing and promotion activities and an important source of innovation supporting the technological advancement of Ferrari sport and street cars.

Fiat S.p.A., (merged with and into Fiat Chrysler Automobiles N.V. in October 2014, Fiat S.p.A. and Fiat Chrysler Automobiles are defined as "FCA" as the context requires and together with their subsidiaries the "FCA Group") acquired 50 percent of Ferrari S.p.A. in 1969, and over time expanded this shareholding to 90 percent ownership, while the remaining 10 percent non-controlling interest was owned by Piero Ferrari.

On October 29, 2014, Fiat Chrysler Automobiles N.V. ("FCA") announced its intention to separate Ferrari S.p.A. from FCA. The separation was completed on January 3, 2016 and occurred through a series of transactions (together defined as the "Separation") including (i) an intra-group restructuring which resulted in the Company's acquisition of the assets and business of Ferrari North Europe Limited and the transfer by FCA of its 90 percent shareholding in Ferrari S.p.A. to the Company, (ii) the transfer of Piero Ferrari's 10 percent shareholding in Ferrari S.p.A. to the Company, (iii) the initial public offering of common shares of the Company, and (iv) the distribution, following the initial public offering, of FCA's remaining interest in the Company to its shareholders. After the Separation, which took place on January 3, 2016, Ferrari operates as an independent, publicly traded company. On January 4, 2016, the Company's shares were also listed on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana.

The transactions described above in (i) and (ii) (referred to collectively as the "Restructuring") were completed in October 2015 through the following steps:

- The Company acquired from Ferrari North Europe Limited its assets and business of providing sales, after-sales and support services for the Ferrari brand and in exchange, the Company issued to Ferrari North Europe Limited a note in the principal amount of £2.8 million (the "FNE Note").
- FCA transferred to the Company all of the issued and outstanding share capital that it previously held in Ferrari S.p.A. (representing 90 percent of the share capital of Ferrari S.p.A.), and in exchange the Company issued to FCA a note in the principal amount of €7.9 billion (the "FCA Note").
- FCA contributed €5.1 billion to the Company in consideration of the issue to FCA of 156,917,727 common shares and 161,917,727 special voting shares of the Company. Following a subsequent transaction with Piero Ferrari, FCA owned 170,029,440 common shares and special voting shares, equal to 90 percent of the Company's common shares outstanding. €5.1 billion of the proceeds received from FCA were applied to settle a portion of the FCA Note, following which the principal outstanding on the FCA Note was €2.8 billion, which was refinanced through cash deposits held with FCA and for the remainder from new third party debt.
- Piero Ferrari transferred his 10 percent interest in Ferrari S.p.A. to the Company and in exchange, the Company issued to Piero Ferrari 27,003,873 of its common shares and the same number of special voting shares. Following a subsequent transaction with FCA, Piero Ferrari owned 18,892,160 common shares and special voting shares, equal to 10 percent of the Company's common shares outstanding. The Company did not receive any cash consideration as part of this transaction.

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The Restructuring comprised: (i) a capital reorganization of the group under the Company, which has been accounted for in these consolidated financial statements as though it had occurred effective January 1, 2014 using FCA's basis of accounting (see Note 21 "Equity"), and (ii) the issuance of the FCA Note, which has been reflected in these consolidated financial statements only from the date in which it occurred (see Note 24 "Debt").

The remaining steps of the Separation, which were completed between January 1 and January 3, 2016 through two consecutive demergers followed by a merger under Dutch law, have been reflected in these Consolidated Financial Statements only from the date in which the related transactions occurred and had no impact on the Company's results of operations or financial position. As part of the Separation a new entity, FE New N.V., was created. Pursuant to the demergers the shares in the Company held by FCA were ultimately transferred to FE New N.V., with FE New N.V. issuing shares in its capital to the shareholders of FCA. In connection with the demergers, the mandatory convertible security holders of FCA also received shares in FE New N.V. On completion of the Separation the Company was merged with and into FE New N.V. and FE New N.V. was renamed Ferrari N.V.

Following the Separation and at December 31, 2016, the share capital of the Company amounted to €2,504 thousand, comprising 193,923,499 common shares and 56,497,618 special voting shares all with nominal value of €0.01 per share. At December 31, 2016, the Company had 5,000,000 common shares and 2,930 special voting shares held in treasury.

Also following the Separation, the cash pooling and financial liabilities with the FCA Group were settled and the relevant agreements were terminated. The derivative contracts that were previously held by FCA were novated to Ferrari S.p.A.

Following the completion of the Separation, on January 4, 2016 the Company also completed the listing of its common shares on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana, under the ticker symbol RACE.

References to the Company in these consolidated financial statements refer to Ferrari N.V. (formerly named FE New N.V.) following the Separation and to Ferrari N.V.'s predecessor (formerly named New Business Netherlands N.V.), prior to the completion of the Separation.

Basis of preparation

Authorization of consolidated financial statements and compliance with International Financial Reporting Standards

These consolidated financial statements of Ferrari N.V. were authorized for issuance on March 3, 2017.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union ("EU-IFRS") and with Part 9 of Book 2 of the Dutch Civil Code. The designation IFRS also includes International Accounting Standards ("IAS") as well as all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC" and "SIC").

The consolidated financial statements are prepared under the historical cost method, modified as required for the measurement of certain financial instruments, as well as on a going concern basis.

The Group's presentation currency is Euro, which is also the functional currency of the Company, and unless otherwise stated information is presented in thousands of Euro.

Transactions with FCA

The Group generates a portion of its net revenues from sale of goods to other FCA Group companies. In particular, net revenues generated from FCA Group companies amounted to €248,685 thousand, €194,506 thousand and €266,641 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. See Note 28 for further details.

The Group enters into commercial transactions with the FCA Group in the ordinary course of business. Receivables and payables are settled in the ordinary course of business and are recorded as assets and liabilities on the consolidated statement of financial position.

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Historically the Group received various services, including human resources, payroll, financial reporting and tax, customs, accounting and treasury, institutional and industrial relations, procurement of insurance coverage, internal audit, IT and systems, risk, corporate security, executive compensation, legal and corporate affairs from the FCA Group. Following the Separation, the Group has been gradually internalizing these services. The costs for the recharge of services received, including costs for termination packages, totaled €15,021 thousand, €11,559 thousand and €10,486 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. These costs were recharged by the FCA Group based on the actual costs incurred for the services provided to the Group and are reflected as expenses according to their nature in the consolidated financial statements.

With respect to the general corporate costs that are incurred by FCA on behalf of its entire group, which include the costs of the executive officers of the FCA Group, costs of the corporate functions including treasury, human resources, finance and legal, business development, tax, headquarter costs and other related corporate costs. Prior to the Separation, FCA allocated these costs to the Group based on the Group's proportion of FCA's consolidated revenues. During the years ended December 31, 2015 and 2014, corporate costs recharged to the Group from FCA amounted to €3,751 thousand and €2,952 thousand, respectively, and are reflected in the consolidated financial statements. Following the Separation, Ferrari is no longer part of the FCA Group and therefore no such costs were allocated in 2016.

Historically the Group participated in a group-wide cash management system at FCA Group, where the operating cash management, main funding operations and liquidity investment of the Group were centrally coordinated by dedicated treasury companies. The Group accessed funds deposited in these accounts on a daily basis, had the contractual right to withdraw these funds on demand and terminate these cash management arrangements depending on FCA's ability to pay at the relevant time. The deposits with FCA Group relating to the cash management system were recorded in the consolidated statement of financial position as "Deposits in FCA Group cash management pools" and the finance income earned on such deposits was recorded in net financial income/expenses in the consolidated income statement. Prior to the Separation, certain entities of the Group have also entered into credit lines with FCA Group entities, these financial liabilities were provided primarily to finance the activities of the Group's financial services portfolio in North America and were recorded as "Debt" in the consolidated statement of financial position. The finance expense associated with such financial liabilities was recorded in "Cost of sales" in the consolidated income statement. The deposits with FCA Group relating to the cash management and the credit lines with FCA Group entities were settled and terminated following the Separation. Management believes that the assumptions underlying the consolidated financial statements for the periods prior to the Separation, including the recharges of expenses from FCA, are reasonable. Nevertheless, for the periods prior to the Separation, the consolidated financial statements may not include all of the actual expenses that would have been incurred by the Group and may not reflect the consolidated results of operations, financial position and cash flows had Ferrari been a stand-alone company during those periods. Actual costs that would have been incurred if Ferrari had been a stand-alone company would depend on multiple factors, including organizational structure and strategic decisions made in various areas.

2. SIGNIFICANT ACCOUNTING POLICIES

Format of the financial statements

The consolidated financial statements include the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and notes thereto, (the "Consolidated Financial Statements").

For presentation of the consolidated income statement, the Group uses a classification based on the function of expenses, as it is more representative of the format used for internal reporting and management purposes and is consistent with international practice.

In the consolidated income statement, the Group also presents a subtotal for Earnings Before Interest and Taxes (EBIT). EBIT distinguishes between the profit before taxes arising from operating items and those arising from financing activities. EBIT is the primary measure used by the Group's Chief Operating Decision Maker ("CODM"), to assess performance.

For the consolidated statement of financial position, a mixed format has been selected to present current and non-current assets and liabilities, as permitted by IAS 1 paragraph 60. More specifically, the Consolidated Financial Statements include both industrial companies and financial services companies. The investment portfolios of the financial services companies are included in current assets, as the investments will be realized in their normal operating cycle. However, the financial services companies

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obtain only a portion of their funding from the market; the remainder has historically been obtained mainly through funding from certain of the Group's operating companies and, to a lesser extent, prior to the Separation, intercompany funding from FCA Group, which provided funding to the financial services entities as the need arose. This financial service structure within the Group does not allow the separation of financial liabilities funding the financial services operations (whose assets are reported within current assets) and those funding the industrial operations. Presentation of financial liabilities as current or non-current based on their date of maturity would not facilitate a meaningful comparison with financial assets, which are categorized on the basis of their normal operating cycle. Disclosure as to the due date of the debt is provided in Note 24.

The consolidated statement of cash flows is presented using the indirect method.

New standards and amendments effective from January 1, 2016

The following new standards and amendments that are applicable from January 1, 2016 were adopted by the Group for the purpose of the preparation of the Consolidated Financial Statements.

- The Group adopted the amendments to *IFRS 11 - Joint Arrangements*, which clarify the accounting for acquisitions of interests in a joint operation that constitutes a business. There was no effect from the adoption of these amendments.
- The Group adopted the amendments to *IAS 16 - Property, Plant and Equipment* and to *IAS 38 - Intangible Assets*, which clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances. There was no effect from the adoption of these amendments.
- The Group adopted the *Annual Improvements to IFRSs 2012-2014 Cycle*, a series of amendments to IFRS in response to issues raised mainly on, among others, the changes of method of disposal in *IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations*, on servicing contracts in *IFRS 7 - Financial Instruments: Disclosures*, and on the discount rate determination in *IAS 19 - Employee Benefits*. There was no effect from the adoption of these amendments.
- The Group adopted the amendments to *IAS 1 - Presentation of Financial Statements* as part of its major 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. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. There was no effect from the adoption of these amendments.

New standards, amendments and interpretations not yet effective

The standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") that will have mandatory application in 2017 or subsequent years are listed below:

In May 2014, the IASB issued *IFRS 15 - Revenue from Contracts with Customers*. The standard requires a company to recognize revenue upon transfer of control of goods or services to a customer at an amount that reflects the consideration it expects to receive. This new revenue recognition model defines a five step process to achieve this objective. The updated guidance also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. In April 2016, the IASB issued amendments to the standard which do not change the underlying principles of the standard, but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal or an agent and determine whether the revenue from granting a license should be recognized at a point in time or over time. The amendments also provide two additional reliefs to reduce cost and complexity. The standard and amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Group is currently quantifying the impact of adoption, however based on currently available

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information, the Group does not expect a material impact on its Consolidated Financial Statements from the adoption of this standard and related amendments.

In July 2014 the IASB issued *IFRS 9 - Financial Instruments*. The improvements introduced by the new standard includes a logical approach for classification and measurement of financial instruments driven by cash flow characteristics and the business model in which an asset is held, a single “expected loss” impairment model for financial assets and a substantially reformed approach for hedge accounting. The standard is effective, retrospectively with limited exceptions, for annual periods beginning on or after January 1, 2018 with earlier application permitted. The Group is currently evaluating the method of implementation and impact of adoption on its Consolidated Financial Statements.

In January 2016, the IASB issued *IFRS 16 - Leases* which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract and replaces the previous leases standard, IAS 17 - Leases. IFRS 16, which is not applicable to service contracts, but only applicable to leases or lease components of a contract, defines a lease as a contract that conveys to the customer (lessee) the right to use an asset for a period of time in exchange for consideration. IFRS 16 eliminates the classification of leases for the lessee as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model whereby a lessee is required to recognize assets and liabilities for all leases with a term that is greater than 12 months, unless the underlying asset is of low value, and to recognize depreciation of leases assets separately from interest on lease liabilities in the income statement. As IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, a lessor will continue to classify its leases as operating leases or finance leases and to account for those two types of leases differently. IFRS 16 is effective from January 1, 2019 with early adoption allowed only if *IFRS 15 - Revenue from Contracts with Customers* is also applied. The Group is currently evaluating the method of implementation and impact of adoption on its Consolidated Financial Statements.

In January 2016, the IASB issued amendments to *IAS 12 - Income Taxes*. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. Specifically, the amendments clarify the requirements on recognition of deferred tax assets for unrealized losses in order to address diversity in practice. The amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect a material impact on its Consolidated Financial Statements from the adoption of these amendments.

In January 2016, the IASB issued amendments to *IAS 7 - Statement of Cash Flows*, which will require companies to provide information about changes in their financing liabilities. The amendments are aimed at improving disclosures so that users of financial statements are better able to understand the changes in a company’s debt, including changes from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017 with early application permitted. The Group does not expect a material impact on its Consolidated Financial Statements from the adoption of these amendments.

In June 2016, the IASB issued amendments to *IFRS 2 - Share-Based Payment*, which provide requirements on the accounting for (i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application is permitted. The Group is currently evaluating the method of implementation and impact of adoption on its Consolidated Financial Statements.

In December 2016, the IASB issued *Annual Improvements to IFRSs 2014 - 2016 Cycle*, which has amendments to three Standards: *IFRS 12 - Disclosure of Interests in Other Entities* (effective date of January 1, 2017), *IFRS 1 - First-time Adoption of International Financial Reporting Standards* (effective date of January 1, 2018) and *IAS 28 - Investments in Associates and Joint Ventures* (effective date of January 1, 2018). The amendments clarify, correct or remove redundant wording in the related IFRS Standard and are not expected to have a material impact to the Consolidated Financial Statements of the Group or disclosures upon adoption of the amendments.

In December 2016, the IASB issued *IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration* which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The interpretation is effective January 1, 2018. The Group is currently evaluating the method of implementation and impact of adoption on its Consolidated Financial Statements.

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Basis of consolidation

Subsidiaries

Subsidiaries are entities over which the Group has control. Control is achieved when the Group has power over the investee, when it is exposed to, or has rights to, variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns. Subsidiaries are consolidated on a line by line basis from the date on which the Group achieves control. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group recognizes any non-controlling interests ("NCI") in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's share of the recognized amounts of the acquiree's identifiable net assets. Net profit or loss and each component of other comprehensive income/(loss) are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income/(loss) of subsidiaries is attributed to owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant intra-group balances and transactions and any unrealized gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

Subsidiaries are deconsolidated from the date when control ceases. When the Group ceases to have control over a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts, derecognizes the carrying amount of non-controlling interests in the former subsidiary and recognizes the fair value of any consideration received from the transaction. Any retained interest in the former subsidiary is then remeasured to its fair value.

In 2016 the Group sold a majority stake in Ferrari Financial Services GmbH. From such date, the Group's remaining interest has been remeasured at fair value and accounted for using the equity method.

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without having control or joint control over those policies. Associates are accounted for using the equity method of accounting from the date significant influence is obtained.

Under the equity method, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit/(loss) and other comprehensive income/(loss) of the investee. The Group's share of the investee's profit/(loss) is recognized in the consolidated income statement. Distributions received from an investee reduce the carrying amount of the investment. Post-acquisition movements in other comprehensive income/(loss) are recognized in other comprehensive income/(loss) with a corresponding adjustment to the carrying amount of the investment.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When the Group's share of the losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group discontinues the use of the equity method from the date the investment ceases to be an associate or when it is classified as available-for-sale.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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When the Group undertakes its activities under joint operations, it recognizes in relation to its interest in the joint operation: (i) its assets, including its share of any assets held jointly, (ii) its liabilities, including its share of any liabilities incurred jointly, (iii) its revenue from the sale of its share of the output arising from the joint operation, (iv) its share of the revenue from the sale of the output by the joint operation, and (v) its expenses, including its share of any expenses incurred jointly.

Foreign currency transactions

The functional currency of the Group's entities is the currency of their primary economic environment. In individual companies, transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign currency exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the consolidated income statement.

Consolidation of foreign entities

All assets and liabilities of foreign consolidated companies with a functional currency other than the Euro are translated using the closing rates at the date of the consolidated statement of financial position. Income and expenses are translated into Euro at the average foreign currency exchange rate for the period. Translation differences resulting from the application of this method are classified as currency translation differences within other comprehensive income/(loss) until the disposal of the investment. Average foreign currency exchange rates for the period are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

Goodwill, assets acquired and liabilities assumed arising from the acquisition of entities with a functional currency other than the Euro are recognized in the Consolidated Financial Statements in the functional currency and translated at the foreign currency exchange rate at the acquisition date. These balances are translated at subsequent balance sheet dates at the relevant foreign currency exchange rate.

The principal foreign currency exchange rates used to translate other currencies into Euro were as follows:

	2016		2015		2014	
	Average	At December 31,	Average	At December 31,	Average	At December 31,
U.S. Dollar	1.1069	1.0541	1.1094	1.0887	1.3287	1.2141
Pound Sterling	0.8194	0.8562	0.7259	0.7340	0.8062	0.7789
Swiss Franc	1.0901	1.0739	1.0677	1.0835	1.2146	1.2024
Japanese Yen	120.2169	123.4000	134.2956	131.0700	140.3146	145.2300
Chinese Yuan	7.3519	7.3202	6.9723	7.0608	8.1874	7.5358
Australian Dollar	1.4883	1.4596	1.4775	1.4897	1.4720	1.4829
Singapore Dollar	1.5275	1.5234	1.5253	1.5417	1.6826	1.6058
Hong Kong Dollar	8.5924	8.1751	8.6014	8.4376	10.3025	9.4170

Intangible assets

Goodwill

Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Development costs

Development costs for car project production and related components, engines and systems are recognized as an asset if, and only if, both of the following conditions under IAS 38 - *Intangible Assets* are met: that development costs can be measured reliably and that the technical feasibility of the product, volumes and pricing support the view that the development expenditure

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will generate future economic benefits. Capitalized development costs include all direct and indirect costs that may be directly attributed to the development process.

Capitalized development costs are amortized on a straight-line basis from the start of production over the estimated lifecycle of the model and the useful life of the components (generally between four and eight years). All other research and development costs are expensed as incurred.

In particular the Group incurs significant research and development costs through the Formula 1 racing activities. These costs are considered fundamental to the development of the sports and street car models and prototypes. The model for the Formula 1 racing activities continually evolves and as such these costs are expensed as incurred.

Patents, concessions and licenses

Separately acquired patents, concessions and licenses are initially recognized at cost. Patents, concessions and licenses acquired in a business combination are initially recognized at fair value. Patents, concessions and licenses are amortized on a straight-line basis over their useful economic lives, which is generally between three and five years.

Other intangible assets

Other intangible assets mainly relate to the registration of trademarks and have been recognized in accordance with IAS 38 - *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits for the Group and where the cost of the asset can be measured reliably. Other intangible assets are measured at cost less any impairment losses and amortized on a straight-line basis over their estimated life, which is generally between three and five years.

Property, plant and equipment

Cost

Property, plant and equipment is initially recognized at cost which comprises the purchase price, any costs directly attributable to bringing the assets to the location and condition necessary to be capable of operating in the manner intended by management, capitalized borrowing costs and any initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Self-constructed assets are initially recognized at production cost. Subsequent expenditures and the cost of replacing parts of an asset are capitalized only if they increase the future economic benefits embodied in that asset. All other expenditures are expensed as incurred. When such replacement costs are capitalized, the carrying amount of the parts that are replaced is recognized as a loss in the period of replacement in the consolidated income statement.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Depreciation rates
Industrial buildings	3% - 20%
Plant, machinery and equipment	5% - 22%
Other assets	12% - 25%

Land is not depreciated.

If the asset being depreciated consists of separately identifiable components whose useful lives differ from that of the other parts making up the asset, depreciation is charged separately for each of its component parts through application of the 'component approach'.

Investment property

The Group held investment property assets and liabilities until 2015. Investment property is defined as property held by the Group to earn rental income or for capital appreciation or both, rather than for sale in the ordinary course of business or

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for use in supply of goods or services or for administrative purposes and includes investment property under construction. Investment property is measured initially at cost including transaction costs. Subsequent to initial recognition, the Group elected to measure investment property at cost less accumulated depreciation and accumulated impairment losses, if any. Investment property is depreciated on a straight-line basis over 33 years.

The rental income generated by investment properties is recognized within net revenues in the consolidated income statement.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are expensed in net financial expenses if related to the Group's industrial activities or cost of sales if related to the Group's financial services activities in the consolidated income statement, as incurred.

Impairment of assets

The Group continuously monitors its operations to assess whether there is any indication that its intangible assets (including development costs) and its property, plant and equipment may be impaired. Goodwill is tested for impairment annually or more frequently, if there is an indication that an asset may be impaired.

If indications of impairment are present, the carrying amount of the asset is reduced to its recoverable amount, which is the higher of fair value less costs of disposal and its value in use. The recoverable amount is determined for the individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the asset is tested as part of the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In assessing the value in use of an asset or CGU, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognized if the recoverable amount is lower than the carrying amount.

Where an impairment loss for assets other than goodwill, subsequently no longer exists or has decreased, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been recorded had no impairment loss been recognized. The reversal of an impairment loss is recognized in the consolidated income statement immediately.

Financial instruments

Presentation

Financial instruments held by the Group are presented in the Consolidated Financial Statements as described in the following paragraphs.

Investments and other financial assets include investment properties, investments in unconsolidated companies and other non-current financial assets.

Current financial assets, as defined in *IAS 39 - Financial Instruments: Recognition and Measurement*, include trade receivables, receivables from financing activities and current financial assets (which include derivative financial instruments stated at fair value), deposits in FCA Group cash management pools and cash and cash equivalents.

Financial liabilities comprise debt (which include bank borrowings and financial liabilities with FCA Group) and other financial liabilities (which mainly include derivative financial instruments stated at fair value), trade payables and other liabilities.

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Measurement

Non-current financial assets other than investments, as well as current financial assets and financial liabilities, are accounted for in accordance with *IAS 39 - Financial Instruments: Recognition and Measurement*.

Current financial assets are recognized on the basis of the settlement date and, on initial recognition, are measured at acquisition cost. Subsequent to initial recognition, current financial assets are measured at fair value. When market prices are not directly available, the fair value of current financial assets are measured using appropriate valuation techniques (e.g. discounted cash flow analysis based on market information available at the balance sheet date).

Loans and receivables which are not held by the Group for trading (loans and receivables originating in the ordinary course of business) and equity investments 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 rate 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 consolidated income statement for the period within net financial income/(expenses).

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

Derivative financial instruments

Derivative financial instruments are used for economic hedging purposes, in order to reduce currency 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 it is designated.

All derivative financial instruments are measured at fair value.

When derivative financial instruments qualify for hedge accounting, the following accounting treatments apply:

- *Cash flow hedges* - 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 the consolidated income statement, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in other comprehensive income/(loss). The cumulative gain or loss is reclassified from other comprehensive income/(loss) to the consolidated income statement at the same time as the economic effect arising from the hedged item affects the consolidated income statement. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the consolidated income statement immediately within net financial income/(expense). 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 other comprehensive income/(loss) and is recognized in the consolidated 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 other comprehensive income/(loss) is recognized in the consolidated income statement immediately.

The Group did not use fair value hedges or hedges of a net investment in the period covered by these Consolidated Financial Statements.

For further information on the effects reflected on the consolidated income statement from derivative financial instruments refer to Note 20.

If hedge accounting cannot be applied, the gains or losses from the fair value measurement of derivative financial instruments are recognized immediately in the consolidated income statement within net financial income/(expenses).

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Trade receivables

Trade receivables are amounts due from clients for goods sold or services provided in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less any provision for allowances.

Inventories

Inventories of raw materials, semi-finished products and finished goods are stated at the lower of cost and net realizable value, cost being determined on a first in-first-out (FIFO) basis. The measurement of inventories includes the direct costs of materials, labor and indirect costs (variable and fixed). Purchase costs include ancillary costs. Prototypes are recognized at their estimated realizable value, if lower than production cost. Provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

Transfers of financial assets

The Group sells certain of its trade receivables through factoring transactions without recourse. In addition, the Group sells certain of its receivables from financing activities under securitization programs. Securitization transactions involve the sale, on a non-recourse basis, of a financial receivables portfolio to a special purpose vehicle, which in turn finances the purchase of such financial receivables by issuing asset-backed securities in the form of notes whose repayment of principal and interest depends on the cash flows generated by the related financial receivables.

The Group derecognizes the financial assets when, and only when, the contractual rights and risks to the cash flows arising from the related financial assets are no longer held or the Group has transferred the financial assets. In the case of a transfer of financial assets, if the Group transfers substantially all the risks and rewards of ownership of the financial assets, it derecognizes such assets and separately recognizes as assets or liabilities any rights and obligations created or retained in the transfer. On derecognition of financial assets, the difference between the carrying amount of the assets and the consideration received or receivable for the transfer of the assets is recognized in the consolidated income statement in cost of sales.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Employee benefits

Defined contribution plans

Costs arising from defined contribution plans are expensed as incurred.

Defined benefit plans

The Group's net obligations are determined separately for each plan by estimating the present value of future benefits that employees have earned in the current and prior periods, and deducting the fair value of any plan assets. The present value of the defined benefit obligation is measured using actuarial techniques and actuarial assumptions that are unbiased and mutually compatible and attributes benefits to periods in which the obligation to provide post-employment benefits arise by using the Projected Unit Credit Method.

The components of the defined benefit cost are recognized as follows:

- the service costs are recognized in the consolidated income statement by function and presented in the relevant line items (cost of sales, selling, general and administrative costs, research and development costs, etc.);

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- the net interest on the defined benefit liability is recognized in the consolidated income statement as net financial income /(expenses), and is determined by multiplying the net liability/(asset) by the discount rate used to discount obligations taking into account the effect of contributions and benefit payments made during the year; and
- the remeasurement components of the net obligations, which comprise actuarial gains and losses and any change in the effect of the asset ceiling are recognized immediately in other comprehensive income/(loss). These remeasurement components are not reclassified in the consolidated income statement in a subsequent period.

Other long-term employee benefits

The Group's obligations represent the present value of future benefits that employees have earned in return for their service during the current and prior periods. Remeasurement components on other long-term employee benefits are recognized in the consolidated income statement in the period in which they arise.

Share-based compensation

Non-Executive Directors' compensation that will be settled in common shares of the Company is accounted for as equity-settled share-based compensation and measured at the fair value of the related compensation, which is recognized as an expense over the service period with an offsetting increase to equity.

Provisions

Provisions are recognized when the Group has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Warranty provision

All cars are sold with warranty coverage. The warranty coverage generally applies to defects that may become apparent within a certain period from the purchase of the car.

The warranty provision is recognized at the time of the sale of the car, based on the present value of management's estimate of the expected cost to fulfill the obligations over the contractual warranty period, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the warranty provision. Estimates are principally based on the Group's historical claims or costs experience and the cost of parts and services to be incurred in the activities. The costs related to these provisions are recognized within cost of sales.

Deferred income

Deferred income relates to amounts received by the Group under various agreements, which are reliant on the future performance of a service or other act of the Group. Deferred income is recognized as net revenues when the Group has fulfilled its obligations under the terms of the various agreements.

Range models (models belonging to the Ferrari product portfolio, excluding special series, limited edition and one-off (*fuori-serie*) models) are sold with a scheduled maintenance program to ensure that the cars are maintained to the highest standards to meet the Group's strict requirements for performance and safety. Amounts attributable to the maintenance program are not recognized as income immediately, but are deferred over the maintenance program term. The amount of the deferred income related to this program, is based on the estimated fair value of the service to be provided.

Advances

Advances relate to amounts received from or billed to clients in advance of having provided the related supplies or in advance of having begun the supply of the related services.

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Revenue recognition

Revenues from shipments of cars are recognized if it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue can be reliably measured. Revenues are recognized when the risks and rewards of ownership are transferred to the Group's dealers, the sales price is agreed or determinable and collectability is reasonably assured; for cars this generally corresponds to the date when the cars are released to the carrier responsible for transporting cars to dealers.

Revenues are recognized net of discounts including but not limited to, sales incentives and performance based bonuses.

Revenues from separately-priced extended warranty contracts are recognized over the contract period in proportion to the costs expected to be incurred based on historical information. A loss on these contracts is recognized if the sum of the expected costs for services under the contract exceeds unearned revenues. The Group offers a scheduled maintenance program on range models, which is not separately priced. The Group allocates revenue between the car and the maintenance program based on their relative estimated fair values. Amounts paid and attributed to the maintenance program are deferred and recognized as net revenues over the maintenance program period.

Revenues from sponsorship and licensing agreements are recognized on a straight-line basis over the contract term. Certain of the sponsorship agreements contain performance related conditions while certain of the licensing agreements contain minimum guaranteed payments. Performance related sponsorship revenues and licensing revenues in excess of the minimum guaranteed payment are recognized when certain, which is typically when the related conditions have been achieved.

Revenues also include operating lease rentals in conjunction with the rental of engines to other Formula 1 racing teams. Revenues from operating leases are recognized on a straight-line basis over the relevant term of the lease.

Interest income earned in conjunction with the provision of client and dealer financing are reported within the line item "Finance income from financial services companies" using the effective interest rate method.

Revenues from commercial activities relate to the revenues received from participating in the Formula 1 World Championship. The revenues attributable to each racing team are governed by a specific agreement and depend upon, among other factors, the prior year ranking of each of the racing teams. Revenues of the commercial activities are recognized pro-rata over the year.

Cost of sales

Cost of sales comprises expenses incurred in the manufacturing and distribution of cars and parts, including the engines rented to other Formula 1 racing teams, of which, cost of materials, components and labor costs are the most significant portion. The remaining costs principally include depreciation, amortization, insurance and transportation costs. Cost of sales also includes warranty and product-related costs, which are estimated and recorded at the time of sale of the car.

Expenses which are directly attributable to the financial services companies, including the interest expenses related to their financing as a whole and provisions for risks and write-downs of assets, are also reported in cost of sales.

Taxes

Income taxes include all taxes based upon the taxable profits of the Group. Current and deferred taxes are recognized as income or expense and are included in the consolidated income statement for the period, except tax arising from (i) a transaction or event which is recognized, in the same or a different period, either in other comprehensive income/(loss) or directly in equity, or (ii) a business combination.

Deferred taxes are accounted using the full liability method. Deferred tax liabilities are recognized for all taxable temporary differences between the carrying amounts of assets or liabilities and their tax base, except to the extent that the deferred tax liabilities arise from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax assets arise from the initial recognition

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of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the substantively enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to the period when the asset is realized or liability is settled.

The recoverability of deferred tax assets is dependent on the Group's ability to generate sufficient future taxable income in the period in which it is assumed that the deductible temporary differences reverse and tax losses carried forward can be utilized. In making this assessment, the Group considers future taxable income arising on the most recent budgets and plans, prepared by using the same criteria described for testing the impairment of assets and goodwill, moreover, it estimates the impact of the reversal of taxable temporary differences on earnings and it also considers the period over which these assets could be recovered. The carrying amount of deferred tax assets is reduced to the extent that it is not probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized.

The Group recognizes deferred tax liabilities associated with the existence of a subsidiary's undistributed profits, except when it is able to control the timing of the reversal of the temporary difference; and it is probable that this temporary difference will not reverse in the foreseeable future. The Group recognizes deferred tax assets associated with the deductible temporary differences on investments in subsidiaries only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets relating to the carry-forward of unused tax losses and tax credits, as well as those arising from deductible temporary differences, are recognized to the extent that it is probable that future profits will be available against which they can be utilized.

Current income taxes and deferred taxes are offset when they relate to the same taxation authority and there is a legally enforceable right of offset.

Italian Regional Income Tax ("IRAP") is recognized within income tax expense. IRAP is calculated on a measure of income defined by the Italian Civil Code as the difference between operating revenues and costs, before financial income and expense, and in particular before the cost of fixed-term employees, credit losses and any interest included in lease payments. IRAP is applied on the tax base at 3.9 percent for the years ended December 31, 2016, 2015 and 2014.

Other taxes not based on income, such as property taxes and capital taxes, are included in other expenses/(income), net.

Dividends

Dividends payable by the Group are reported as a change in equity in the period in which they are approved by shareholders or the Board of Directors as applicable under local rules and regulations.

Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Euro unless otherwise stated.

Segment reporting

The Group has determined that it has one operating and one reportable segment based on the information reviewed by its CODM in making decisions regarding allocation of resources and to assess performance.

Use of estimates

The Consolidated Financial Statements are prepared in accordance with IFRS which require the use of estimates, judgments and assumptions that affect the carrying amount of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of income and expenses recognized. The estimates and associated assumptions are based on elements

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that are known when the financial statements are prepared, on historical experience and on any other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed periodically and continuously by the Group. If the items subject to estimates do not perform as assumed, then the actual results could differ from the estimates, which would require adjustment accordingly. The effects of any changes in estimate are recognized in the consolidated income statement in the period in which the adjustment is made, or prospectively in future periods.

The items requiring estimates for which there is a risk that a material difference may arise in respect of the carrying amounts of assets and liabilities in the future are discussed below.

Allowance for doubtful accounts

The allowances for doubtful accounts reflect management's estimate of losses inherent in the dealer and end-client credit portfolio. The allowances for doubtful accounts are based on management's estimation of the losses to be incurred, which derives from past experience with similar receivables, current and historical past due amounts, write-offs and collections, and careful monitoring of portfolio credit quality.

At December 31, 2016, the Group had gross receivables from financing activities of €801,933 thousand (€1,192,496 thousand at December 31, 2015), and allowances for doubtful accounts of €11,556 thousand at December 31, 2016 or 1.4 percent of the gross balance (€18,671 thousand at December 31, 2015, or 1.6 percent of the gross balance). Provisions for doubtful accounts charged to the consolidated income statement as cost of sales were €2,455 thousand for the year ended December 31, 2016 (€9,607 thousand for the year ended December 31, 2015 and €6,769 thousand for year ended December 31, 2014).

At December 31, 2016, the Group had gross trade receivables of €263,151 thousand (€176,536 thousand at December 31, 2015), and allowances for doubtful accounts of €19,174 thousand, or 7.3 percent of the gross trade receivable balance (€18,371 thousand at December 31, 2015, or 10.4 percent of the gross trade receivable balance). Provisions for doubtful accounts charged to the consolidated income statement as selling, general and administrative costs were €3,504 thousand for the year ended December 31, 2016 (€10,298 thousand for the year ended December 31, 2015 and €6,356 thousand for year ended December 31, 2014).

Should economic conditions worsen resulting in an increase in default risk, or if other circumstances arise, the estimates of the recoverability of amounts due to the Group could be overstated, and additional allowances could be required, which could have an adverse impact on the Group's results.

Recoverability of non-current assets with definite useful lives

Non-current assets with definite useful lives include property, plant and equipment and intangible assets. Intangible assets with definite useful lives mainly consist of capitalized development costs.

The Group periodically reviews the carrying amount of non-current assets with definite useful lives when events and circumstances indicate that an asset may be impaired. Impairment tests are performed by comparing the carrying amount and the recoverable amount of the cash-generating unit ("CGU"). The recoverable amount is the higher of the CGU's fair value less costs of disposal and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

For the period covered by these Consolidated Financial Statements, the Group has not recognized any impairment charges for non-current assets with definite useful lives.

Recoverability of goodwill

As a result of the Separation, the Company recorded goodwill of €780,542 thousand reflecting FCA's recorded goodwill relating to Ferrari S.p.A. In accordance with *IAS 36 - Impairment of Assets*, goodwill is not amortized and is tested for impairment annually or more frequently if facts or circumstances indicate that the asset may be impaired.

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As the Group is composed of one operating segment, goodwill is tested at Group level, which represents the lowest level within the Group at which goodwill is monitored for internal management purposes in accordance with IAS 36. The impairment test is performed by comparing the carrying amount (which mainly comprises property, plant and equipment, goodwill and capitalized development costs) and the recoverable amount of the CGU, to which goodwill has been allocated. The recoverable amount of the CGU is the higher of its fair value less costs of disposal and its value in use.

Development costs

Development costs are capitalized if the conditions under *IAS 38 - Intangible Assets* have been met. The starting point for capitalization is based upon the technological and commercial feasibility of the project, which is usually when a product development project has reached a defined milestone according to the Group's established product development model. Feasibility is based on management's judgment which is formed on the basis of estimated future cash flows. Capitalization ceases and amortization of capitalized development costs begins on start of production of the relevant project.

The amortization of development costs requires management to estimate the lifecycle of the related model. Any changes in such assumptions would impact the amortization charge recorded and the carrying amount of capitalized development costs. The periodic amortization charge is derived after determining the expected lifecycle of the related model and, if applicable any expected residual value at the end of its life. Increasing an asset's expected lifecycle or its residual value would result in a reduced amortization charge in the consolidated income statement.

The useful lives and residual values of the Group's models are determined by management at the time of capitalization and reviewed annually for appropriateness and recoverability. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Historically changes in useful lives and residual values have not resulted in material changes to the Group's amortization charge or estimated recoverability of the related assets.

For the year ended December 31, 2016, the Group capitalized development costs of €141,396 thousand (€154,409 thousand for the year ended December 31, 2015).

Product warranties and liabilities

The Group establishes reserves for product warranties at the time the sale is recognized. The Group issues various types of product warranties under which the performance of products delivered is generally guaranteed for a certain period or term, which is generally defined by the legislation in the country where the car is sold. The reserve for product warranties includes the expected costs of warranty obligations imposed by law or contract, as well as the expected costs for policy coverage. The estimated future costs of these actions are principally based on assumptions regarding the lifetime warranty costs of each car line and each model year of that car line, as well as historical claims experience for the Group's cars. In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration. Due to the uncertainty and potential volatility of these estimated factors, changes in the assumptions used could materially affect the results of operations.

The Group periodically initiates voluntary service actions to address various client satisfaction, safety and emissions issues related to cars sold. Included in the reserve is the estimated cost of these services and recall actions. The estimated future costs of these actions are based primarily on historical claims experience for the Group's cars. Estimates of the future costs of these actions are inevitably imprecise due to several uncertainties, including the number of cars affected by a service or recall action. It is reasonably possible that the ultimate cost of these service and recall actions may require the Group to make expenditures in excess of (or less than) established reserves over an extended period of time. The estimate of warranty and additional service obligations is periodically reviewed during the year.

In addition, the Group makes provisions for estimated product liability costs arising from property damage and personal injuries including wrongful death, and potential exemplary or punitive damages alleged to be the result of product defects. By nature, these costs can be infrequent, difficult to predict and have the potential to vary significantly in amount. Costs associated with these provisions are recorded in the consolidated income statement and any subsequent adjustments are recorded in the period in which the adjustment is determined.

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Other contingent liabilities

The Group makes provisions in connection with pending or threatened disputes or legal proceedings when it is considered probable that there will be an outflow of funds and when the amount can be reasonably estimated. If an outflow of funds becomes possible but the amount cannot be estimated, the matter is disclosed in the notes to the Consolidated Financial Statements. The Group is the subject of legal and tax proceedings covering a wide range of matters in various jurisdictions. Due to the uncertainty inherent in such matters, it is difficult to predict the outflow of funds that could result from such disputes with any certainty. Moreover, the cases and claims against the Group often derive from complex legal issues which are subject to a differing degree of uncertainty, including the facts and circumstances of each particular case and the manner in which applicable law is likely to be interpreted and applied to such fact and circumstances, and the jurisdiction and the different laws involved. The Group monitors the status of pending legal proceedings and consults with experts on legal and tax matters on a regular basis. It is therefore possible that the provisions for the Group's legal proceedings and litigation may vary as the result of future developments in pending matters.

Litigation

Various legal proceedings, claims and governmental investigations are pending against the Group on a wide range of topics, including car safety; emissions and fuel economy, early warning reporting; dealer, supplier and other contractual relationships; intellectual property rights and product warranties matters. Some of these proceedings allege defects in specific component parts or systems (including airbags, seat belts, brakes, transmissions, engines and fuel systems) in various car models or allege general design defects relating to car handling and stability, sudden unintended movement or crashworthiness. These proceedings seek recovery for damage to property, personal injuries or wrongful death and in some cases could include a claim for exemplary or punitive damages. Adverse decisions in one or more of these proceedings could require the Group to pay substantial damages, or undertake service actions, recall campaigns or other costly actions.

Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. An accrual is established in connection with pending or threatened litigation if a loss is probable and a reliable estimate can be made. Since these accruals represent estimates, it is reasonably possible that the resolution of some of these matters could require the Group to make payments in excess of the amounts accrued. It is also reasonably possible that the resolution of some of the matters for which accruals could not be made may require the Group to make payments in an amount or range of amounts that could not be reasonably estimated.

The term "reasonably possible" is used herein to mean that the chance of a future transaction or event occurring is more than remote but less than probable. Although the final resolution of any such matters could have a material effect on the Group's operating results for the particular reporting period in which an adjustment of the estimated reserve is recorded, it is believed that any resulting adjustment would not materially affect the consolidated financial position of the Group.

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3. SCOPE OF CONSOLIDATION

Ferrari N.V. is the parent company of the Group and it holds, directly and indirectly, interests in the Group's main operating companies. The Group's scope of consolidation at December 31, 2016 and 2015 was as follows:

Name	Country	Nature of business	At December 31, 2016		At December 31, 2015	
			Shares held by the Group	Shares held by NCI	Shares held by the Group	Shares held by NCI
Directly held interests						
Ferrari S.p.A. ⁽¹⁾	Italy	Manufacturing	100%	—%	100%	—%
Indirectly held through Ferrari S.p.A. ⁽¹⁾						
Ferrari North America Inc.	USA	Importer and distributor	100%	—%	100%	—%
Ferrari Japan KK	Japan	Importer and distributor	100%	—%	100%	—%
Ferrari Australasia Pty Limited	Australia	Importer and distributor	100%	—%	100%	—%
Ferrari (HK) Limited	Hong Kong	Importer and distributor	100%	—%	n.a.	n.a.
Ferrari International Cars Trading (Shanghai) Co. L.t.d.	China	Importer and distributor	80%	20%	80%	20%
Ferrari Far East Pte Limited	Singapore	Service company	100%	—%	100%	—%
Ferrari Management Consulting (Shanghai) Co. L.t.d.	China	Service company	100%	—%	100%	—%
Ferrari South West Europe S.a.r.l.	France	Service company	100%	—%	100%	—%
Ferrari Central East Europe GmbH	Germany	Service company	100%	—%	100%	—%
G.S.A. S.A.	Switzerland	Service company	100%	—%	100%	—%
Ferrari North Europe L.t.d.	UK	Service company	100%	—%	100%	—%
Mugello Circuit S.p.A.	Italy	Racetrack management	100%	—%	100%	—%
Ferrari Financial Services S.p.A.	Italy	Financial services	100%	—%	100%	—%
Indirectly held through other Group entities						
Ferrari Financial Services GmbH ⁽²⁾	Germany	Financial services	49.9%	50.1%	100%	—%
Ferrari Financial Services Inc. ⁽³⁾	USA	Financial services	100%	—%	100%	—%
Ferrari Auto Securitization Transaction, LLC ⁽⁴⁾	USA	Financial services	100%	—%	n.a.	n.a.
Ferrari Auto Securitization Transaction - Lease, LLC ⁽⁴⁾	USA	Financial services	100%	—%	n.a.	n.a.
Ferrari Auto Securitization Transaction - Select, LLC ⁽⁴⁾	USA	Financial services	100%	—%	n.a.	n.a.
Ferrari Financial Services Titling Trust ⁽⁴⁾	USA	Financial services	100%	—%	n.a.	n.a.
Ferrari Financial Services Japan KK ⁽⁵⁾	Japan	Financial services	—%	—%	100%	—%
410, Park Display Inc. ⁽⁶⁾	USA	Retail	100%	—%	100%	—

(1) As a result of the Restructuring Ferrari N.V. became the parent company of the Group and directly owns Ferrari S.p.A.. Prior to the Restructuring Ferrari S.p.A. was the parent entity of the Group.

(2) Shareholding held by Ferrari Financial Services S.p.A. On November 7, 2016 the Group and FCA Bank finalized the agreement under which FCA Bank acquired a majority stake in Ferrari Financial Services GmbH ("FFS GmbH"). Upon completion of the transaction, FFS GmbH was deconsolidated and the 49.9% interest retained by Ferrari is accounted for using the equity method. See Note 17.

(3) Shareholding held by Ferrari Financial Services S.p.A.

(4) Shareholding held by Ferrari Financial Services Inc. ("FFS Inc").

(5) On April 30, 2016, the liquidation process of Ferrari Financial Services Japan KK was completed.

(6) Shareholding held by Ferrari North America Inc.

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The proportion of voting rights in the subsidiaries held directly or indirectly by Ferrari does not differ from the proportion of ordinary shares held. Ferrari does not have any shareholdings in preference shares of subsidiaries.

As permitted by IFRS, certain subsidiaries (mainly dormant companies or entities with insignificant operations) are excluded from consolidation on a line-by-line basis and are accounted for at cost. Their aggregate assets and revenues represent less than 1 percent of the Group's respective amounts for each period and at each date presented by these Consolidated Financial Statements.

Non-controlling interests

The non-controlling interests at December 31, 2016 and 2015 relate to Ferrari International Cars Trading (Shanghai) Co. L.t.d. ("FICTS"), in which the Group holds an 80 percent interest. The net profit attributable to non-controlling interests for the years ended December 31, 2016, 2015 and 2014 arise from the non-controlling interest in FICTS and for the years ended December 31, 2015 and 2014 also the non-controlling interest in Ferrari Financial Services S.p.A. and its subsidiaries (the "FFS Group"):

	At December 31,		
	2016	2015	
	(€ thousand)		
Equity attributable to non-controlling interests	4,810	5,720	
<i>Of which attributable to FICTS</i>	<i>4,810</i>	<i>5,720</i>	

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Net profit attributable to non-controlling interests	956	2,238	3,644
<i>Of which attributable to FICTS</i>	<i>956</i>	<i>1,351</i>	<i>3,059</i>
<i>Of which attributable to FFS Group</i>	<i>—</i>	<i>887</i>	<i>585</i>

In July 2015 the Group acquired the remaining 10 percent of non-controlling interest of its subsidiary Ferrari Financial Services S.p.A. from Aldasa GmbH, and as a result from such date the Group owns 100 percent of the share capital of Ferrari Financial Services S.p.A.

The non-controlling interests in FICTS and the FFS Group are not considered to be significant to the Group for the relevant periods.

Restrictions

The Group may be subject to restrictions which limit its ability to use cash in relation to its interest in FICTS. In particular, cash held in China is subject to certain repatriation restrictions (and may only be repatriated as dividends). Based on the Group's review, it does not believe that such transfer restrictions have any adverse impacts on its ability to meet liquidity requirements. Cash held in China at December 31, 2016 amounted to €47,555 thousand (€106,405 thousand at December 31, 2015).

Cash collected from the settlement of receivables or lines of credit pledged as collateral is subject to certain restrictions regarding its use and is principally applied to repay principal and interest of the funding. Such cash amounted to €19,411 thousand at December 31, 2016.

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4. NET REVENUES

Net revenues are as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Cars and spare parts	2,180,045	2,080,228	1,943,729
Engines	337,924	218,657	311,155
Sponsorship, commercial and brand	488,514	441,128	416,673
Other	98,601	114,356	90,803
Total net revenues	3,105,084	2,854,369	2,762,360

Other primarily includes interest income generated by the FFS Group and net revenues from the management of the Mugello racetrack.

5. COST OF SALES

Cost of sales in 2016, 2015 and 2014 amounted to €1,579,690 thousand, €1,498,806 thousand and €1,505,889 thousand, respectively, comprising mainly of expenses incurred in the manufacturing and distribution of cars and spare parts, including the engines sold to Maserati and rented to other Formula 1 racing teams, of which cost of materials, components and labor costs are the most significant elements. The remaining costs principally include depreciation, amortization, insurance and transportation costs. Cost of sales also includes warranty and product-related costs, which are estimated and recorded at the time of shipment of the car.

Cost of sales in 2016 included €36,994 thousand related to the charges for Takata airbag inflator recalls. See Note 23 “Provisions” for additional details.

Interest and other financial expenses from financial services companies included within cost of sales in 2016, 2015 and 2014 amounted to €21,307 thousand, €23,702 thousand and €15,992 thousand, respectively.

6. SELLING, GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs in 2016, 2015 and 2014 amounted to €148,812 thousand, €174,451 thousand and €167,843 thousand, respectively, and mainly consist of administration expenses and other general expenses that are not directly attributable to sales, manufacturing or research and development functions.

In 2015, general and administrative costs include €15,789 thousand in costs related to the initial public offering process and €19,106 thousand related to the one off employee extra bonus paid to employees for the initial public offering. In 2014, general and administrative costs include €15,027 thousand related to the resignation of the former Chairman of the Group.

Selling costs in 2016, 2015 and 2014 amounted to €146,430 thousand, €164,175 thousand and €132,247 thousand, respectively, and mainly consist of marketing and sales personnel costs. Marketing and events expenses consist primarily of costs in connection with trade and auto shows, media and client events for the launch of new models and sponsorship and indirect marketing costs incurred through the Formula 1 racing team, Scuderia Ferrari.

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7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Research and development costs expensed during the year	509,580	446,726	415,336
Amortization of capitalized development costs	104,055	114,856	125,497
Total research and development costs	613,635	561,582	540,833

The main component of research and development costs expensed related to the research and development performed for the Formula 1 racing car, which included initiatives to maximize the performance, efficiency and safety of the car, which are expensed as incurred. See Note 15 for information on development costs capitalized.

The U.S. National Highway Traffic Safety Administration (“NHTSA”) published additional guidelines for driver distraction. These guidelines focus, among other things, on the need to modify the design of car devices and other driver interfaces to minimize driver distraction. The Group is evaluating these guidelines and their potential impact on the Group's results of operations and financial position and determining what steps and/or countermeasures, if any, the Group will need to take to comply with these requirements.

8. OTHER EXPENSES, NET

Other expenses, net in 2016 include other expenses of €30,249 thousand (€33,137 thousand in 2015 and €39,190 thousand in 2014), net of other income of €5,748 thousand (€22,102 thousand in 2015 and €13,110 thousand in 2014).

Other expenses in 2016 include €15,469 thousand related to provisions, primarily related to disputes with a distributor, €5,628 thousand related to indirect taxes and €9,152 thousand related to miscellaneous expenses.

Other income in 2016 includes €2,903 thousand of gain on the disposal of property plant and equipment, €1,569 thousand related to rental income and €1,276 thousand related to miscellaneous income.

Other expenses in 2015 include €12,933 thousand related to provisions, of which €8,822 thousand related to legal proceedings and disputes and €4,111 thousand primarily related to disputes with suppliers, employees and other parties relating to contracts. The most significant accruals to the provision for legal proceedings and disputes recognized in 2015 relate to litigation with a former distributor.

Other income in 2015 includes €5,802 thousand for the gain on the sale of a group of assets related to the investment properties in Modena, Italy, which the Group sold to the tenant, Maserati S.p.A., an FCA Group company. The total sale price (as determined by an independent valuation) amounted to €37,130 thousand and was received in the third quarter of 2015. At the transaction date the net book value of the assets and liabilities disposed of was €31,328 thousand.

Other expenses in 2014 include €21,372 thousand of accruals to provisions of which €12,783 thousand related to legal proceedings and disputes and €8,589 thousand primarily related to disputes with suppliers, employees and other parties relating to contracts. The most significant accruals to the provision for legal proceedings and disputes recognized in 2014 relate to litigation with a former distributor.

9. RESULT FROM INVESTMENTS

Result from investments of €3,066 thousand in 2016 includes €660 thousand related to the gain on the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016, €1,489 thousand related to the gain on the fair value measurement of the non-controlling interest retained in FFS GmbH and €917 thousand related to the Group's proportionate share of FFS GmbH's net profit subsequent to the sale date. See Note 17 for additional details.

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10. NET FINANCIAL (EXPENSES)/INCOME

The following table sets out details of financial income and expenses, including the amounts reported in the consolidated income statement within the net financial (expenses)/income line item, as well as interest income from financial services activities, recognized under net revenues, and interest cost and other financial charges from financial services companies, recognized under cost of sales.

	For the years ended December 31,		
	2016	2015	2014
Financial income:	(€ thousand)		
<i>Interest income from bank deposits</i>	843	54	2,333
<i>Other interest income and financial income</i>	1,841	6,473	4,774
Interest income and other financial income	2,684	6,527	7,107
Finance income from financial services companies	58,236	61,587	45,760
Total financial income	60,920	68,114	52,867
Total financial income relating to:			
Industrial companies (A)	2,684	6,527	7,107
Financial services companies (reported within net revenues)	58,236	61,587	45,760
Financial expenses:			
<i>Interest expenses on financial liabilities with FCA Group</i>	—	(15,745)	(6,141)
<i>Capitalized borrowing costs</i>	1,519	1,530	1,588
<i>Other interest cost and financial expenses</i>	(4,090)	(3,163)	(985)
Interest expenses and other financial expenses	(2,571)	(17,378)	(5,538)
Interest expenses from banks	(27,042)	(3,357)	(817)
Interest on bond	(6,937)	—	—
Write-downs of financial receivables	(3,864)	(9,607)	(6,769)
Net interest expenses on employee benefits provisions	(389)	(79)	(400)
Other financial expenses	(5,831)	(5,029)	(2,007)
Total financial expenses	(46,634)	(35,450)	(15,531)
Net (expenses)/income from derivative financial instruments and foreign currency exchange rate differences	(5,086)	(4,930)	1,197
Total financial expenses and net expenses from derivative financial instruments and foreign currency exchange rate differences	(51,720)	(40,380)	(14,334)
Total financial expenses and net (expenses)/income from derivative financial instruments and foreign currency exchange rate differences relating to:			
Industrial companies (B)	(30,413)	(16,678)	1,658
Financial services companies (reported in cost of sales)	(21,307)	(23,702)	(15,992)
Net financial (expenses)/income relating to industrial companies (A+B)	(27,729)	(10,151)	8,765

Interest expenses from banks for the year ended December 31, 2016 primarily included interest expenses on debt incurred, directly or indirectly, as a result of the Restructuring, and in particular, interest expenses relating to the Term Loan and the Bridge Loan (which was fully repaid in March 2016), which were primarily used to repay a portion of the FCA Note. Interest expenses from banks also included interest expenses on other bank borrowings. Interest on bond includes interest expenses on the bond issued in March 2016. See Note 24 “Debt” for additional details.

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Interest expenses on financial liabilities with FCA Group for the year ended December 31, 2015 included €9,333 thousand related to the FCA Note.

11. INCOME TAXES

Income tax expense is as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Current tax expense	189,492	153,739	137,468
Deferred tax benefit	(18,290)	(9,410)	(4,600)
Taxes relating to prior periods	(3,567)	(214)	350
Total income tax expense	167,635	144,115	133,218

The reconciliation between actual income tax expense and the theoretical income tax expense, calculated on the basis of the theoretical tax rates in effect in Italy, is as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Theoretical income tax expense, net of IRAP	156,022	119,396	109,514
Tax effect on:			
Permanent differences	(10,219)	5,846	(3,061)
Effect of changes in tax rate and tax regulations	1,280	4,005	—
Differences between foreign tax rates and the theoretical Italian tax rate and tax holidays	853	1,631	680
Taxes relating to prior years	(3,567)	(214)	350
Withholding tax on earnings	2,017	(384)	6,607
Total income tax expense, net of IRAP	146,386	130,280	114,090
<i>Effective tax rate, net of IRAP</i>	<i>25.8%</i>	<i>30.0%</i>	<i>28.6%</i>
IRAP (current and deferred)	21,249	13,835	19,128
Total income tax expense	167,635	144,115	133,218

Theoretical income taxes have been calculated at a rate of 27.5 percent, which was the corporate income tax rate in Italy for each of the years ended December 31, 2016, 2015 and 2014. During 2015 a change in Italian tax law approved a reduction in the corporate income tax rate from 27.5 percent to 24.0 percent, effective from 2017. As a result, deferred tax assets and liabilities expected to reverse in and subsequent to 2017 have been adjusted to reflect the reduction in the corporate income tax rate.

In order to facilitate the understanding of the tax rate reconciliation presented above, income tax expense has been presented net of Italian Regional Income Tax (“IRAP”). IRAP is calculated on a measure of income defined by the Italian Civil Code as the difference between operating revenues and costs, before financial income and expense, and in particular before the cost of fixed-term employees, credit losses and any interest included in lease payments. IRAP is applied on the tax base at 3.9 percent for each of the years ended December 31, 2016, 2015 and 2014. The decrease in the effective tax rate net of IRAP from 30.0 percent in 2015 to 25.8 percent in 2016 was primarily attributable to the combined effects of the previously mentioned adjustments to deferred taxes due to the reduction in the Italian corporate income tax rate and additional tax deductions in 2016 on eligible research and development costs and on investments and other expenses, in accordance with changes in tax regulations in Italy.

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The analysis of deferred tax assets and deferred tax liabilities at December 31, 2016 and 2015, is as follows:

	At December 31,	
	2016	2015
	(€ thousand)	
Deferred tax assets:		
To be recovered after 12 months	72,142	56,821
To be recovered within 12 months	47,215	65,801
	119,357	122,622
Deferred tax liabilities:		
To be recovered after 12 months	(10,517)	(12,604)
To be recovered within 12 months	(2,594)	(10,741)
	(13,111)	(23,345)
Net deferred tax assets	106,246	99,277

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	At December 31, 2015	Recognized in consolidated income statement	Charged to equity	Changes in scope of consolidation	Translation differences and other changes	At December 31, 2016
	(€ thousand)					
Deferred tax assets arising on:						
Provisions	77,915	29,461	—	(78)	4,023	111,321
Deferred income	39,318	4,231	—	—	—	43,549
Employee benefits	2,242	(54)	(18)	—	200	2,370
Cash flow hedge reserve	24,267	—	(16,943)	—	1	7,325
Foreign currency exchange rate differences	343	2,685	—	—	—	3,028
Inventory obsolescence	25,075	(626)	—	—	120	24,569
Allowances for doubtful accounts	3,633	485	—	—	(11)	4,107
Depreciation	21,682	(1,783)	—	—	(46)	19,853
Other	10,838	(1,808)	—	6,989	(2,186)	13,833
Total deferred tax assets	205,313	32,591	(16,961)	6,911	2,101	229,955
Deferred tax liabilities arising on:						
Depreciation	(14,571)	(2,591)	—	—	(430)	(17,592)
Capitalization of development costs	(79,531)	(10,949)	—	—	—	(90,480)
Employee benefits	(1,713)	(32)	—	—	—	(1,745)
Exchange rate differences	(1,970)	(1,577)	—	—	—	(3,547)
Cash flow hedge reserve	(1)	—	—	—	—	(1)
Lease accounting	(11,457)	453	—	—	—	(11,004)
Withholding tax on undistributed earnings	(1,150)	—	—	—	—	(1,150)
Total deferred tax liabilities	(110,393)	(14,696)	—	—	(430)	(125,519)
Deferred tax asset arising on tax loss carry-forward	4,357	395	—	(2,949)	7	1,810
Total net deferred tax assets	99,277	18,290	(16,961)	3,962	1,678	106,246

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	At December 31, 2014	Recognized in consolidated income statement	Charged to equity	Changes in the scope of consolidation	Translation differences and other changes	At December 31, 2015
	(€ thousand)					
Deferred tax assets arising on:						
Provisions	72,763	4,067	—	—	1,085	77,915
Deferred income	35,039	4,279	—	—	—	39,318
Employee benefits	3,373	(825)	(306)	—	—	2,242
Cash flow hedge reserve	26,869	—	(2,602)	—	—	24,267
Foreign currency exchange rate differences	1,090	(747)	—	—	—	343
Inventory obsolescence	16,423	8,254	—	—	398	25,075
Allowances for doubtful accounts	5,292	(1,647)	—	—	(12)	3,633
Depreciation	22,219	(537)	—	—	—	21,682
Board of Directors compensation	3,416	(3,416)	—	—	—	—
Other	11,846	(2,819)	—	—	1,811	10,838
Total deferred tax assets	198,330	6,609	(2,908)	—	3,282	205,313
Deferred tax liabilities arising on:						
Depreciation	(11,987)	(1,956)	—	—	(628)	(14,571)
Capitalization of development costs	(76,570)	(2,961)	—	—	—	(79,531)
Employee benefits	(1,575)	(138)	—	—	—	(1,713)
Exchange rate differences	(2,350)	380	—	—	—	(1,970)
Cash flow hedge reserve	(1)	—	—	—	—	(1)
Lease accounting	(12,625)	1,168	—	—	—	(11,457)
Withholding tax on undistributed earnings	(5,228)	4,078	—	—	—	(1,150)
Total deferred tax liabilities	(110,336)	571	—	—	(628)	(110,393)
Deferred tax asset arising on tax loss carry-forward	2,110	2,230	—	—	17	4,357
Total net deferred tax assets	90,104	9,410	(2,908)	—	2,671	99,277

The decision to recognize deferred tax assets is made for each company in the Group by assessing whether the conditions exist for the future recoverability of such assets by taking into account the basis of the most recent forecasts from budgets and plans.

Deferred taxes on the undistributed earnings of subsidiaries have not been recognized, except in cases where it is probable the distribution will occur in the foreseeable future.

Starting in 2016 and following the completion of the Separation, the Group's entities participate in a group Italian tax consolidation under Ferrari N.V. Previously, the Group participated in the FCA Group Italian tax consolidation.

12. OTHER INFORMATION BY NATURE

Personnel costs in 2016, 2015 and 2014 amounted to €294,047 thousand, €284,947 thousand and €279,680 thousand, respectively. These amounts include costs that were capitalized mainly in connection to product development activities.

In 2016, the Group had an average number of employees of 3,115 (average number of employees of 2,954 and 2,843 in 2015 and 2014, respectively).

13. EARNINGS PER SHARE

For the purpose of calculating earnings per share for the years ended December 31, 2015 and 2014, the weighted average number of common shares outstanding retrospectively reflects the effects of the Separation.

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Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue. The following table provides the amounts used in the calculation of basic earnings per share for the years ended December 31, 2016, 2015 and 2014:

		For the years ended December 31,		
		2016	2015	2014
Profit attributable to owners of the Company	€ thousand	398,762	287,816	261,371
Weighted average number of common shares	thousand	188,923	188,923	188,923
Basic earnings per common share	€	2.11	1.52	1.38

Diluted earnings per share

For the years ended December 31, 2015 and 2014 there were no potentially dilutive instruments. For the year ended December 31, 2016 the weighted average number of shares for diluted earnings per share was increased to take into consideration the theoretical effect of the potential common shares that would be issued for the Non-Executive Directors' compensation agreement. See Note 28 for additional details. The following table provides the amounts used in the calculation of diluted earnings per share for the years ended December 31, 2016, 2015 and 2014:

		For the years ended December 31,		
		2016	2015	2014
Profit attributable to owners of the Company	€ thousand	398,762	287,816	261,371
Weighted average number of common shares for diluted earnings per common share	thousand	188,946	188,923	188,923
Diluted earnings per common share	€	2.11	1.52	1.38

14. GOODWILL

At December 31, 2016, goodwill amounted to €785,182 thousand (€787,178 thousand at December 31, 2015). The movement in goodwill relates to the sale of the majority stake in FFS GmbH. See Note 17 for additional details.

In accordance with IAS 36, goodwill is not amortized and is tested for impairment annually, or more frequently if facts or circumstances indicate that the asset may be impaired. Impairment testing is performed by comparing the carrying amount and the recoverable amount of the CGU. The recoverable amount of the CGU is the higher of its fair value less costs to sell and its value in use.

The assumptions used in this process represent management's best estimate for the period under consideration. The estimate of the value in use of the CGU for purposes of performing the annual impairment test was based on the following assumptions:

- The expected future cash flows covering the period from 2017 through 2020 have been derived from the Ferrari business plan. In particular the estimate considers expected EBITDA adjusted to reflect the expected capital expenditure. These cash flows relate to the CGU in its condition when preparing the financial statements and exclude the estimated cash flows that might arise from restructuring plans or other structural changes. Volumes and sales mix used for estimating the future cash flows are based on assumptions that are considered reasonable and sustainable and represent the best estimate of expected conditions regarding market trends for the CGU over the period considered.
- The expected future cash flows include a normalized terminal period used to estimate the future results beyond the time period explicitly considered, which were calculated by using the specific medium/long-term growth rate for the sector equal to 2.0 percent (2.1 percent in 2015 and 1.0 percent in 2014).

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- The expected future cash flows have been estimated in Euro, and discounted using a post-tax discount rate appropriate for that currency, determined by using a base WACC of 7.0 percent (7.6 percent in 2015 and 8.2 percent in 2014). The WACC used reflects the current market assessment of the time value of money for the period being considered and the risks specific to the CGU under consideration.

The recoverable amount of the CGU was significantly higher than its carrying amount. Furthermore, the exclusivity of the business, its historical profitability and its future earnings prospects indicate that the carrying amount of the goodwill will continue to be recoverable, even in the event of difficult economic and market conditions.

15. INTANGIBLE ASSETS

	Externally acquired development costs	Development costs internally generated	Patents, concessions and licenses	Other intangible assets	Total
	(€ thousand)				
Gross carrying amount at January 1, 2015	717,373	399,955	122,122	37,511	1,276,961
Additions	117,110	37,299	9,035	7,589	171,033
Divestitures	—	—	(1,248)	(18)	(1,266)
Reclassification	—	—	(53)	53	—
Translation differences	—	—	1,381	335	1,716
Balance at December 31, 2015	834,483	437,254	131,237	45,470	1,448,444
Additions	104,009	37,387	12,110	12,834	166,340
Reclassification	—	—	4,369	(4,369)	—
Change in scope of consolidation	—	—	(3,458)	—	(3,458)
Translation differences	—	—	(66)	(93)	(159)
Balance at December 31, 2016	938,492	474,641	144,192	53,842	1,611,167
Accumulated amortization at January 1, 2015	612,046	259,018	106,600	34,035	1,011,699
Amortization	84,865	29,991	11,112	2,692	128,660
Divestitures	—	—	(1,177)	—	(1,177)
Translation differences	—	—	1,231	221	1,452
Balance at December 31, 2015	696,911	289,009	117,766	36,948	1,140,634
Amortization	77,240	26,815	11,628	2,419	118,102
Reclassification	—	—	3,317	(3,317)	—
Change in scope of consolidation	—	—	(1,766)	—	(1,766)
Translation differences	—	—	(144)	(53)	(197)
Balance at December 31, 2016	774,151	315,824	130,801	35,997	1,256,773
Carrying amount at:					
January 1, 2015	105,327	140,937	15,522	3,476	265,262
December 31, 2015	137,572	148,245	13,471	8,522	307,810
December 31, 2016	164,341	158,817	13,391	17,845	354,394

Additions of €166,340 thousand in 2016 (€171,033 thousand in 2015) primarily relate to externally acquired and internally generated development costs for the development of new models and investments to develop existing models.

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16. PROPERTY, PLANT AND EQUIPMENT

	Land	Industrial buildings	Plant, machinery and equipment	Other assets	Advances and assets under construction	Total
	(€ thousand)					
Gross carrying amount at January 1, 2015	22,500	276,446	1,549,578	128,233	89,784	2,066,541
Additions	142	23,716	117,618	10,665	32,769	184,910
Divestitures	—	(6,775)	(23,962)	(7,469)	(139)	(38,345)
Reclassification	—	37,802	48,706	143	(86,651)	—
Translation differences	29	(12)	(458)	55	—	(386)
Balance at December 31, 2015	22,671	331,177	1,691,482	131,627	35,763	2,212,720
Additions	—	5,596	81,678	7,322	81,051	175,647
Divestitures	—	(1,021)	(9,902)	(7,631)	—	(18,554)
Reclassification	—	1,578	22,898	1,441	(28,341)	(2,424)
Change in scope of consolidation	—	—	—	(613)	—	(613)
Translation differences	10	173	—	476	—	659
Balance at December 31, 2016	22,681	337,503	1,786,156	132,622	88,473	2,367,435
Accumulated amortization at January 1, 2015	—	116,718	1,268,082	96,556	—	1,481,356
Depreciation	—	10,340	124,950	8,995	—	144,285
Divestitures	—	(3,947)	(27,167)	(6,515)	—	(37,629)
Translation differences	—	(12)	(1,394)	(16)	—	(1,422)
Balance at December 31, 2015	—	123,099	1,364,471	99,020	—	1,586,590
Depreciation	—	9,995	109,939	9,681	—	129,615
Divestitures	—	(608)	(11,628)	(6,039)	—	(18,275)
Reclassification	—	177	(1,786)	1,609	—	—
Change in scope of consolidation	—	—	—	(312)	—	(312)
Translation differences	—	159	(1)	376	—	534
Balance at December 31, 2016	—	132,822	1,460,995	104,335	—	1,698,152
Carrying amount at:						
January 1, 2015	22,500	159,728	281,496	31,677	89,784	585,185
December 31, 2015	22,671	208,078	327,011	32,607	35,763	626,130
December 31, 2016	22,681	204,681	325,161	28,287	88,473	669,283

Additions of €175,647 thousand in 2016 were mainly comprised of additions of €81,678 thousand to plant, machinery and equipment and additions of €81,051 thousand related to advances and assets under construction. Additions to plant, machinery and equipment in 2016 mainly related to investments in cars production lines, engine assembly lines and personalization programs. Additions to advances and assets under construction in 2016 mainly related to car production lines of models to be launched in future years.

Additions of €184,910 thousand in 2015 were mainly comprised of additions of €117,618 thousand to plant, machinery and equipment and additions of €32,769 thousand related to advances and assets under construction. Additions to plant, machinery and equipment in 2015 mainly related to investments in cars production lines, engine testing equipment and to upgrade wind tunnel. Additions to advances and assets under construction in 2015 mainly related to car production lines.

At December 31, 2016, the Group had contractual commitments for the purchase of property, plant and equipment amounting to €49,614 thousand (€31,041 thousand at December 31, 2015).

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17. INVESTMENTS AND OTHER FINANCIAL ASSETS

	At December 31,	
	2016	2015
	(€ thousand)	
Investments accounted for using the equity method	20,948	—
Delta Topco option	11,967	10,858
Other securities and other financial assets	1,020	978
Total investments and other financial assets	33,935	11,836

Investments accounted for using the equity method

Investments accounted for using the equity method relates to the Group's investment in FFS GmbH. In particular, on November 7, 2016, Ferrari and FCA Bank finalized an agreement to provide financial services in Europe, under which FCA Bank acquired a majority stake in FFS GmbH from Ferrari for a purchase price of €18,595 thousand, which was received upon sale. In addition to the purchase price, as a result of the funding of FFS GmbH being directly provided by FCA Bank, which is the consolidating entity of FFS GmbH following the transaction, the Group also received cash of €431,958 thousand.

Upon completion of the transaction, FFS GmbH was deconsolidated and the 49.9 percent interest in FFS GmbH retained by Ferrari is accounted for using the equity method.

Changes in the investments accounted for using the equity method during the year were as follows:

	(€ thousand)
Balance at January 1, 2016	—
Change in scope of consolidation	18,542
Fair value measurement of interest retained by the Group	1,489
Proportionate share of net profit for the period from November 7 to December 31, 2016	917
Balance at December 31, 2016	20,948

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Summarized financial information relating to FFS GmbH at and for the year ended December 31, 2016 was as follows:

	At December 31, 2016 (€ thousand)
Assets	
Intangible assets	1,133
Property, plant and equipment	119
Deferred tax assets	2,736
Total non-current assets	3,988
Inventories	412
Trade receivables	472
Receivables from financing activities	463,108
Other current assets	3,543
Cash and cash equivalents	29,087
Total current assets	496,622
Total assets	500,610
Equity and liabilities	
Equity	39,921
Non-current liabilities and provisions	7,920
Debt	447,272
Trade payables	123
Other liabilities	5,374
Total equity and liabilities	500,610
	For the year ended December 31, 2016 (€ thousand)
Net revenues	27,471
Cost of sales	9,563
Selling, general and administrative costs	8,432
Other expenses, net	180
Profit before taxes	9,296
Income tax expense	2,070
Net profit	7,226

Delta Topco option

The Group was granted an option to purchase a fixed number of shares in Delta Topco for a fixed price on the occurrence of certain events. Delta Topco is a company belonging to the Formula 1 Group (the group responsible for the promotion of the Formula 1 World Championship).

Movements in the Delta Topco option relate to the revaluation of the option, which was impacted in 2016 due to the agreement between Liberty Media Corporation ("LMC") and CVC Capital Partners for the sale of Delta Topco to LMC. The sale of Delta Topco to LMC was completed on January 23, 2017. See Note 32.

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18. INVENTORIES

	At December 31,	
	2016	2015
	(€ thousand)	
Raw materials	95,594	75,812
Semi-finished goods	72,472	67,819
Finished goods	155,932	151,805
Total inventories	323,998	295,436

The accrual to the provision for slow moving and obsolete inventories recognized within cost of sales during 2016 was €2,120 thousand (€11,610 thousand in 2015 and €3,091 thousand in 2014).

Changes in the provision for slow moving and obsolete inventories were as follows:

	2016	2015
	(€ thousand)	
At January 1,	60,588	54,693
Provision	2,120	11,610
Use and other changes	(2,160)	(5,715)
At December 31,	60,548	60,588

19. CURRENT RECEIVABLES, OTHER CURRENT ASSETS AND DEPOSITS IN FCA GROUP CASH MANAGEMENT POOLS

	At December 31,	
	2016	2015
	(€ thousand)	
Trade receivables	243,977	158,165
Deposits in FCA Group cash management pools	—	139,172
Receivables from financing activities	790,377	1,173,825
Current tax receivables	1,312	15,369
Other current assets	53,729	46,477
Total	1,089,395	1,533,008

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Trade receivables

The following table sets forth a breakdown of trade receivables by nature:

	At December 31,	
	2016	2015
	(€ thousand)	
Trade receivables due from:		
FCA Group companies	75,694	42,247
Dealers	47,208	45,185
Sponsors	42,789	12,041
Brand activities	15,650	38,789
Other	62,636	19,903
Total	243,977	158,165

Trade receivables due from dealers relate to receivables for the sale of cars across the dealer network and are generally settled within 15 to 60 days from the date of invoice.

Trade receivables due from FCA Group companies mainly relate to the sale of engines and car bodies to Maserati S.p.A. and Officine Maserati Grugliasco S.p.A. (together “Maserati”) which are controlled by the FCA Group. For additional information, see Note 28.

Trade receivables due from sponsors relate to amounts receivable from sponsors of the Group’s Formula 1 activities.

Trade receivables due from brand activities relate to amounts receivable for licensing and merchandising activities.

The Group is not exposed to concentration of third party credit risk.

The following table sets forth a breakdown of trade receivables by currency:

	At December 31,	
	2016	2015
	(€ thousand)	
Trade receivables denominated in:		
Euro	155,545	112,658
U.S. Dollar	62,701	29,981
Pound Sterling	1,222	4,398
Chinese Yuan	3,819	1,026
Japanese Yen	16,310	3,231
Other	4,380	6,871
Total	243,977	158,165

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Trade receivables are shown net of an allowance for doubtful accounts determined on the basis of insolvency risk and historical experience. Accruals to the allowance for doubtful accounts are recorded in selling, general and administrative costs in the consolidated income statement. Changes in the allowance for doubtful accounts during the year were as follows:

	2016	2015
	(€ thousand)	
At January 1,	18,371	14,664
Provision	3,504	10,298
Use and other changes	(2,701)	(6,591)
At December 31,	19,174	18,371

Deposits in FCA Group cash management pools

Deposits in FCA Group cash management pools related to the Group's participation in a group-wide cash management system at FCA Group. Following the Separation on January 3, 2016, these arrangements were terminated and the Group received the cash that was held on deposit. The Group now manages its own liquidity and treasury function on a standalone basis.

Receivables from financing activities

Receivables from financing activities are as follows:

	At December 31,	
	2016	2015
	(€ thousand)	
Client financing	758,679	1,115,661
Factoring receivables	—	30,901
Dealer financing	31,698	27,263
Total receivables from financing activities	790,377	1,173,825

Receivables from financing activities are shown net of an allowance for doubtful accounts determined on the basis of insolvency risks. Accruals to the allowance for doubtful accounts are recorded in cost of sales in the consolidated income statement. Changes in the allowance for doubtful accounts of receivables from financing activities during the year are as follows:

	2016	2015
	(€ thousand)	
At January 1,	18,671	14,201
Provision	2,455	9,607
Change in scope of consolidation	(8,409)	—
Use and other changes	(1,161)	(5,137)
At December 31,	11,556	18,671
<i>Of which:</i>		
Client financing	10,916	16,855
Factoring receivables	640	1,816

Client financing

Client financing relates to financing provided by the Group to Ferrari clients to finance their car acquisition. During 2016 the average contractual duration at inception of such contracts was approximately 66 months and the weighted average interest rate was approximately 5.0 percent. Receivables for client financing are generally secured on the titles of cars or other personal guarantees.

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The decrease in receivables for client financing were primarily attributable to the deconsolidation of FFS GmbH following the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016. Following this transaction, client financing mainly relates to activities in the United States.

The following table sets forth a breakdown of client financing by geography:

	At December 31,	
	2016	2015
	(€ thousand)	
United States	758,447	640,953
United Kingdom	—	293,804
Germany	—	74,735
Switzerland	—	56,569
Italy	232	3,408
France	—	38,659
Belgium	—	7,533
Total client financing	758,679	1,115,661

Factoring receivables

Factoring receivables related to the purchase of trade receivables from the FCA Group. In 2014 the Group factored receivables in both Italy and the United States and from 2015, only in the United States. Such receivables were purchased on a non-recourse basis and the Group generally earned interest of LIBOR +350 bps (EURIBOR + 350 bps for the Italian receivables factored in 2014). The interest earned amounted to €711 thousand for 2015 and was recorded in net revenues, within interest income of financial services activities.

During 2016, the Group discontinued this activity.

Dealer financing

The Group provides dealer financing in the United States and until May 2015, also in Japan. Receivables for dealer financing are typically generated by sales of cars managed under dealer network financing programs as a component of the portfolio of the financial services companies. In 2016 these receivables were interest bearing at a rate between 2.9 percent and 5.2 percent (between 2.7 percent and 4.2 percent in 2015), with the exception of an initial limited, non-interest bearing period. The contractual terms governing the relationships with the dealer network vary from country to country, although payment terms generally range from 1 to 6 months. Receivables on dealer financing are generally secured by the title of the car or other collateral.

Other current assets

Other current assets are as follows:

	At December 31,	
	2016	2015
	(€ thousand)	
Prepayments	31,611	19,979
Italian and foreign VAT credits	12,032	9,265
Due from personnel	747	699
Security deposits	932	869
Other receivables	8,407	15,665
Total other current assets	53,729	46,477

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At December 31, 2016, the Group had provided guarantees through third parties, amounting to €89,014 thousand (€73,564 thousand at at December 31, 2015), principally to the relevant tax authorities in relation to (i) the validity of value added tax ("VAT") and duties for which the Group requested reimbursement from the relevant tax authorities and (ii) the VAT related to temporary import of classic cars for restoration activities which would become due if the car is not exported.

The analysis of current receivables and other current assets by due date (excluding prepayments) is as follows:

At December 31, 2016					
	Due within one year	Due between one and five years	Due beyond five years	Overdue	Total
	(€ thousand)				
Trade receivables	225,402	8	—	18,567	243,977
Receivables from financing activities	146,412	554,030	48,341	41,594	790,377
<i>Client financing</i>	136,602	536,954	43,529	41,594	758,679
<i>Dealer financing</i>	9,810	17,076	4,812	—	31,698
Current tax receivables	690	622	—	—	1,312
Other current receivables	21,572	539	7	—	22,118
Total	394,076	555,199	48,348	60,161	1,057,784

At December 31, 2015					
	Due within one year	Due between one and five years	Due beyond five years	Overdue	Total
	(€ thousand)				
Trade receivables	129,215	2,773	—	26,177	158,165
Deposits in FCA Group cash management pools	139,172	—	—	—	139,172
Receivables from financing activities	252,531	849,145	55,919	16,230	1,173,825
<i>Client financing</i>	210,900	832,612	55,919	16,230	1,115,661
<i>Factoring receivables</i>	30,901	—	—	—	30,901
<i>Dealer financing</i>	10,730	16,533	—	—	27,263
Current tax receivables	14,104	1,265	—	—	15,369
Other current receivables	25,636	855	7	—	26,498
Total	560,658	854,038	55,926	42,407	1,513,029

Total receivables from financing activities at December 31, 2016 includes €790,377 thousand (€1,170,891 thousand at December 31, 2015) which relate to the financial services portfolio and such receivables are generally secured on the titles of cars or with other guarantees.

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20. CURRENT FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	At December 31,	
	2016	2015
	(€ thousand)	
Financial derivatives	10,388	5,070
Other financial assets	5,888	3,556
Current financial assets	16,276	8,626

Current financial assets and other financial liabilities mainly relates to foreign exchange derivatives. The following table sets further the analysis of derivative assets and liabilities at December 31, 2015 and 2014.

	At December 31,			
	2016		2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
	(€ thousand)			
Cash flow hedge:				
Foreign currency forwards	8,160	(39,580)	1,900	(102,066)
Total cash flow hedges	8,160	(39,580)	1,900	(102,066)
Other foreign exchange derivatives	1,548	(58)	3,170	(1,266)
Interest rate caps	680	—	—	—
Total	10,388	(39,638)	5,070	(103,332)

Other foreign exchange derivatives relate to foreign currency forwards which do not meet the requirements to be recognized as cash flow hedges. Interest rate caps relate to derivative instruments we are required to enter into as part of certain of our securitization agreements.

The following tables provide an analysis by foreign currency and due date of outstanding derivative financial instruments based on their fair value and notional amounts:

	At December 31, 2016					
	Fair value due within one year	Fair value due between one and two years	Total fair value	Notional amount due within one year	Notional amount due between one and two years	Total notional amount
	(€ thousand)					
Currencies:						
U.S. Dollar	(33,758)	—	(33,758)	788,274	—	788,274
Pound Sterling	3,668	—	3,668	106,056	—	106,056
Chinese Yuan	(125)	—	(125)	19,917	—	19,917
Swiss Franc	(476)	—	(476)	47,923	—	47,923
Japanese Yen	2,835	—	2,835	91,854	—	91,854
Other ⁽¹⁾	(1,394)	—	(1,394)	74,822	—	74,822
Total amount	(29,250)	—	(29,250)	1,128,846	—	1,128,846

(1) Other mainly includes the Australian Dollar, the Hong Kong Dollar and the Canadian Dollar

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At December 31, 2015

	Fair value due within one year	Fair value due between one and two years	Total fair value	Notional amount due within one year	Notional amount due between one and two years	Total notional amount
	(€ thousand)					
Currencies:						
U.S. Dollar	(77,047)	(1,812)	(78,859)	689,476	67,903	757,379
Pound Sterling	(3,834)	(296)	(4,130)	368,355	5,395	373,750
Chinese Yuan	(7,839)	—	(7,839)	48,658	—	48,658
Swiss Franc	(3,692)	—	(3,692)	93,981	—	93,981
Japanese Yen	(3,434)	—	(3,434)	54,206	—	54,206
Other ⁽¹⁾	(308)	—	(308)	19,628	—	19,628
Total amount	(96,154)	(2,108)	(98,262)	1,274,304	73,298	1,347,602

(1) Other mainly includes the Australian Dollar, the Hong Kong Dollar and the Canadian Dollar

Cash flow hedges

The effects recognized in the consolidated income statement mainly relate to currency risk management and in particular the exposure to fluctuations in the Euro/U.S. Dollar exchange rate for sales in U.S. Dollar in the United States of America, Canada and Mexico and other markets where the U.S. Dollar is the reference currency.

The policy of the Group for managing currency risk normally requires that projected future cash flows from trading activities which will occur within the following 12 months, and from orders acquired (or contracts in progress), whatever their due dates, be hedged. It is considered reasonable that the hedging effect arising from this and recorded in the cash flow hedge reserve will be recognized in the consolidated income statement, mainly during the following 12 months.

Derivatives relating to currency risk management are treated as cash flow hedges where the derivative qualifies for hedge accounting. The amount recorded in the cash flow hedge reserve will be recognized in the consolidated income statement according to the timing of the flows of the underlying transaction.

The Group reclassified gains and losses, net of the tax effect, from other comprehensive income/(loss) to the consolidated income statement as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Net (costs)/revenues	(69,368)	(145,095)	20,111
Net financial expenses	—	(23,745)	(16,788)
Income tax benefit/(expense)	19,354	53,016	(1,043)
Total recognized in the consolidated income statement	(50,014)	(115,824)	2,280

The ineffectiveness of cash flow hedges was not material for the years 2016, 2015 and 2014.

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21. EQUITY

As discussed in Note 1, for the periods prior to the Restructuring, with the exception of the FCA Note and subsequent refinancing (explained in Note 24), which were reflected in the Consolidated Financial Statements only from the dates in which they occurred, the Restructuring has been retrospectively reflected in these Consolidated Financial Statements in determining the share capital as though the Restructuring had occurred effective January 1, 2014.

Share capital

Following the Restructuring, at December 31, 2015 the fully paid up share capital of the Company was €3,778 thousand, consisting of 188,921,600 common shares and the same number of special voting shares, all with a nominal value of €0.01. As discussed in Note 1, with the exception of the FCA Note and subsequent refinancing (as detailed herein), the Restructuring has been retrospectively reflected in these consolidated financial statements as though it had occurred effective January 1, 2014.

Following the Separation and at December 31, 2016 the fully paid up share capital of the Company was €2,504 thousand, consisting of 193,923,499 common shares and 56,497,618 special voting shares, all with a nominal value of €0.01. At December 31, 2016, the Company held 5,000,000 common shares and 2,930 special voting shares in treasury.

Changes in the fully paid up share capital and special voting shares between December 31, 2015 and December 31, 2016 relate entirely to the effects of the Separation, which was completed between January 1 and January 3, 2016.

The Company did not issue new common shares or special voting shares in the initial public offering and did not receive any of the proceeds.

The loyalty voting structure

The purpose of the loyalty voting structure is to reward ownership of the Company's common shares and to promote stability of the Company's shareholder base by granting long-term shareholders of the Company with special voting shares. Following the Separation, Exor B.V. ("Exor") and Piero Ferrari participate in the Company's loyalty voting program and, therefore, effectively hold two votes for each of the common shares they hold. Investors who purchased common shares in the initial public offering may elect to participate in the loyalty voting program by registering their common shares in the loyalty share register and holding them for three years. The loyalty voting program will be effected by means of the issue of special voting shares to eligible holders of common shares. Each special voting share entitles the holder to exercise one vote at the Company's shareholders meeting. Only a minimal dividend accrues to the special voting shares allocated to a separate special dividend reserve, and the special voting shares do not carry any entitlement to any other reserve of the Group. The special voting shares have only immaterial economic entitlements and, as a result, do not impact the Company's earnings per share calculation.

Retained earnings and other reserves

Retained earnings and other reserves includes:

- the share premium reserve of €5,888,529 thousand at December 31, 2016 (€5,975,434 thousand at December 31, 2015). The share premium reserve originated from the issuance of common shares pursuant to the Restructuring and from a share premium contribution of €1,162 thousand made by FCA in 2015 and received in 2016. As explained below, the movement in 2016 relates to a cash distribution which was made from this reserve;
- the legal reserve of €14 thousand at December 31, 2016 and €5 thousand at December 31, 2015, determined in accordance with Dutch law.

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 15, 2016, the Company paid a cash distribution of €0.46 per common share in May 2016, corresponding to a total distribution of €86,905 thousand. The distribution was made from the share premium reserve which is a distributable reserve under Dutch law.

Equity-settled Non-Executive Directors' compensation amounted to €1,110 thousand for the year ended December 31, 2016 and was recognized as an increase to other reserves. See Note 28 for additional details.

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Other comprehensive income/(loss)

The following table presents other comprehensive income/(loss):

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Items that will not be reclassified to the consolidated income statement in subsequent periods:			
(Losses)/Gains on remeasurement of defined benefit plans	(1,448)	898	(4,739)
Total items that will not be reclassified to the consolidated income statement in subsequent periods	(1,448)	898	(4,739)
Items that may be reclassified to the consolidated income statement in subsequent periods:			
Losses on cash flow hedging instruments arising during the period	(18,282)	(160,606)	(145,018)
Losses/(gains) on cash flow hedging instruments reclassified to the consolidated income statement	69,368	168,840	(3,323)
Gains/(losses) on cash flow hedging instruments	51,086	8,234	(148,341)
Exchange differences on translating foreign operations arising during the period	4,118	13,344	27,836
Total items that may be reclassified to the consolidated income statement in subsequent periods	55,204	21,578	(120,505)
Total other comprehensive income/(loss)	53,756	22,476	(125,244)
Related tax impact	(16,961)	(2,908)	47,649
Total other comprehensive income/(loss), net of tax	36,795	19,568	(77,595)

Losses on remeasurement of defined benefit plans mainly include actuarial gains and losses arising during the period. These gains and losses are offset against the related net defined benefit liabilities.

The tax effect relating to other comprehensive income/(loss) are as follows:

	For the years ended December 31,								
	2016			2015			2014		
	Pre-tax balance	Tax income/(expense)	Net balance	Pre-tax balance	Tax income/(expense)	Net balance	Pre-tax balance	Tax income/(expense)	Net balance
	(€ thousand)								
(Losses)/Gains on remeasurement of defined benefit plans	(1,448)	(18)	(1,466)	898	(308)	590	(4,739)	1,061	(3,678)
Gains/(losses) on cash flow hedging instruments	51,086	(16,943)	34,143	8,234	(2,600)	5,634	(148,341)	46,588	(101,753)
Exchange gains on translating foreign operations	4,118	—	4,118	13,344	—	13,344	27,836	—	27,836
Total other comprehensive income/(loss)	53,756	(16,961)	36,795	22,476	(2,908)	19,568	(125,244)	47,649	(77,595)

With the exception of dividends paid to non-controlling interests as described below, there were no transactions with non-controlling interests for the year ended December 31, 2016.

Transactions with non-controlling interests for the year ended December 31, 2015

Transactions with non-controlling interests for the year ended December 31, 2015 relate to the purchase of the remaining 10 percent of NCI of the subsidiary FFS from Aldasa GmbH. The purchase price for the FFS shares was €8,500 thousand (based on an independent valuation) and the carrying value of the 10 percent interest at the time of purchase was €5,898 thousand. In accordance with IAS 27, the difference of €2,602 thousand was recorded as a reduction to equity.

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Transactions with non-controlling interests for the year ended December 31, 2014

	For the year ended December 31, 2014	
	Group	NCI
	(€ thousand)	
Transactions with non-controlling interests		
<i>FICTS</i>		
Capital reduction and change in ownership percentage of FICTS from 59% to 80%	3,832	(5,050)
Expiration and renegotiation of FICTS constitution and change in operations	(5,095)	59,074
<i>FFS Inc.</i>		
Capital increase	—	1,219
Total change in scope of consolidation	(1,263)	55,243

Capital reduction and change in ownership percentage of FICTS from 59 percent to 80 percent - In June 2014, the Board of Directors of FICTS agreed to perform a capital reduction, returning all of the capital investment to two of the non-controlling interests in FICTS, and reducing the interest of the third non-controlling interest. As a result of the capital reductions, Ferrari's proportional shareholding in FICTS increased from 59 percent to 80 percent. The carrying value of the non-controlling interest, and Ferrari's interest in FICTS was adjusted to reflect the change in shareholding structure.

Expiration and renegotiation of FICTS constitution and change in operations - In 2014, the agreement between Ferrari and the non-controlling interests expired. Also in 2014, the agreement between Ferrari and Maserati, which governed how FICTS imported and sold Maserati cars in China, and how Maserati was compensated for such transactions expired. Maserati incorporated a new Chinese entity to distribute Maserati vehicles in China. Accordingly, Ferrari no longer accounted for FICTS as a Joint Operation, but rather as a subsidiary. Such change resulted in the recognition of additional assets and liabilities, previously excluded from the scope of consolidation, and the derecognition of certain assets, which are now accounted for as intercompany transactions.

Dividends declared

FICTS shareholders' declared dividends to non-controlling interests of €79,369 thousand, representing the aggregate distributable profits at December 31, 2014. An amount of €15,050 thousand was paid to the non-controlling interests in 2014, €53,942 thousand in 2015 and €17,207 thousand in 2016. The remaining balance at December 31, 2016, equivalent to €1,603 thousand, has been recorded as other liabilities and will be paid in 2017. See Note 25.

Policies and processes for managing capital

The Group's objectives when managing capital are to create value for shareholders as a whole, safeguard business continuity and support the growth of the Group. As a result, the Group endeavors to maintain a satisfactory economic return for its shareholders and guarantee economic access to external sources of funds.

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22. EMPLOYEE BENEFITS

The Group's provisions for employee benefits are as follows:

	At December 31,	
	2016	2015
	(€ thousand)	
Present value of defined benefit obligations:		
Italian employee severance indemnity (TFR)	23,783	23,119
Pension plans	828	805
Total present value of defined benefit obligations	24,611	23,924
Other provisions for employees	66,413	54,449
Total provisions for employee benefits	91,024	78,373

Defined contribution plan

The Group recognizes the cost for defined contribution plans over the period in which the employee renders service and classifies this by function in cost of sales, selling, general and administrative costs and research and development costs. The total income statement expense for defined contributions plans in the years ended December 31, 2016, 2015 and 2014 was €9,719 thousand, €2,990 thousand and €13,986 thousand, respectively.

Defined benefit obligations

Italian employee severance indemnity (TFR)

Trattamento di fine rapporto or "TFR" relates to the amounts that employees in Italy are entitled to receive when they leave the company and is calculated based on the period of employment and the taxable earnings of each employee. Under certain conditions the entitlement may be partially advanced to an employee during the employee's working life.

The Italian legislation regarding this scheme was amended by Law 296 of 27 December 2006 and subsequent decrees and regulations issued in the first part of 2007. Under these amendments, companies with at least 50 employees are obliged to transfer the TFR to the "Treasury fund" managed by the Italian state-owned social security body ("INPS") or to supplementary pension funds. Prior to the amendments, accruing TFR for employees of all Italian companies could be managed by the company itself. Consequently, the Italian companies' obligation to INPS and the contributions to supplementary pension funds take the form, under IAS 19 revised, of "Defined contribution plans" whereas the amounts recorded in the provision for employee severance pay retain the nature of "Defined benefit plans". Accordingly, the provision for employee severance indemnity in Italy consists of the residual obligation for TFR until December 31, 2006. This is an unfunded defined benefit plan as the benefits have already been almost entirely earned, with the sole exception of future revaluations. Since 2007 the scheme has been classified as a defined contribution plan, and the Group recognizes the associated cost, being the required contributions to the pension funds, over the period in which the employee renders service.

Pension plans

Group companies, primarily in Germany sponsor non-contributory defined benefit pension plans, for which the Group meets the benefit payment obligation when it falls due. Benefits provided depends on the employee's length of service and their salary in the final years leading up to retirement.

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The expected benefit payments for the defined benefit obligations are as follows:

	Expected benefit payments	
	TFR	Pension plans
	(€ thousand)	
2017	1,537	46
2018	1,432	46
2019	1,469	47
2020	1,720	47
2021	1,957	47
Beyond 2021	7,615	4,095
Total	15,730	4,328

The following table summarizes the changes in the defined benefit obligations:

	TFR liability	Pension plans	Total
	(€ thousand)		
Amounts at December 31, 2014	25,837	10,492	36,329
Included in the consolidated income statement	82	72	154
Included in other comprehensive income/loss			
Actuarial (gains)/losses from:			
- Financial assumptions	(383)	(155)	(538)
- Other	(583)	223	(360)
Other			
Benefits paid	(1,825)	(3,739) ⁽¹⁾	(5,564)
Settlement	—	(6,792) ⁽²⁾	(6,792)
Other changes	(9)	704	695
Amounts at December 31, 2015	23,119	805	23,924
Included in the consolidated income statement	391	(37)	354
Included in other comprehensive income/loss			
Actuarial (gains)/losses from:			
- Demographic assumptions	—	—	—
- Financial assumptions	1,580	232	1,812
Other			
Benefits paid	(1,337)	(172)	(1,509)
Other changes	30	—	30
Amounts at December 31, 2016	23,783	828	24,611

(1) Includes €3,700 thousand related to the pension obligations paid for the former Chairman of FFS GmbH (at the time known as Ferrari Financial Services A.G.)

(2) Relates to settlement of over accruals for pension obligations for the former Chairman of FFS GmbH (at the time known as Ferrari Financial Services A.G.)

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Amounts recognized in the consolidated income statement are as follows:

	For the years ended December 31,								
	2016			2015			2014		
	TFR	Pension plans	Total	TFR	Pension plans	Total	TFR	Pension plans	Total
	(€ thousand)								
Current service cost	31	(41)	(10)	8	72	80	7	5,120	5,127
Interest expense	360	4	364	74	—	74	188	199	387
Total recognized in the consolidated income statement	391	(37)	354	82	72	154	195	5,319	5,514

The discount rates used for the measurement of the Italian TFR obligation are based on yields of high-quality (AA rated) fixed income securities for which the timing and amounts of payments match the timing and amounts of the projected benefit payments. For this plan, the single weighted average discount rate that reflects the estimated timing and amount of the scheme future benefit payments for 2016 is equal to 1.3 percent (1.6 percent in 2015 and 1.9 percent in 2014). The average duration of the Italian TFR is approximately 9 years. Retirement or employee leaving rates are developed to reflect actual and projected Group experience and legal requirements for retirement in Italy.

The discount rates are used in measuring the pension plan obligation (excluding TFR) and the interest expense/(income) of net period cost. The Group selects these rates on the basis of the rate on return on high-quality (AA rated) fixed income investments for which the timing and amounts of payments match the timing and amounts of the projected pension defined benefit plan which for 2016 was equal to approximately 1.3 percent (1.6 percent 2015 and 2.1 percent in 2014). The average duration of the obligations is approximately 5 years.

Current service cost is recognized by function in cost of sales, selling, general and administrative costs or research and development costs.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	At December 31,			
	2016		2015	
	Changes in assumption of +1% discount rate	Changes in assumption of -1% discount rate	Changes in assumption of +1% discount rate	Changes in assumption of -1% discount rate
	(€ thousand)			
Impact on defined benefit obligation	(1,909)	2,201	(1,675)	2,045
Total impact on defined benefit obligation	(1,909)	2,201	(1,675)	2,045

The above sensitivity analysis on TFR is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the defined benefit liability recognized in the statement of the financial position.

Other provisions for employees

Other provisions for employees consist of the expected future amounts payable to employees in connection with other remuneration schemes, which are not subject to actuarial valuation, including long-term bonus plans.

At December 31, 2016, other provisions for employees comprised long term bonus benefits amounting to €64,432 thousand (€52,553 thousand at December 31, 2015), jubilee benefits granted to certain employees by the Group in the event of

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achieving 30 years of service amounting to €1,905 thousand (€1,837 thousand at December 31, 2015), and other provisions for employees amounting to €76 thousand (€59 thousand at December 31, 2015). Interest expense on other provisions for employees amounted to €1 thousand for the year ended December 31, 2016 (€5 thousand and €13 thousand for the years ended December 31, 2015 and 2014, respectively).

23. PROVISIONS

Changes in provisions were as follows:

	At December 31, 2015	Additional provisions	Utilization	Translation differences and other	At December 31, 2016
			(€ thousand)		
Warranty and recall campaigns provision	76,312	59,846	(13,922)	175	122,411
Legal proceedings and disputes	44,977	910	(1,484)	933	45,336
Other risks	20,558	21,662	(1,212)	6,472	47,480
Total provisions	141,847	82,418	(16,618)	7,580	215,227

Warranty and recall campaigns provision

The warranty and recall campaigns provision represents the best estimate of commitments given by the Group for contractual, legal, or constructive obligations arising from product warranties given for a specified period of time. Such provisions are recognized on shipment of the car to the dealer.

The warranty and recall campaigns provision is estimated on the basis of the Group's past experience and contractual terms, related costs are recognized within cost of sales.

Takata airbag inflator recalls

On May 4, 2016, the United States National Highway Traffic Safety Administration ("NHTSA") published an amendment (the "Amendment") to the November 3, 2015 Takata Consent Order regarding Takata airbags manufactured using non-desiccated Phase Stabilized Ammonium Nitrate ("PSAN"), expanding the scope of a prior recall under the Takata Consent Order. The recall is industry wide and replacement parts are limited as Takata is the single supplier.

In compliance with the Amendment to the Takata Consent Order, on May 16, 2016, Takata submitted a defect information report ("DIR") to NHTSA declaring the non-desiccated PSAN airbag inflators, including those sold by Takata to the Group, defective.

Although the Group was not aware of any confirmed incidents or warranty claims relating to such airbag inflators mounted in its cars or that the airbag inflators were not performing as designed, as a result of the Amendment issued by NHTSA and the DIR issued by Takata, the Group initiated a global recall relating to certain cars produced between 2008 and 2011. Following a Third Amendment to the Coordinated Remedy Order ("ACRO") published by NHTSA in December 2016 and an additional Takata DIR filed on January 3, 2017, the Group filed an additional DIR on January 10, 2017 to also include certain cars produced in 2012.

As a result of internal assessments, Ferrari decided to extend the recall campaign to include all cars produced in all model years based on priority groups and the timeline set by NHTSA.

As a result of these developments and due to the uncertainty of recoverability of the costs from Takata, an aggregate provision of €36,994 thousand was recognized within cost of sales in the year ended December 31, 2016. Such provision reflects the current best estimate for future costs related to the entire recall campaign to be carried out by the Group.

Legal proceedings and disputes

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The provision for legal proceedings and disputes represents management's best estimate of the expenditures expected to be required to settle or otherwise resolve legal proceedings and disputes. This class of claims relate to allegations by contractual counterparties that the Group has violated the terms of the arrangements, including by terminating the applicable relationships. Judgments in these proceedings may be issued in 2017, although any such judgment may remain subject to judicial review. While the outcome of such proceedings is uncertain, any losses in excess of the provisions recorded are not expected to be material to the Group's financial condition or results of operations.

The utilization related to the reversal of accruals for legal proceedings and disputes resolved in 2016. Accruals to the provision for legal proceedings and disputes are recognized within other expenses/(income), net.

Other risks

The provision for other risks are related to disputes and matters which are not subject to legal proceeding including disputes with suppliers, distributors, employees and other parties. The additional provision in 2016 primarily relates to disputes with a distributor.

The following table sets forth total other risks recognized for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Recorded in the consolidated income statement within:			
Cost of sales	4,499	3,847	5,088
Other expenses, net	14,559	4,111	8,589
Selling, general and administrative costs	2,604	8	1,317
Income tax expense	—	569	—
	<u>21,662</u>	<u>8,535</u>	<u>14,994</u>

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24. DEBT

	Balance at December 31, 2015	Proceeds from borrowings	Repayments of borrowings	Interest accrued and other	Translation differences	Balance at December 31, 2016
	(€ thousand)					
Borrowings from banks	2,245,144	10,041	(1,422,719)	4,977	(557)	836,886
Bond	—	490,729	—	6,885	—	497,614
Securitizations	—	527,124	(64,424)	257	22,713	485,670
Other debt	11,459	66,092	(50,245)	68	497	27,871
Financial liabilities with FCA	3,787	—	(3,744)	—	(43)	—
Total debt	2,260,390	1,093,986	(1,541,132)	12,187	22,610	1,848,041

The breakdown of debt by nature and by maturity is as follows:

	At December 31,						
	2016				2015		
	Due within one year	Due between one and five years	Due beyond five years	Total	Due within one year	Due between one and five years	Due beyond five years
	(€ thousand)						
Borrowings from banks	227,408	609,478	—	836,886	905,419	1,339,725	—
Bond	—	497,614	—	497,614	—	—	—
Securitizations	144,597	341,073	—	485,670	—	—	—
Other debt	27,871	—	—	27,871	10,203	1,256	—
Financial liabilities with FCA	—	—	—	—	3,787	—	—
Total Debt	399,876	1,448,165	—	1,848,041	919,409	1,340,981	—

Borrowings from banks

Borrowings from banks at December 31, 2016 were €836,886 thousand (€2,245,144 thousand at December 31, 2015) and included (i) €800,383 thousand (€1,495,725 thousand at December 31, 2015) relating to the Term Loan, and (ii) €36,503 thousand relating to other borrowings from banks (€250,432 thousand at December 31, 2015). Borrowings from banks at December 31, 2015 also included €498,987 thousand relating to the Bridge Loan, which was fully repaid in March 2016.

The following table details the interest rates of borrowings from banks:

	Currency	At December 31, 2016		Interest Rate
		Principal	Book Value	
		(Currency thousand)	(€ thousand)	
Term Loan	Euro	733,333	731,168	EURIBOR 3M + 80bps
Term Loan	U.S. Dollar	73,013	69,266	LIBOR 3M + 80bps
Other borrowings from banks	U.S. Dollar	25,000	23,745	LIBOR + 90bps
Other borrowings from banks	Euro	n.a.	12,707	Various
Total borrowings from banks			836,886	

The Facility

On November 30, 2015, the Company, as borrower and guarantor, and certain other members of the Group, as borrowers, entered into a €2.5 billion facility with a syndicate of ten banks (the “Facility”). The Facility comprises a bridge loan of €500

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million (the “Bridge Loan”), a term loan of €1,500 million (the “Term Loan”) and a revolving credit facility of €500 million (the “RCF”).

In December 2015 the Bridge Loan and Term Loan were fully drawn down for the purposes of repaying financial liabilities with FCA, including the FCA Note that originated as a result of the Restructuring. At December 31, 2015, the Bridge Loan was fully drawn down by the Company, whilst €1,425 million of the Term Loan was drawn down by the Company and the remaining €75 million was drawn down by FFS Inc.

In March 2016, the Bridge Loan was subsequently fully repaid, primarily using the proceeds from the bond (see “Bond” below).

The Company made voluntary prepayments of €600 million on the Term Loan, paying €300 million in September 2016 and €300 million in December 2016. Also in December 2016, the Company and FFS Inc. made mandatory scheduled payments of €92 million and \$9 million, respectively.

At December 31, 2016 and 2015 the RCF was undrawn. Proceeds of the RCF may be used from time to time for general corporate and working capital purposes of the Group.

The Term Loan and the RCF each have a maturity of five years. The Term Loan bears interest at a rate per annum equal to the aggregate of EURIBOR, plus a margin ranging from 50 basis points to 105 basis points depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. The RCF bears interest at a rate per annum equal to the aggregate of EURIBOR with respect to loans denominated in Euro, or LIBOR with respect to loans denominated in other currencies, plus a margin ranging from 35 basis points to 90 basis points depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. Loans under the RCF may be drawn in Euro or an alternative currency at Company's option.

The Facility is unsecured and provides for mandatory prepayments, affirmative and negative covenants and events of default in a form customary for bank financings of investment grade borrowers in the European syndicated loan market. The Facility has no financial maintenance covenants. Mandatory prepayments are required, subject to certain exceptions, in the event of a change of control. Subject to various exceptions and qualifications, negative covenants include (i) limitations on the Company's ability to provide security for other financial indebtedness, (ii) restrictions on the financial indebtedness that the Company's subsidiaries may incur or have outstanding, and (iii) restrictions on the Company's ability to make certain disposals of assets. Events of default include (i) failure to make payments when due, (ii) other breaches under the Facility not remedied within a 30-day grace period, (iii) breaches of representations and warranties, (iv) attachment by creditors of, or distress, execution, sequestration or other process enforced upon, the whole or any material part of the Group's assets, (v) cross-payment default or cross-acceleration with certain other financial indebtedness, (vi) cessation of business, (vii) seizure, nationalization or expropriation of material assets; or (viii) bankruptcy or other insolvency proceedings.

As of December 31, 2016 and 2015 the Company was in compliance with all covenants under the Facility.

The Facility is limited in recourse to the Company and the other members of the Group which borrow under the Facility.

Other borrowings from banks

Other borrowings from banks mainly relate to financial liabilities of FFS Inc to support the financial services operations, and in particular (i) €23,745 thousand (€91,975 thousand at December 31, 2015) relating to a \$100 million U.S. Dollar denominated credit facility that was entered into on November 17, 2015, the proceeds of which were fully drawn down in 2015 and used to repay financial liabilities with FCA in the United States. The credit facility was renewed in December 2016 for an additional 12 months; (ii) €138,219 thousand at December 31, 2015 relating to a \$150 million U.S. Dollar denominated credit facility that was fully repaid during 2016, primarily with funds from the leasing securitization program. The credit facility was fully drawn down at December 31, 2015. Other borrowings from banks also included €12,707 thousand at December 31, 2016 (€20,238 thousand at December 31, 2015) relating to various short and medium term credit facilities.

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Bond

On March 16, 2016, the Company issued 1.5 percent coupon notes due March 2023, having a principal of €500 million. The bond was issued at a discount for an issue price of 98.977 percent, resulting in net proceeds of €490,729 thousand after the debt discount and issuance costs. The net proceeds together with additional cash held by the Company, were used to fully repay the €500,000 thousand Bridge Loan under the Facility. The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amount outstanding at December 31, 2016 includes accrued interest of €5,938 thousand.

The notes impose covenants on Ferrari including: (i) negative pledge clauses which require that, in case any security interest upon assets of Ferrari is granted in connection with other notes or debt securities with the consent of Ferrari are, or are intended to be, listed, such security should be equally and ratably extended to the outstanding notes, subject to certain permitted exceptions; (ii) pari passu clauses, under which the notes rank and will rank pari passu with all other present and future unsubordinated and unsecured obligations of Ferrari; (iii) events of default for failure to pay principal or interest or comply with other obligations under the notes with specified cure periods or in the event of a payment default or acceleration of indebtedness or in the case of certain bankruptcy events; and (iv) other clauses that are customarily applicable to debt securities of issuers with a similar credit standing. A breach of these covenants may require the early repayment of the notes. As of December 31, 2016, Ferrari was in compliance with the covenants of the notes.

Securitizations

In 2016 FFS Inc pursued a strategy of self-financing, further reducing dependency on intercompany funding and increasing the portion of self-liquidating debt with various securitization transactions.

On January 19, 2016, FFS Inc performed a revolving securitization program for funding of up to \$250 million by pledging retail financial receivables in the United States as collateral. On December 16th, 2016, the funding limit of the program was increased to US\$275 million. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 70 basis points. Proceeds from the first sale of financial receivables were \$242 million and were primarily used to repay intercompany loans. The securitization agreement requires the maintenance of an interest rate cap.

On October 20, 2016, FFS Inc performed a revolving securitization program for funding of up to \$200 million by pledging leasing financial receivables in the United States as collateral. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 70 basis points. Proceeds from the first sale of financial receivables were \$175 million and were primarily used to repay the \$150 million U.S. Dollar denominated credit facility. The securitization agreement requires the maintenance of an interest rate cap.

Finally, on December 28, 2016, FFS Inc performed a revolving securitization program for funding of up to \$120 million by pledging credit lines to Ferrari customers secured by personal vehicle collections and personal guarantees in the United States as collateral. The notes bear interest at a rate per annum equal to the aggregate of LIBOR plus a margin of 150 basis points. Proceeds from the first sale of financial receivables were \$64 million and were primarily used to partially repay the \$100 million U.S. Dollar denominated credit facility. The securitization agreement does not require an interest rate cap.

The total amount outstanding under the securitization programs at December 31, 2016 was €485,670 thousand.

Cash collected from the settlement of receivables or lines of credit pledged as collateral is subject to certain restrictions regarding its use and is principally applied to repay principal and interest of the funding. Such cash amounted to €19,411 thousand at December 31, 2016.

Other debt

Other debt mainly relates to Ferrari S.p.A. for the financing of investments in research and development, as well as other debt held by FFS Inc.

Financial liabilities with FCA Group

Financial liabilities with FCA Group were fully settled upon completion of the Separation on January 3, 2016 (€3,787 thousand at December 31, 2015).

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25. OTHER LIABILITIES

An analysis of other liabilities is as follows:

	At December 31,	
	2016	2015
	(€ thousand)	
Deferred income	273,069	268,452
Advances and security deposits	229,975	194,364
Accrued expenses	61,403	76,514
Payables to personnel	36,843	17,145
Social security payables	18,559	18,950
Other	36,426	79,359
Total other liabilities	656,275	654,784

Deferred income primarily includes amounts received under the scheduled maintenance program of €155,121 thousand at December 31, 2016 and €135,957 thousand at December 31, 2015, which are deferred and recognized as net revenues over the length of the maintenance program term. Deferred income also includes amounts collected under various other agreements, which are dependent upon the future performance of a service or other act of the Group.

Advances and security deposits at December 31, 2016 and at December 31, 2015 primarily include advances received from clients for the purchase of special series, limited edition and supercars. Upon shipment of such cars, the advances are recognized as revenue. The increase in 2016 primarily related to advances received for the LaFerrari Aperta.

The classification 'Other' within other liabilities at December 31, 2016 includes €1,603 thousand related to dividends payable to the non-controlling interest in Ferrari International Cars Trading (Shanghai) Co. Ltd. (€18,308 thousand at December 31, 2015).

An analysis of other liabilities (excluding accrued expenses and deferred income) by due date is as follows:

	At December 31,							
	2016				2015			
	Due within one year	Due between one and five years	Due beyond five years	Total	Due within one year	Due between one and five years	Due beyond five years	Total
	(€ thousand)							
Total other liabilities (excluding accrued expenses and deferred income)	309,864	4,913	7,026	321,803	289,694	12,512	7,612	309,818

26. TRADE PAYABLES

Trade payables of €614,888 thousand at December 31, 2016 (€507,499 thousand at December 31, 2015) are entirely due within one year. The carrying amount of trade payables is considered to be equivalent to their fair value.

27. FAIR VALUE MEASUREMENT

IFRS 13 establishes a hierarchy that categorizes into three levels the inputs to the valuation techniques used to measure fair value by giving the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs). In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy at the lowest level input that is significant to the entire measurement.

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Levels used in the hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Group can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the assets and liabilities.

Assets and liabilities that are measured at fair value on a recurring basis

The following table shows the fair value hierarchy for financial assets and liabilities that are measured at fair value on a recurring basis at December 31, 2016 and 2015:

At December 31, 2016				
Note	Level 1	Level 2	Level 3	Total
(€ thousand)				
Cash and cash equivalents	457,784	—	—	457,784
Investments and other financial assets - Delta Topco option	17	—	11,967	11,967
Current financial assets	20	—	10,388	10,388
Total assets	457,784	22,355	—	480,139
Other financial liabilities	20	—	39,638	39,638
Total liabilities	—	39,638	—	39,638

At December 31, 2015				
Note	Level 1	Level 2	Level 3	Total
(€ thousand)				
Cash and cash equivalents	182,753	—	—	182,753
Investments and other financial assets - Delta Topco option	—	—	10,858	10,858
Current financial assets	20	—	5,070	5,070
Total assets	182,753	5,070	10,858	198,681
Other financial liabilities	20	—	103,332	103,332
Total liabilities	—	103,332	—	103,332

The Delta Topco option was transferred from level 3 in 2015 to level 2 in 2016 in the fair value hierarchy following the sale of Delta Topco (a company belonging to the Formula 1 Group) to Liberty Media Corporation, which was completed on January 23, 2017. See Note 32. There were no other transfers between levels in fair value hierarchy in 2016 or 2015.

The fair value of current financial assets and other financial liabilities is related to derivative financial instruments and is measured by taking into consideration market parameters at the balance sheet date, using valuation techniques widely accepted in the financial business environment. In particular, the fair value of forward contracts, currency swaps and interest rate caps is determined by taking the prevailing foreign currency exchange rate and interest rates, as applicable, at the balance sheet date.

The fair value of cash and cash equivalents usually approximates fair value due to the short maturity of these instruments, which consist primarily of bank current accounts.

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The following table provides a reconciliation from the opening balances to the closing balances for fair value measurements categorized in level 3 in 2015 and 2016:

	Other non- current securities	Other financial assets/(liabilities)
	(€ thousand)	
At January 1, 2015	10,546	—
Gains/(losses) recognized in consolidated income statement	312	—
Gains/(losses) recognized in other comprehensive income	—	—
Issue/(settlement)	—	—
December 31, 2015	10,858	—
Gains/(losses) recognized in consolidated income statement	1,109	—
Gains/(losses) recognized in other comprehensive income	—	—
Issues/(settlements)	—	—
At December 31, 2016	11,967	—

Assets and liabilities not measured at fair value on a recurring basis

For financial instruments represented by short-term receivables and payables, for which the present value of future cash flows does not differ significantly from carrying value, the Group assumes that carrying value is a reasonable approximation of the fair value. In particular, the carrying amount of current receivables and other current assets and of trade payables and other liabilities approximates their fair value.

The following table represents carrying amount and fair value for the most relevant categories of financial assets and liabilities not measured at fair value on a recurring basis:

		At December 31,			
		2016		2015	
Note		Carrying amount	Fair value	Carrying amount	Fair value
		(€ thousand)			
Deposits in FCA Group cash management pools	18	—	—	139,172	139,172
Receivables from financing activities		790,377	790,377	1,173,825	1,173,825
<i>Client financing</i>		758,679	758,679	1,115,661	1,115,661
<i>Financial receivables from FCA Group companies</i>	18	—	—	—	—
<i>Factoring receivables</i>	18	—	—	30,901	30,901
<i>Dealer financing</i>	18	31,698	31,698	27,263	27,263
<i>Other</i>	18	—	—	—	—
Total		790,377	790,377	1,312,997	1,312,997
Debt	24	1,848,041	1,849,000	2,260,390	2,259,878

28. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24, the related parties of the Group are entities and individuals capable of exercising control, joint control or significant influence over the Group and its subsidiaries, companies belonging to the FCA Group and Exor Group, unconsolidated subsidiaries of the Group, associates and joint ventures. In addition, members of Ferrari Group Board of Directors, Board of Statutory Auditors and executives with strategic responsibilities and their families are also considered related parties.

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The Group carries out transactions with related parties on commercial terms that are normal in the respective markets, considering the characteristics of the goods or services involved. Transactions carried out by the Group with these related parties are primarily of a commercial nature and, in particular, these transactions relate to:

Transactions with FCA Group companies

- the sale of engines and car bodies to Maserati S.p.A. (“Maserati”) which is controlled by the FCA Group;
- the purchase of engine components for the use in the production of Maserati engines from FCA US LLC, which is controlled by FCA Group;
- the purchase of automotive lighting and automotive components from Magneti Marelli S.p.A., Automotive Lighting Italia S.p.A., Sistemi Sospensioni S.p.A. and Magneti Marelli Powertrain Slovakia s.r.o. (which form part of “Magneti Marelli”), which are controlled by the FCA Group;
- transactions with other FCA Group companies, mainly relating to the services provided by FCA Group companies, including human resources, payroll, tax, customs and procurement of insurance coverage and sponsorship revenues for the display of FCA Group company logos on the Formula 1 cars;
- the Group sold a portion of its trade and financial receivables to the FCA Bank Group, which is a joint venture between FCA Group and Credit Agricole. On derecognition of the asset, the difference between the carrying amount and the consideration received or receivable was recognized in cost of sales;
- in November 2016, the Group finalized an agreement with FCA Bank to provide financial services in Europe. Under such agreement FCA Bank acquired from the Group a majority stake in FFS GmbH for a purchase price of €18,595 thousand, which the Group received upon sale. In addition to the purchase price, as a result of the funding of FFS GmbH being directly provided by FCA Bank, the Group also received cash of €431,958 thousand.

Prior to the Separation, the Group also had the following financial transactions with the FCA Group:

- certain Ferrari financing companies obtained financing from FCA Group companies. Financial liabilities with FCA Group companies at December 31, 2015 related to the amounts owed under such facilities.
- Ferrari Group companies participated in the FCA group-wide cash management system where the operating cash management, main funding operations and liquidity investment of the Group were centrally coordinated by dedicated treasury companies of the FCA Group. Deposits in FCA Group cash management pools represented the Group’s participation in such pools. Deposits with FCA Group earned EURIBOR or LIBOR +15bps.

Following the Separation, these arrangements were terminated and the Group manages its liquidity and treasury function on a standalone basis.

Transactions with Exor Group companies

- the Group incurs rental costs from Iveco Group companies related to the rental of trucks used by the Formula 1 racing team;
- the Group earns sponsorship revenue from Iveco S.p.A.

Transactions with other related parties

- the purchase of leather goods from Poltrona Frau S.p.A. (“Poltrona Frau”). The former Chairman had significant influence over Poltrona Frau until March 25, 2014 when he sold his interest;
- the purchase of components for Formula 1 racing cars from COXA S.p.A., controlled by Piero Ferrari;
- consultancy services provided by HPE S.r.l., controlled by Piero Ferrari;

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- sponsorship agreement relating to Formula 1 activities with Philip Morris International and Ferretti S.p.A.;
- sale of cars to certain members of the Board of Directors of Ferrari S.p.A. and Exor.

In accordance with IAS 24, transactions with related parties also include compensation to Directors, the Audit Committee and managers with strategic responsibilities.

The amounts of the transactions with related parties recognized in the consolidated income statement are as follows:

	For the years ended December 31,								
	2016			2015			2014		
	Net revenues	Costs ⁽¹⁾	Net financial income/ (expenses)	Net revenues	Costs ⁽¹⁾	Net financial income/ (expenses)	Net revenues	Costs ⁽¹⁾	Net financial income/ (expenses)
	(€ thousand)								
FCA Group companies									
Maserati	241,478	1,933	—	184,444	2,250	67	259,143	31,345	1,274
FCA US LLC	—	37,612	—	1,253	23,562	—	1,110	33,898	—
Magneti Marelli	1,735	29,663	—	1,397	29,746	—	1,190	24,233	—
Other FCA Group companies	5,472	9,163	(471)	7,412	42,768	(11,601)	5,198	38,706	2,793
Total FCA Group companies	248,685	78,371	(471)	194,506	98,326	(11,534)	266,641	128,182	4,067
Exor Group companies (excluding the FCA Group)									
Exor Group companies	192	173	—	277	338	—	279	404	—
Other related parties									
Poltrona Frau	—	—	—	—	—	—	98	20,115	—
COXA S.p.A.	121	7,096	—	174	7,561	—	279	8,774	—
HPE S.r.l.	—	6,447	—	11	5,518	—	—	3,461	—
Other related parties	1,950	24	—	1,024	6	—	—	120	—
Total other related parties	2,071	13,567	—	1,209	13,085	—	377	32,470	—
Total transactions with related parties	250,948	92,111	(471)	195,992	111,749	(11,534)	267,297	161,056	4,067
Total for the Group	3,105,084	1,899,433	(27,729)	2,854,369	1,848,467	(10,151)	2,762,360	1,832,059	8,765

(1) Costs include cost of sales, selling, general and administrative costs and other expenses/(income).

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Non-financial assets and liabilities originating from related party transactions are as follows:

	At December 31,							
	2016				2015			
	Trade receivables	Trade payables	Other current assets ⁽¹⁾	Other liabilities ⁽²⁾	Trade receivables	Trade payables	Other current assets ⁽¹⁾	Other liabilities ⁽²⁾
	(€ thousand)							
FCA Group companies								
Maserati	73,532	4,462	—	32,379	40,362	4,884	—	34,924
FCA US LLC	166	12,529	—	—	501	4,248	—	—
Magneti Marelli	1,739	6,702	—	—	1,007	6,169	—	—
Other FCA Group companies	257	3,291	1,439	12	377	5,399	3,668	122,743
Total FCA Group companies	75,694	26,984	1,439	32,391	42,247	20,700	3,668	157,667
Exor Group companies (excluding the FCA Group)								
Exor Group companies	235	41	—	—	2	40	—	—
Other related parties								
COXA S.p.A.	16	1,194	—	—	—	1,434	—	—
HPE S.r.l.	—	1,162	—	—	—	1,609	—	—
Other related parties	554	68	—	4	3,670	—	—	2,767
Total other related parties	570	2,424	—	4	3,670	3,043	—	2,767
Total transactions with related parties	76,499	29,449	1,439	32,395	45,919	23,783	3,668	160,434
Total for the Group	243,977	614,888	55,041	697,870	158,165	507,499	61,846	780,016

(1) Other current assets include other current assets and current tax receivables.

(2) Other liabilities include other liabilities and current tax payables.

Financial assets and liabilities originating from related party transactions are as follows:

	At December 31,							
	2016				2015			
	Deposits in FCA Group cash management pools	Receivables from financing activities	Current financial assets	Debt	Deposits in FCA Group cash management pools	Receivables from financing activities	Current financial assets	Debt
	(€ thousand)							
FCA Global Finance	—	—	861	—	139,172	—	1,188	3,787
Total transactions with related parties	—	—	861	—	139,172	—	1,188	3,787
Total for the Group	—	790,377	16,276	1,848,041	139,172	1,173,825	8,626	2,260,390

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Emoluments to Directors, Statutory Auditors and Key Management

The fees of the Directors and Statutory Auditors of Ferrari S.p.A. and the Directors of Ferrari N.V., for carrying out their respective functions, including those in other consolidated companies, are as follows:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Directors of Ferrari N.V.	8,617	243	—
Directors of Ferrari S.p.A.	—	2,904	20,676
Statutory auditors	105	105	164
Total emoluments	8,722	3,252	20,840

The aggregate compensation to Directors of Ferrari N.V. was €8,617 thousand for 2016 (€3,147 thousand in 2015 and €20,676 thousand in 2014, including Ferrari S.p.A.), inclusive of the following:

- €2,827 thousand in 2016 (€2,372 thousand in 2015 and €4,132 thousand in 2014) for salary;
- €290 thousand in 2016 (€775 thousand in 2015 and €1,517 thousand in 2014) as the Group's contribution to defined benefit obligations and long-term bonus plans; and
- €5,500 thousand in 2016 for compensation costs related to the retirement of the former CEO of the Group. An amount of €15,027 thousand was included in 2014 for compensation costs related to the resignation of the former Chairman of the Group. At December 31, 2014, the total payable to the former Chairman amounted to €22,083 thousand and included the amount due for the post employment benefit plan.

The aggregate compensation to key management in 2016 was €12,290 thousand (€16,364 thousand in 2015), of which €1,231 thousand related to long-term benefits (€280 thousand in 2015).

Non-Executive Directors' compensation

For the period from January 1 to April 14, 2016, Non-Executive Directors' compensation amounted to €331 thousand and was fully settled in cash. Following the election of the Board of Directors at the Annual General Meeting of Shareholders on April 15, 2016, Non-Executive Directors have been given the option to receive the board retainer fee component of their Directors' compensation in 50% cash and 50% Ferrari common shares, or alternatively, to receive 100% in Ferrari common shares. Non-Executive Directors' compensation for the period from April 15, 2016 to December 31, 2016 amounted to €1,515 thousand, of which €1,110 thousand was settled in treasury shares in January 2017 and €405 thousand was settled in cash, also in January 2017. The amount settled in Ferrari common shares was accounted for as equity-settled share-based compensation and recognized as an increase to equity in 2016.

29. COMMITMENTS

Arrangements with Key Suppliers

From time to time, in the ordinary course of business, the Group enters into various arrangements with key third party suppliers in order to establish strategic and technological advantages. A limited number of these arrangements contain unconditional purchase obligations to purchase a fixed or minimum quantity of goods and/or services with fixed and determinable price provisions.

Arrangements with Sponsors

Certain of the Group's sponsorship contracts include terms whereby the Group is obligated to purchase a minimum quantity of goods and/or services from its sponsors.

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Future minimum purchase obligations under these arrangements at December 31, 2016 were as follows:

At December 31, 2016				
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years
	(€ thousand)			
				Total
Minimum purchase obligations	93,253	98,520	28,609	6,558
				226,940

Operating lease agreements

The future aggregate minimum lease payments under non-cancellable operating leases, mainly relating to the lease of property and cars, are as follows:

At December 31, 2016				
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years
	(€ thousand)			
				Total
Future minimum lease payments under operating lease agreements	1,510	2,726	1,414	112
				5,762

During 2016, the Group's operating lease expenses amounted to €14,820 thousand (€19,162 thousand in 2015 and €14,881 thousand in 2014).

30. QUALITATIVE AND QUANTITATIVE INFORMATION ON FINANCIAL RISKS

The Group is exposed to the following financial risks connected with its operations:

- credit risk, arising both from its normal commercial relations with final clients and dealers, and its financing activities;
- liquidity risk, with particular reference to the availability of funds and access to the credit market, should the Group require, and to financial instruments in general;
- financial market risk (principally relating to foreign currency exchange rates, and to a much lesser extent, interest rates), as the Group operates internationally in different currencies.

These risks could significantly affect the Group's financial position and results of operations, and for this reason the Group identifies and monitors these risks, in order to detect potential negative effects in advance and take the necessary action to mitigate them, primarily through its operating and financing activities and if required, through the use of derivative financial instruments.

The following section provides qualitative and quantitative disclosures on the effect that these risks may have upon the Group. The quantitative data reported in the following section does not have any predictive value, in particular the sensitivity analysis on finance market risks does not reflect the complexity of the market or the reaction which may result from any changes that are assumed to take place.

Credit risk

Credit risk is the risk of economic loss arising from the failure to collect a receivable. Credit risk encompasses the direct risk of default and the risk of a deterioration of the creditworthiness of the counterparty.

The maximum credit risk to which the Group is theoretically exposed at December 31, 2016 is represented by the carrying amounts of the financial assets stated in the consolidated statement of financial position sheet and the nominal value of the guarantees provided.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Dealers and clients are subject to a specific evaluation of their creditworthiness. Additionally, it is Group practice to obtain financial guarantees against risks associated with credit granted for the purchase of cars and parts. These guarantees are further strengthened, where possible, by retaining title on cars subject to financing agreement.

Credit positions of material significance are evaluated on an individual basis. Where objective evidence exists that they are uncollectible, in whole or in part, specific write-downs are recognized. The amount of the write-down is based on an estimate of the recoverable cash flows, timing of those cash flows, the cost of recovery and the fair value of any guarantees received.

Receivables from financing activities amounting to €790,377 thousand at December 31, 2016 (1,173,825 thousand at December 31, 2015) are shown net of the allowance for doubtful accounts amounting to €11,556 thousand (€18,671 thousand at December 31, 2015). After considering the allowance for doubtful accounts, €41,594 thousand of receivables were overdue (€16,230 thousand at December 31, 2015). Therefore, overdue receivables represent a minor portion of receivables from financing activities.

In addition, of the total receivables from financing activities, €790,377 thousand (€1,170,891 thousand at December 31, 2015) relate to the financial services portfolio and such receivables are generally secured on the titles of cars or with other guarantees.

Trade receivables amounting to €243,977 thousand at December 31, 2016 (€158,165 thousand at December 31, 2015) are shown net of the allowance for doubtful accounts amounting to €19,174 thousand (€18,371 thousand at December 31, 2015). After considering the allowance for doubtful accounts, €18,567 thousand of receivables were overdue (€26,177 thousand at December 31, 2015).

Liquidity risk

Liquidity risk arises if the Group is unable to obtain the funds needed to carry out its operations under economic conditions. The main determinant of the Group's liquidity position is the cash generated by or used in operating and investing activities.

Prior to the Separation, the Group participated in cash pooling arrangements with FCA. From an operating point of view, the Group manages liquidity risk by monitoring cash flows and keeping an adequate level of funds at its disposal. Following the Separation, the main funding operations and investments in cash and marketable securities of the Group are centrally managed or supervised by the treasury department with the aim of ensuring effective and efficient management of the Group's liquidity. Following the Separation, the Group has established series of policies which are managed or supervised centrally by the treasury department with the purpose of optimizing the management of funds and reducing liquidity risk which include:

- centralizing liquidity management through the use of cash pooling arrangement
- maintaining a conservative level of available liquidity
- diversifying sources of funding
- obtaining adequate credit lines
- monitoring future liquidity requirements on the basis of business planning

Intercompany financing between Group entities is not restricted other than through the application of covenants requiring that transactions with related parties be conducted at arm's length terms.

Details on the maturity profile of the Group's financial assets and liabilities and on the structure of derivative financial instruments are provided in Notes 20 and 24. Details of the repayment of derivative financial instruments are provided in Note 20.

During 2015 the Group entered into a new revolving credit facility of €500 million which was entirely undrawn at December 31, 2015 and 2016. The Group believes that the funds currently available to it, in addition to those that will be generated from operating activities, will enable Ferrari to satisfy the requirements of its investing activities and working capital needs, fulfill its obligations to repay its debt and ensure an appropriate level of operating and strategic flexibility. The Group, therefore believes there is no significant risk of a lack of liquidity.

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Financial market risks

The Group's primary market risk is exposure to foreign currency, which arises both in connection with the geographical distribution of the Group's industrial activities compared to the markets in which it sells its products, and in relation to the use of external borrowing denominated in foreign currencies.

Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the consolidated income statement within the net financial income/(expenses) line item or as cost of sales for charges arising from financial services companies.

The impact of foreign currency exchange rate differences recorded within financial income/(expenses) for the year ended December 31, 2016, except for those arising on financial instruments measured at fair value, amounted to net income of €8,335 thousand (net income of €10,794 thousand and €15,663 thousand for the years ended December 31, 2015 and 2014, respectively).

The impact of foreign currency exchange rate differences arising from financial services companies, recognized under cost of sales, for the year ended December 31, 2016 amounted to net loss of €58,808 thousand (net income of €20,908 thousand in 2015 and net income of €14,575 in 2014).

The Group's exposure to interest rate risk, though less significant, arises from the need to fund financial operating activities and the necessity to deploy surplus funds. In addition, during 2015 the Group entered into a new Term Loan and Bridge Loan (the Bridge Facility being subsequently fully repaid in 2016) for a total amount of €2 billion which bear floating rates of interest. As at December 31, 2016 an amount of approximately €800 million was outstanding under the Term Loan. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.

These financial market risks could significantly affect the Group's financial position and results of operations, and for this reason these risks are identified and monitored, in order to detect potential negative effects in advance and take the necessary actions to mitigate them, primarily through its operating and financing activities and if required, through the use of derivative financial instruments.

As part of the FCA Group, Ferrari applied the FCA Group treasury risk management policies. Following the Separation Ferrari has implemented risk management policies primarily relating to foreign exchange, interest rate and liquidity risk. The policies as an independent Group are substantially in line with those that the Group followed under the FCA Group.

Risk management policies permit derivatives to be used for managing exposures to foreign exchange rates and interest rates. Derivatives cannot be entered into for speculative purposes and counterparties to the agreements are major financial institutions.

In particular, the Group has used derivative financial instruments as cash flow hedges for the purpose of fixing the foreign currency exchange rate at which a predetermined proportion of forecasted transactions denominated in foreign currencies will be accounted for. Accordingly, as a result of applying risk management policies with respect to foreign currency exchange exposure, the Group's results of operations and cash flows have not been fully exposed to fluctuations in foreign currency exchange rates.

The foreign currency exchange rate exposure on forecasted commercial flows is hedged by derivative financial instruments. Despite these hedging transactions, sudden adverse movements in foreign currency exchange rates could have a significant effect on the Group's earnings and cash flows.

Information on the fair value of derivative financial instruments held is provided in Note 20.

The following section provides qualitative and quantitative disclosures on the effect that these risks may have. The quantitative data reported below does not have any predictive value, in particular the sensitivity analysis on financial market risks does not reflect the complexity of the market or the reaction which may result from any changes that are assumed to take place.

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Quantitative information on foreign currency exchange rate risk

The Group is exposed to risk resulting from changes in foreign currency exchange rates, which can affect its earnings and equity. In particular:

- Where a Group company incurs costs in a currency different from that of its revenues, any change in foreign currency exchange rates can affect the operating results of that company. In 2016, the total trade flows exposed to foreign currency exchange rate risk amounted to the equivalent of 57 percent of the Group's turnover (53 percent in 2015).
- The main foreign currency exchange rate to which the Group is exposed is the Euro/U.S. Dollar for sales in U.S. Dollar in the United States and Mexico and other markets where the U.S. Dollar is the reference currency. In 2016, the value of commercial activity exposed to changes in the Euro/U.S. Dollar exchange rate accounted for about 60 percent (67 percent in 2015) of the total currency risk from commercial activity. Other significant exposures included the exchange rate between the Euro and the following currencies: Swiss Franc, Pound Sterling, Canadian Dollar, Australian Dollar, Japanese Yen, Chinese Yuan and Hong Kong Dollar. None of these exposures, taken individually, exceeded 10 percent of the Group's total foreign currency exchange rate exposure for commercial activity in 2016. It is the Group's policy to use derivative financial instruments to hedge a certain percentage of the exposure, on average between 50 percent and 90 percent. Until 2014, some exposures were covered over a 24-month rolling period, and since 2015 such timeframe has been reduced to 12 months for all currencies. For firm commitments, the policy is to fully hedge the exposure.
- Several subsidiaries are located in countries that are outside the Eurozone, in particular the United States, the United Kingdom, Switzerland, China, Hong Kong, Japan, Australia and Singapore. As the Group's reporting currency is the Euro, the income statements of those companies are converted into Euro using the average exchange rate for the period and, even if revenues and margins are unchanged in local currency, changes in exchange rates can impact the amount of revenues, costs and profit as restated in Euro.
- The amount of assets and liabilities of consolidated companies that report in a currency other than the Euro may vary from period to period as a result of changes in exchange rates. The effects of these changes are recognized directly in equity as a component of other comprehensive income/(loss) under gains/(losses) from currency translation differences.

The Group monitors its principal exposure to conversion exchange risk, although there was no specific hedging in this respect at the reporting date.

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

The potential decrease in fair value of derivative financial instruments held by the Group at December 31, 2016 to hedge against foreign currency exchange rate risk, which would arise in the case of a hypothetical, immediate and adverse change of 10 percent in the exchange rates of the major foreign currencies with the Euro, would be approximately €128,753 thousand (€135,271 thousand at December 31, 2015). Receivables, payables and future trade flows for which hedges have been put in place were not included in the analysis. It is reasonable to assume that changes in foreign currency exchange rates will produce the opposite effect, of an equal or greater amount, on the underlying transactions that have been hedged.

Information on interest rate risk

The Group's exposure to interest rate risk, though less significant, arises from the need to fund financial operating activities and the necessity to deploy surplus funds. In addition, during 2015 the Group entered into a new Term Loan and Bridge Loan (the Bridge Loan being fully repaid in 2016) for a total amount of €2 billion which bear floating rates of interest. As at December 31, 2016 an amount of approximately €800 million was outstanding under the Term Loan. Changes in market interest rates may have the effect of either increasing or decreasing the Group's net profit/(loss), thereby indirectly affecting the costs and returns of financing and investing transactions.

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These financial market risks could significantly affect the Group's financial position and results of operations, and for this reason these risks are identified and monitored, in order to detect potential negative effects in advance and take the necessary actions to mitigate them, primarily through operating and financing activities and if required, through the use of derivative financial instruments. The Company did not enter into any interest rate derivatives in the periods covered by the Consolidated Financial Statements, in relation to the Term Loan. However, the Group has entered into interest rate caps as required by certain of its securitization agreements.

The Group's most significant floating rate financial assets at December 31, 2016 were cash and cash equivalents and certain receivables from financing activities (mainly dealer financing and some client financing receivables) while the Group's debt generally bears floating rates of interest. At December 31, 2016, a 10 basis point decrease in interest rates on such floating rate financial assets and debt, with all other variables held constant, would have resulted in an increase in profit before taxes of €367 thousand on an annual basis (an increase of €1,204 thousand at December 31, 2015). The analysis is based on the assumption that floating rate financial assets and debt which expires during the projected 12-month period will be renewed or reinvested in similar instruments, bearing the hypothetical short-term interest rates.

31. ENTITY-WIDE DISCLOSURES

The following table presents an analysis of net revenues by geographic location of the Group's clients:

	For the years ended December 31,		
	2016	2015	2014
	(€ thousand)		
Italy	387,184	238,532	514,277
Rest of EMEA	1,314,788	1,209,916	1,113,823
Americas ⁽¹⁾	835,045	884,971	635,507
Greater China ⁽²⁾	272,223	257,249	289,069
Rest of APAC ⁽³⁾	295,844	263,701	209,684
Total net revenues	3,105,084	2,854,369	2,762,360

(1) Americas includes the United States of America, Canada, Mexico, the Caribbean and of Central and South America

(2) Greater China includes China, Hong Kong and Taiwan

(3) Rest of APAC mainly includes Japan, Australia, Singapore, Indonesia and South Korea

The following table presents an analysis of non-current assets other than financial instruments and deferred tax assets by geographic location:

	At December 31,					
	2016			2015		
	Property, plant and equipment	Goodwill	Intangible assets	Property, plant and equipment	Goodwill	Intangible assets
	(€ thousand)					
Italy	661,770	785,182	353,116	617,420	787,178	304,754
Rest of EMEA	2,430	—	—	2,779	—	1,691
Americas ⁽¹⁾	3,877	—	988	4,347	—	1,071
Greater China ⁽²⁾	258	—	—	532	—	—
Rest of APAC ⁽³⁾	948	—	290	1,052	—	294
Total	669,283	785,182	354,394	626,130	787,178	307,810

(1) Americas includes the United States of America, Canada, Mexico, the Caribbean and of Central and South America

(2) Greater China includes China, Hong Kong and Taiwan

(3) Rest of APAC mainly includes Japan, Australia, Singapore, Indonesia and South Korea

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32. SUBSEQUENT EVENTS

The Group has evaluated subsequent events through March 3, 2017, which is the date the Consolidated Financial Statements were authorized for issuance.

On February 17, 2017, the Group announced that it has selected the 87th edition of the Geneva International Motor Show for the world premiere of the 812 Superfast, the new 12-cylinder berlinetta. The 812 Superfast is the most powerful and fastest Ferrari in history and marks the official start of Ferrari's 70th anniversary year.

On February 22, 2017, the Group received approximately \$11.4 million in cash (including \$2.7 million of previously undistributed dividends), 145 thousand Liberty Media shares and \$911 thousand of Liberty Media exchangeable notes in relation to the Delta Topco option. The Group had previously exercised the Delta Topco option as a result of the sale of Delta Topco (a company belonging to the Formula 1 Group) to Liberty Media Corporation, which was completed on January 23, 2017.

On February 23, 2017, the Group and Luxottica Group announced that they have signed a multi-year licensing contract according to which Luxottica will develop, produce and market a range of eyewear branded Ferrari and Ray-Ban. The two companies also signed a multi-year renewal of a sponsorship agreement between Scuderia Ferrari and Luxottica for the Ray-Ban brand to appear on the Ferrari Formula 1 single-seater cars.

On February 24, 2017, the Group presented the new car for the 2017 Formula 1 World Championship through a live television broadcast.

On March 1, 2017, the Board of Directors approved a distribution to the holders of common shares of €0.635 per common share, corresponding to a total distribution to shareholders of approximately €120 million. The distribution remains subject to the adoption of the Company's 2016 Annual Accounts at the Annual General Meeting of Shareholders to be held on April 14, 2017.

Ferrari N.V.

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Ferrari N.V.
INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2016 and for the period from September 4, 2015 to December 31, 2015

		For the year ended December 31,	For the period from September 4, to December 31,
	Note	2016	2015
		(€ thousand)	
Net revenues	3	2,587	—
Other income	3	4,482	—
Cost of sales		1,418	—
Selling, general and administrative costs	4	17,299	49
Net financial expenses	5	35,445	1
Loss before taxes		(47,093)	(50)
Income tax benefit	6	14,920	—
Net loss / Comprehensive loss		(32,173)	(50)

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
STATEMENT OF FINANCIAL POSITION
at December 31, 2016 and 2015

	Note	At December 31,	
		2016	2015
		(€ thousand)	
Assets			
Property, plant and equipment	7	101	—
Investments in subsidiaries	8	8,778,123	—
Deferred tax assets	6	1,128	—
Total non-current assets		8,779,352	—
Inventories	9	670	—
Trade receivables	10	5,713	—
Current tax receivables	6	43,636	—
Other current assets	10	8,405	2
Deposits in Ferrari Group cash management pools	10	349	—
Cash and cash equivalents	11	119,372	49
Total current assets		178,145	51
Total assets		8,957,497	51
Equity and liabilities			
Share capital	12	2,504	50
Share premium	12	5,888,529	—
Other reserves	12	(15,478)	—
Retained deficit	12	(32,223)	(50)
Total equity		5,843,332	(0.2)
Debt - Non-current	13	1,477,889	—
Total non-current liabilities		1,477,889	—
Debt - Current	13	1,587,183	—
Trade payables	14	11,598	51
Tax payables	6	31,859	—
Other current liabilities	15	5,636	—
Total current liabilities		1,636,276	51
Total liabilities		3,114,165	51
Total equity and liabilities		8,957,497	51

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
STATEMENT OF CASH FLOWS
for the year ended December 31, 2016 and for the period from September 4, 2015 to December 31, 2015

	For the year ended December 31,	For the period from September 4, to December 31,
	2016	2015
	(€ thousand)	
Cash and cash equivalents at beginning of the period	49	—
Cash flows used in operating activities		
Loss before taxes	(47,093)	(50)
Interest expenses	34,190	—
Depreciation	24	—
Provisions	188	—
Other non-cash income and expenses	2,975	—
Change in inventories	2,982	—
Change in trade receivables	(1,991)	—
Change in trade payables	7,251	51
Change in other operating assets and liabilities	(414)	(2)
Interest paid	(23,384)	—
Total	(25,272)	(1)
Cash flows used in investing activities		
Proceeds from financial receivables with related parties	91,846	—
Investments in property, plant and equipment	(81)	—
Total	91,765	—
Cash flows used in financing activities		
Repayment of Term Loan	(691,667)	—
Repayment of Bridge Loan	(500,000)	—
Proceeds from financial liabilities with related parties	831,538	—
Proceeds from bond	490,729	—
Change in Ferrari Group cash management pools	(349)	—
Proceeds from share issuance	—	50
Change in equity	1,384	—
Cash distribution of reserves	(86,905)	—
Total	44,730	50
Total change in cash and cash equivalents	111,223	49
Cash acquired in the Separation	8,100	—
Cash and cash equivalents at end of the period	119,372	49

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2016 and for the period from September 4, 2015 to December 31, 2015

	Share capital	Share premium	Other reserves	Retained deficit	Total equity
			(€ thousand)		
At September 4, 2015	—	—	—	—	—
Share issuance	50	—	—	—	50
Comprehensive loss	—	—	—	(50)	(50)
At December 31, 2015	50	—	—	(50)	(0.2)
Separation ⁽¹⁾	2,454	5,975,434	(16,588)	—	5,961,300
Comprehensive loss	—	—	—	(32,173)	(32,173)
Cash distribution of reserves	—	(86,905)	—	—	(86,905)
Share-based compensation	—	—	1,110	—	1,110
At December 31, 2016	2,504	5,888,529	(15,478)	(32,223)	5,843,332

(1) Reflects the effects of the Separation. See Note 1 for additional details.

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Ferrari N.V., formerly known as FE New N.V., (the “Company” and together with its subsidiaries the “Ferrari Group” or the “Group”) was incorporated as a public limited company (naamloze vennootschap) under the laws of the Netherlands on September 4, 2015 under the name FE New N.V. The Company was formed to ultimately act as a holding company for Ferrari S.p.A., which, together with its subsidiaries, is focused on the design, engineering, production and sale of luxury performance sports cars. Upon incorporation, the Company was 100 percent owned by Stichting FCA, a Dutch foundation formed by the FCA Group (as defined below), and was formed as part of a series of transactions pursuant to which Ferrari S.p.A. was separated from Fiat Chrysler Automobiles N.V. (“FCA” and together with its subsidiaries the “FCA Group”) (the “Separation”).

In October 2015, the initial stages of the restructuring were completed, pursuant to which New Business Netherlands N.V. (then renamed Ferrari N.V.) (“Predecessor Ferrari”) became the holding company of Ferrari S.p.A. In particular, the following transactions took place:

- Predecessor Ferrari acquired from Ferrari North Europe Limited its assets and business of providing sales, after-sales and support services for the Ferrari brand and in exchange Predecessor Ferrari issued to Ferrari North Europe Limited a note in the principal amount of £2.8 million (€3.8 million) (the “FNE Note”).
- FCA transferred to Predecessor Ferrari all of the issued and outstanding share capital that it previously held in Ferrari S.p.A. (representing 90 percent of the share capital of Ferrari S.p.A.), and in exchange Predecessor Ferrari issued to FCA a note in the principal amount of €7.9 billion (the “FCA Note”).
- FCA contributed €5.1 billion to Predecessor Ferrari in consideration of the issue to FCA of 156,917,727 common shares and 161,917,727 special voting shares of Predecessor Ferrari. Following a subsequent transaction with Piero Ferrari, FCA owned 170,029,440 common shares and special voting shares, equal to 90 percent of Predecessor Ferrari’s common shares outstanding. €5.1 billion of the proceeds received from FCA were applied to settle a portion of the FCA Note, following which the principal outstanding on the FCA Note was €2.8 billion. The FCA Note was reimbursed using third party debt in December 2015.
- Piero Ferrari transferred his 10 percent interest in Ferrari S.p.A. to Predecessor Ferrari and in exchange, Predecessor Ferrari issued to Piero Ferrari 27,003,873 of its common shares and the same number of special voting shares. Following a subsequent transaction with FCA, Piero Ferrari owned 18,892,160 common shares and special voting shares, equal to 10 percent of Predecessor Ferrari’s common shares outstanding. Predecessor Ferrari did not receive any cash consideration as part of this transaction.

As a result of the transactions listed above, from October 17, 2015, Ferrari S.p.A. became a wholly owned subsidiary of Predecessor Ferrari.

Subsequently, on October 21, 2015 the initial public offering of Predecessor Ferrari’s common shares was completed on the New York Stock Exchange under the ticker symbol RACE, as a result of which FCA sold 10 percent of its shareholding in Predecessor Ferrari. Predecessor Ferrari did not receive any proceeds from the initial public offering. Therefore, at December 31, 2015, FCA owned approximately 80 percent, Piero Ferrari owned 10 percent and public shareholders owned the remaining 10 percent of Predecessor Ferrari’s common shares.

The remaining steps of the Separation were completed between January 1 and January 3, 2016. Through two consecutive demergers under Dutch law (the “Demergers”) the equity interests in Predecessor Ferrari previously held by FCA, corresponding to approximately 80 percent of Predecessor Ferrari’s common share capital, were transferred to holders of FCA common shares and FCA mandatory convertible securities (“FCA MCS”). Immediately after the Demergers, Predecessor Ferrari merged with and into the Company (“Successor Ferrari”) as surviving company (the “Merger”).

Upon effectiveness of the Merger, the Company became the holding company of the Ferrari business. Pursuant to the Separation, (i) holders of Predecessor Ferrari common shares received one Successor Ferrari common share for each Predecessor Ferrari common share and one Successor Ferrari special voting share for each Predecessor Ferrari special voting share held; (ii) FCA shareholders received one Successor Ferrari common share for every 10 FCA common shares and one Successor Ferrari

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

special voting share for every 10 FCA special voting shares held; and (iii) holders of FCA MCS received 0.77369 Successor Ferrari common shares for each FCA MCS unit (consisting of \$100 in notional amount of FCA MCS) held. Ferrari special voting shares held by FCA prior to the Demergers are no longer outstanding.

All of the shares held by Stitching FCA were repurchased by the Company for no consideration, as a result of which Stitching FCA no longer has any shareholding in the Company.

The Company's name was changed from FE New N.V. to Ferrari N.V on January 2, 2016 and the Separation was completed on January 3, 2016.

For the period from incorporation to December 31, 2015, the Company only incurred certain expenses, principally relating to legal and professional services in connection with the Separation, and did not have any other activities. Since Predecessor Ferrari ceased to exist following completion of the Separation, the Company has reported its financial information as a continuation of Predecessor Ferrari. The Merger has been shown effective from January 1, 2016. As a result of the Merger the financial information as at and for the year ended December 31, 2016 is not comparable with the comparative information presented as at and for the year ended December 31, 2015.

The summarized statement of financial position in the statutory accounts of Predecessor Ferrari at December 31, 2015 was represented by:

<i>(€ million)</i>	At December 31, 2015
Investments in subsidiaries	8,778
Other assets	115
Total assets	8,893
Equity	5,961
Financial liabilities with related parties	1,004
Borrowings from banks	1,920
Other liabilities	8
Total equity and liabilities	8,893

The initial investment in Ferrari S.p.A. arising from the restructuring was measured in the 2015 company financial statements of Predecessor Ferrari based on the transaction price of €8,778 million, as determined by an independent valuation.

Following the Separation, the share capital of the Company amounted to €2,504 thousand, comprising 193,923,499 common shares and 56,497,618 special voting shares all with nominal value of €0.01 per share. The Company had 5,000,000 common shares held in treasury at December 31, 2016. The authorized share capital of the Company is €7,500,000, divided into 375,000,000 common shares with nominal value of €0.01 per share and an equal number of special voting shares with nominal value of €0.01 per share.

On January 4, 2016 the Company completed the listing of its common shares on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana, under the ticker symbol RACE.

The Company's official seat (*statutaire zetel*) is in Amsterdam, the Netherlands, and the Company's registered office is in Maranello, Italy at Via Abetone Inferiore 4. The Company is registered with the Dutch trade register under number 64060977.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Date of authorization of issue

The separate financial statements of the Company (the “Company Financial Statements”) for the year ended December 31, 2016 were authorized for issuance on March 3, 2017.

Basis of preparation

The Company Financial Statements are prepared on a going concern basis using the historical cost method, modified as required for the measurement of certain financial instruments.

Statement of compliance

The Company Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“EU IFRS”).

Measurement basis

The Company Financial Statements were prepared using the same accounting policies as set out in the notes to the consolidated financial statements at December 31, 2016 (the Consolidated Financial Statements”), except for the measurement of the investments as presented under “investments in subsidiaries” in the Company Financial Statements.

Management considers the primary focus of these Company Financial Statements to be the legal entity perspective and considers that these Company Financial Statements should properly reflect the cost of the subsidiaries acquired through their contribution as well as the amounts that are eligible for distribution to the Company’s shareholders. Management believes that the measurement of its subsidiaries at cost, as permitted under EU IFRS, provides the best insight into the Company’s financial position and results, in addition to the information provided in the Consolidated Financial Statements.

The accounting policies were consistently applied to all periods presented.

The amounts in the Company Financial Statements are presented in thousands of Euro (€), except where otherwise indicated.

Format of the Company Financial Statements

The Company presents the income statement by function.

Statement of cash flows

The statement of cash flows is prepared using the indirect method with a breakdown into cash flows from operating, investing and financing activities.

New amendments effective from January 1, 2016

The following amendments were effective from January 1, 2016 and were adopted by the Company for the purpose of the preparation of the Company Financial Statements.

- *Amendments to IAS 1 - Presentation of Financial Statements*
- *Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets*
- *Annual Improvements to IFRSs 2012-2014 Cycle*

There were no significant effects from the adoption of these amendments.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

New standards issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union (“EU”) but not yet effective

The following standards issued by the IASB and endorsed by the EU are effective for annual periods beginning on or after January 1, 2018:

IFRS 15 - Revenue from Contracts with Customers and amendments to IFRS 15 - The Company is currently quantifying the impact of adoption of IFRS 15 and related amendments, however based on currently available information, the Group does not expect a material impact on its Company Financial Statements from such adoption.

IFRS 9 - Financial Instruments - The Company is currently evaluating the method of implementation and impact of adoption on its Company Financial Statements.

Further information on these standards is provided in the Consolidated Financial Statements.

New standards, amendments, clarifications and interpretations issued by IASB but not yet endorsed by the EU

The following standards, amendments, clarifications and interpretations have been issued by the IASB but not yet endorsed by the EU:

- *IFRS 16 - Leases*
- *Amendments to IAS 12 - Income Taxes*
- *Amendments to IAS 7 - Statement of Cash Flows*
- *Clarifications to IFRS 15 - Revenue from Contracts with Customers*
- *Amendments to IFRS 2 - Share-Based Payments*
- *Annual Improvements to IFRSs 2014-2016 Cycle*
- *IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration*
- *Amendments to IAS 40 - Transfers of Investment Property*

The Company will introduce any new standards, amendments, clarifications and interpretations once they are endorsed by the European Union and as of their effective dates. Further information on these standards is provided in the Consolidated Financial Statements.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less impairment. Dividend income from the Company’s subsidiaries are recognized in the income statement when the right to receive payment is established.

Impairment of investments in subsidiaries

At each reporting date, the Company assesses whether there is an indication that the investments in subsidiaries may be impaired. If any such indication exists, the Company makes an estimate of the asset’s recoverable amount. The recoverable amount is defined as the higher of the fair value of the investment less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Such impairment is recognized in the income statement. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the Company makes an estimate of the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Such recoverable amount cannot exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset in prior periods. Such a reversal is recognized in the income statement.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Foreign currency transactions

The financial statements are prepared in Euro, which is the Company's functional and presentation currency. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign currency exchange rate prevailing at that date. Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the period or in previous financial statements, are recognized in the income statement.

Foreign currency translation

The Company has a branch in the United Kingdom (UK) that operates in Pounds Sterling. At each reporting period, the assets and liabilities within the UK branch are translated to Euro using the exchange rate at the balance sheet date and the income statement is translated using the average exchange rate for the period. Translation differences resulting from the application of this method are classified as translation differences within other comprehensive income/(loss) until the disposal of the branch. The cumulative translation differences at December 31, 2016 amounted to €8 thousand.

The principal foreign currency exchange rates used to translate other currencies into Euro were as follows:

	2016		2015	
	Average	At December 31,	Average	At December 31,
U.S. Dollar	1.1069	1.0541	1.1094	1.0887
Pound Sterling	0.8194	0.8562	0.7259	0.7340

Property, plant and equipment

Property, plant and equipment is recognized at cost net of accumulated depreciation. Depreciation is calculated on a straight line basis over the useful lives of the assets as follows:

	Depreciation rates
Buildings	10%
Office equipment	20% - 22%
Other assets	20% - 25%

Trade receivables

Trade receivables are amounts due for goods sold or services provided in the ordinary course of business. Trade receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method, less any provision for allowances.

Inventories

Inventories of demo vehicles and spare parts are stated at the lower of cost and net realizable value. Cost is determined on a first in-first-out (FIFO) basis. Provision is made for obsolete and slow-moving inventories based on their expected future use and realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs for sale and distribution.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. There are no liens, pledges, collateral or restricts on cash and cash equivalents. Cash and cash equivalents do not include deposits in Ferrari Group cash management pools.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

Debt

Debt is measured at amortized cost using the effective interest rate method.

Trade payables

Trade payables are amounts payable for services, legal and professional fees and other expenses incurred. Trade payables are all due within one year.

Deferred income

Deferred income relates to amounts received in advance under certain agreements, primarily relating to marketing-related events hosted for third party dealers, which are reliant on the future performance of a service or other act of the Company. Deferred income is recognized as revenues or other income when the Company has fulfilled its obligations under the terms of the various agreements. Deferred income is recorded on the statement of financial position within “other liabilities”.

Net revenues

Net revenues relate to the sale of demo vehicles and spare parts to third party dealers and other income generated for marketing-related events hosted by the Company on behalf of third party dealers, such as new car launches. Net revenues are recognized if it is probable that the economic benefits associated with a transaction will flow to the Company and the revenues can be reliably measured. Net revenues are recognized when the risks and rewards of ownership are transferred to our third party dealers or when the services have been provided, the sales price is agreed or determinable and collectability is reasonably assured; for cars this generally corresponds to the date when the cars are released to the carrier responsible for transporting cars to dealers. Net revenues are recognized net of discounts including but not limited to, sales incentives and performance based bonuses.

Other income

Other income primarily relates to services performed by the Company on behalf of its subsidiaries for certain corporate services rendered and other recharge fees.

Derivative financial instruments

Derivative financial instruments are used for economic hedging purposes in order to reduce currency risk, principally between the Euro and the US Dollar. The Company does not apply hedge accounting. All derivative financial instruments are measured at fair value. Gains and losses from the fair value measurement of derivative financial instruments are recognized immediately in the income statement within net financial expenses.

Income taxes

Current and deferred taxes are recognized as income or expense and are included in the statement of loss for the period, except tax arising from a transaction or event which is recognized, in the same or a different period, either in other comprehensive loss or directly in equity.

Dividends

Dividends payable by the Company are reported as a change in equity in the period in which they are approved by the shareholders as applicable under local rules and regulations.

The Company did not receive any dividend income during the periods covered by these financial statements.

Share-based compensation

Non-Executive Directors’ compensation that will be settled in common shares of the Company is accounted for as equity-settled share-based compensation and measured at the fair value of the related compensation, which is recognized as an expense over the service period with an offsetting increase to equity.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Segment reporting

As disclosed in the Consolidated Financial Statements, the Group has determined that it has one operating and one reportable segment based on the information reviewed by its Chief Operating Decision Maker in making decisions regarding allocation of resources and to assess performance.

Use of estimates

The Company Financial Statements are prepared in accordance with EU IFRS, which requires the use of estimates, judgments, and assumptions that affect the carrying amount of assets and liabilities, the disclosure of contingent assets and liabilities and the amounts of income and expenses recognized. The estimates and associated assumptions are based on elements that are known when the financial statements are prepared, on historical experience and on any other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed periodically and continuously by the Company. If the items subject to estimates do not perform as assumed, then the actual results could differ from the estimates, which would require adjustment accordingly. The effects of any changes in estimate are recognized in the income statement in the period in which the adjustment is made, or prospectively in future periods. The estimates and assumptions that management considers most critical for the Company Financial Statements relate to investments in subsidiaries and in particular relating to impairment indicators. See Note 8.

3. NET REVENUES AND OTHER INCOME

Net revenues for the year ended December 31, 2016 amounted to €2,587 thousand (nil for the year ended December 31, 2015) and relate to sales of demo cars and spare parts to third parties as well as marketing-related events hosted on behalf of third party dealers and other customers.

Other income for the year ended December 31, 2016 amounted to €4,482 thousand (nil for the year ended December 31, 2015) and primarily relates to corporate services rendered and costs recharged to Ferrari S.p.A.

4. SELLING, GENERAL AND ADMINISTRATIVE COSTS

Selling, general and administrative costs consisted of the following:

	For the year ended December 31, 2016	For the period from September 4 to December 31, 2015
	<i>(€ thousand)</i>	
Personnel expenses	6,118	—
Shared services	5,830	—
Legal and professional services	2,447	49
Insurance	1,501	—
Advertising and selling expenses	1,151	—
Other expenses	252	—
Total selling, general and administrative costs	17,299	49

Personnel expenses include compensation for Non-Executive Directors' and employees of the UK Branch. Detailed information on Board of Directors and key officer compensation is included in the "Corporate Governance" and "Remuneration of Directors" sections to the Annual Report.

The number of full time equivalent employees of the Company at December 31, 2016 was 13, all of which relate to the UK Branch. All employees work outside of the Netherlands. The Company did not have any employees for the period from September 4 to December 31, 2015 and the Board of Directors did not receive any compensation for that period.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Shared service costs mainly relate to services provided by Ferrari S.p.A. for human resources, payroll, tax, legal, accounting and treasury.

Legal and professional services mainly relate to fees and expenses in relation to the Separation and the listing of the Company's shares on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana, as well as expenses for other legal and financial consulting services.

5. NET FINANCIAL EXPENSES

Net financial expenses of €35,445 thousand for the year ended December 31, 2016 include interest expenses of €34,190 thousand, bank fees and charges of €1,284 thousand and net foreign exchange losses of €187 thousand, partially offset by interest income of €167 thousand and gains on derivative financial instruments of €49 thousand.

Interest expenses relate to (i) €16,694 thousand on the Term Loan and Bridge Loan, (ii) €6,937 thousand on the bond issued in March 2016, and (iii) €10,559 thousand related to intercompany borrowings. See Note 13 for additional details.

Gains on derivative instruments of €49 thousand relate to a currency swap entered into to hedge exposure to foreign currency exchange fluctuations of a U.S. Dollar denominated related party receivable with Ferrari Financial Services Inc. that was settled in January 2016.

6. INCOME TAXES

Income tax benefit is as follows:

	For the year ended December 31, 2016
	<i>(€ thousand)</i>
Current income tax benefit	13,788
Deferred income tax benefit	1,132
Total income tax benefit	14,920

Income tax expense/benefit was nil for the year ended December 31, 2015. There were no deferred tax assets, deferred tax liabilities, current tax receivables or tax payables at December 31, 2015.

From 2016 and following the Separation, the Ferrari Group's entities participate in a Group tax consolidation under the Company.

	For the year ended December 31, 2016
	<i>(€ thousand)</i>
Loss before tax	47,093
Theoretical income tax benefit (27.5%)	12,951
Tax effect on:	
Non-deductible costs	(55)
Other permanent differences	2,024
Total income tax benefit	14,920
<i>Effective tax rate</i>	<i>31.7%</i>

Theoretical income tax benefit has been calculated at a rate of 27.5 percent for the year ended December 31, 2016, which is the corporate rate of taxation according to the Italian Tax Code.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Current tax receivables of €43,636 thousand at December 31, 2016 primarily relate to amounts owing from related parties for the 2016 group tax consolidation in Italy.

Tax payables of €31,859 thousand at December 31, 2016 primarily relate to amounts owing to the tax authorities for the 2016 group tax consolidation in Italy.

Deferred tax assets of €1,128 thousand at December 31, 2016 primarily relate to Executive and Non-Executive Directors' compensation recognized but not settled in 2016.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment amounted to €101 thousand at December 31, 2016, composed of cost of €130 thousand net of accumulated depreciation of €29 thousand, and relates to office furniture and equipment in the UK Branch. There are no liens, pledges, collateral or restrictions on use over property, plant and equipment. Depreciation charges of €24 thousand for the year ended December 31, 2016 were recorded within cost of sales. There was no property, plant and equipment at December 31, 2015.

8. INVESTMENT IN SUBSIDIARIES

Upon completion of the Separation on January 3, 2016, Ferrari S.p.A. became a wholly owned subsidiary of the Company. The initial investment in Ferrari S.p.A. was measured in the 2015 company financial statements of Predecessor Ferrari based on the transaction price of €8,778,000 thousand, as determined by an independent valuation. See Note 1 for additional details.

Investments in subsidiaries also includes €123 thousand relating to the subsidiary New Business 33 S.p.A. (formerly Fiat Investments S.p.A.).

There were no investments in subsidiaries at December 31, 2015.

Impairment testing

The investment in Ferrari S.p.A. is recorded at cost of €8.8 billion. Based on a closing share price of €55.3 per share for 2016 (at December 30, 2016) and 193,923,499 common shares outstanding at December 31, 2016, the market capitalization of Ferrari N.V. at December 31, 2016 amounted to approximately €10.7 billion. The valuation difference between Ferrari N.V. and investment in Ferrari S.p.A. mainly relates to the additional debt of €3.1 billion in Ferrari N.V. Therefore, for an impairment indicator in the investment to exist, based on the market capitalization, the share price would need to fall below approximately €30 per share.

Considering the share price of the Company at December 31, 2016 and at the date of authorization of the Company Financial Statements, no impairment indicators were identified. As disclosed in Note 14 to the Consolidated Financial Statements, no impairment indicators were identified in respect to the impairment test performed for the Consolidated Financial Statements.

9. INVENTORIES

Inventories at December 31, 2016 amounted to €670 thousand (nil at December 31, 2015) and relate to demo cars purchased from Ferrari S.p.A. for eventual sale to third parties. Such inventories are recorded net of an accumulated provision of €252 thousand. An inventory provision charge of €188 thousand was recorded within cost of sales during 2016.

Ferrari N.V.
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10. TRADE RECEIVABLES, OTHER CURRENT ASSETS AND DEPOSITS IN FERRARI GROUP CASH MANAGEMENT POOLS

	At December 31, 2016 (€ thousand)
Trade receivables	5,713
Other current assets	8,405
Deposits in Ferrari Group cash management pools	349
Total	14,467

Trade receivables

Trade receivables at December 31, 2016 amounted to €5,713 thousand (nil at December 31, 2015) and included €4,216 thousand due from Ferrari S.p.A. for corporate services rendered and fees charged and €1,497 thousand due from third parties for marketing-related events.

The carrying amount of trade receivables is deemed to approximate their fair value. All trade receivables are due within one year and there are no overdue balances. No allowance has been recorded for trade receivables.

The following sets for a breakdown of trade receivables by currency:

	At December 31, 2016 (€ thousand)
Trade receivables denominated in:	
Euro	2,738
Pound Sterling	2,975
Total	5,713

Other current assets

Other current assets of €8,405 thousand at December 31, 2016 primarily include accrued income, VAT credits and prepaid expenses. Other current assets amounted to €2 thousand at December 31, 2015.

Deposits in Ferrari Group cash management pools

Deposits in Ferrari Group cash management pools relate to the Company's participation, following the Separation, in a group-wide cash management system that is managed centrally by Ferrari S.p.A. There were no deposits in Ferrari Group cash management pools at December 31, 2015.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to €119,372 thousand at December 31, 2016 (€49 thousand at December 31, 2015) and were entirely denominated in Euro.

The carrying amount of cash and cash equivalents is deemed to be in line with their fair value. There was no restricted cash at December 31, 2016 and 2015.

Credit risk associated with cash and cash equivalents is considered limited as the counterparties are leading national and international banks.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

12. EQUITY

Share capital

At December 31, 2015, the fully paid-up share capital of the Company was €50 thousand, consisting of 5,000,000 common shares with a nominal value of €0.01. The authorized share capital of the Company was €225,000, consisting of 22,500,000 common shares with nominal value of €0.01 per share.

Following the Separation and at December 31, 2016 the fully paid up share capital of the Company was €2,504 thousand, consisting of 193,923,499 common shares and 56,497,618 special voting shares, all with a nominal value of €0.01. At December 31, 2016, the Company held 5,000,000 common shares and 2,930 special voting shares in treasury. The authorized share capital of the Company is €7,500,000, divided into 375,000,000 common shares with nominal value of €0.01 per share and an equal number of special voting shares with nominal value of €0.01 per share.

Changes in the fully paid up share capital and special voting shares between December 31, 2015 and December 31, 2016 relate entirely to the effects of the Separation, which was completed between January 1 and January 3, 2016.

The loyalty voting structure

The purpose of the loyalty voting structure is to reward ownership of the Company's common shares and to promote stability of the Company's shareholder base by granting long-term shareholders of the Company with special voting shares. Following the Separation, Exor B.V. ("Exor") and Piero Ferrari participate in the Company's loyalty voting program and, therefore, effectively hold two votes for each of the common shares they hold. Investors who purchased common shares in the initial public offering may elect to participate in the loyalty voting program by registering their common shares in the loyalty share register and holding them for three years. The loyalty voting program will be effected by means of the issue of special voting shares to eligible holders of common shares. Each special voting share entitles the holder to exercise one vote at the Company's shareholders meeting. Only a minimal dividend accrues to the special voting shares allocated to a separate special dividend reserve, and the special voting shares do not carry any entitlement to any other reserve of the Group.

Share premium

A share premium reserve of €5,975,434 originated from the Separation as explained in Note 1.

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 15, 2016, the Company paid a cash distribution of €0.46 per common share in May 2016, corresponding to a total distribution of €86,905 thousand. The distribution was made from the share premium reserve that is a distributable reserve under Dutch law.

As a result of the above transactions, the share premium reserve amounted to €5,888,529 thousand at December 31, 2016.

Other reserves

Other reserves at December 31, 2016 include the effects of the Separation which amounted to €16,588 thousand (as discussed in Note 1) as well as the equity-settled Non-Executive Directors' compensation.

Equity-settled Non-Executive Directors' compensation amounted to €1,110 thousand for the year ended December 31, 2016 and was recognized within selling, general and administrative costs and as an increase to other reserves.

Legal reserve

Pursuant to Dutch law, limitations exist relating to the distribution of shareholders' equity up to at least the total amount of the legal reserve, as well as other reserves mandated per the Company Articles of Association. At December 31, 2016, the legal and non-distributable reserves of the Company amounted to €14 thousand and included the following:

- The UK Branch operates in the Pounds Sterling. At each reporting period end, the assets and liabilities within the UK branch are translated to Euro and the respective foreign currency translation gain or loss is recorded

Ferrari N.V.
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in other comprehensive income. At December 31, 2016, the cumulative translation reserve amounted to €8 thousand.

- The Company records a statutory non-distributable reserve equal to 1 percent of the nominal value of the special voting shares. At December 31, 2016, this reserve amounted to €6 thousand.

The Company did not have any legal, or statutory, non-distributable reserves at December 31, 2015.

Reconciliation of Equity and Net Profit/Loss

The reconciliation of equity as per the Consolidated Financial Statements to equity as per the Company Financial Statements is provided below:

	At December 31, 2016
	<i>(€ thousand)</i>
Equity attributable to owners of the parent in the Consolidated Financial Statements	324,995
Separation ⁽¹⁾	5,969,427
Other comprehensive income reserves in the Consolidated Financial Statements	(20,155)
Results of subsidiaries in the Consolidated Financial Statements	(430,935)
Dividends	—
Equity in the Company Financial Statements	5,843,332

(1) Reflects differences in equity arising as a result of the effects of the Separation. See Note 1 for additional information on the Separation.

The reconciliation of net profit as per the Consolidated Financial Statements to net loss as per the Company Financial Statements is provided below:

	For the year ended December 31, 2016
	<i>(€ thousand)</i>
Net profit attributable to owners of the parent in the Consolidated Financial Statements	398,762
Results of subsidiaries in the Consolidated Financial Statements	(430,935)
Dividends	—
Net loss in the Company Financial Statements	(32,173)

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

13. DEBT

The breakdown of debt at December 31, 2016 by nature and by maturity is as follows:

	At December 31, 2016		Total
	Due within one year	Due between one and five years	
		(€ thousand)	
Borrowings from banks	183,366	547,802	731,168
Bond	—	497,614	497,614
Financial liabilities with related parties	1,403,817	432,473	1,836,290
Total	1,587,183	1,477,889	3,065,072

There was no debt at December 31, 2015.

Borrowings from banks

At December 31, 2016 borrowings from banks of €731,168 thousand related entirely to the Term Loan (as defined below).

	Currency	At December 31, 2016		Interest Rate
		Principal	Book Value	
		(€ thousand)		
Term Loan	Euro	733,333	731,168	EURIBOR 3M +80bps

The Facility

On November 30, 2015, Predecessor Ferrari, as borrower and guarantor, and certain other members of the Predecessor Ferrari group, as borrowers, entered into a €2.5 billion facility with a syndicate of ten banks (the “Facility”). The Facility comprises a bridge loan of €500 million (the “Bridge Loan”), a term loan of €1,500 million (the “Term Loan”) and a revolving credit facility of €500 million (the “RCF”).

In December 2015 the Bridge Loan and Term Loan were fully drawn down for the purposes of repaying financial liabilities with FCA, including the FCA Note that originated as a result of the restructuring (see Note 1). At December 31, 2015, the Bridge Loan was fully drawn down by Predecessor Ferrari, whilst €1,425 million of the Term Loan was drawn down by Predecessor Ferrari and the remaining €75 million was drawn down by Ferrari Financial Services Inc.

In March 2016, the Bridge Loan was subsequently fully repaid, primarily using the proceeds from the bond (see “Bond” below).

The Company made voluntary prepayments of €600 million on the Term Loan, paying €300 million in September 2016 and €300 million in December 2016. Also in December 2016, the Company and Ferrari Financial Services Inc. made mandatory scheduled payments of €92 million and \$9 million, respectively.

At December 31, 2016 and 2015 the RCF was undrawn. Proceeds of the RCF may be used from time to time for general corporate and working capital purposes of the Company and its subsidiaries.

The Term Loan and the RCF each have a maturity of five years. The Term Loan bears interest at a rate per annum equal to the aggregate of EURIBOR, plus a margin ranging from 50 basis points to 105 basis points depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. The RCF bears interest at a rate per annum equal to the aggregate of EURIBOR with respect to loans denominated in Euro, or LIBOR with respect to loans denominated in other currencies, plus a margin ranging from 35 basis points to 90 basis points

Ferrari N.V.
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depending on the applicable Consolidated Total Net Debt to Consolidated Adjusted EBITDA ratio, calculated in accordance with the terms of the Facility. Loans under the RCF may be drawn in Euro or an alternative currency at Company's option.

The Facility is unsecured and provides for mandatory prepayments, affirmative and negative covenants and events of default in a form customary for bank financings of investment grade borrowers in the European syndicated loan market. The Facility has no financial maintenance covenants. Mandatory prepayments are required, subject to certain exceptions, in the event of a change of control. Subject to various exceptions and qualifications, negative covenants include (i) limitations on the Company's ability to provide security for other financial indebtedness, (ii) restrictions on the financial indebtedness that the Company's subsidiaries may incur or have outstanding, and (iii) restrictions on the Company's ability to make certain disposals of assets. Events of default include (i) failure to make payments when due, (ii) other breaches under the Facility not remedied within a 30-day grace period, (iii) breaches of representations and warranties, (iv) attachment by creditors of, or distress, execution, sequestration or other process enforced upon, the whole or any material part of the Group's assets, (v) cross-payment default or cross-acceleration with certain other financial indebtedness, (vi) cessation of business, (vii) seizure, nationalization or expropriation of material assets; or (viii) bankruptcy or other insolvency proceedings.

As of December 31, 2016 the Company was in compliance with all covenants under the Facility.

The Facility is limited in recourse to the Company and the other members of the Group which borrow under the Facility.

Bond

On March 16, 2016, the Company issued 1.5 percent coupon notes due March 2023, having a principal of €500 million. The bond was issued at a discount for an issue price of 98.977 percent, resulting in net proceeds of €490,729 thousand after the debt discount and issuance costs. The net proceeds together with additional cash held by the Company, were used to fully repay the €500,000 thousand Bridge Loan under the Facility. The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amount outstanding at December 31, 2016 includes accrued interest of €5,938 thousand.

The notes impose covenants on Ferrari including: (i) negative pledge clauses which require that, in case any security interest upon assets of Ferrari is granted in connection with other notes or debt securities with the consent of Ferrari are, or are intended to be, listed, such security should be equally and ratably extended to the outstanding notes, subject to certain permitted exceptions; (ii) pari passu clauses, under which the notes rank and will rank pari passu with all other present and future unsubordinated and unsecured obligations of Ferrari; (iii) events of default for failure to pay principal or interest or comply with other obligations under the notes with specified cure periods or in the event of a payment default or acceleration of indebtedness or in the case of certain bankruptcy events; and (iv) other clauses that are customarily applicable to debt securities of issuers with a similar credit standing. A breach of these covenants may require the early repayment of the notes. As of December 31, 2016, Ferrari was in compliance with the covenants of the notes.

Financial liabilities with related parties

Financial liabilities with related parties are broken down as follows:

	Currency	Total amount outstanding at December 31, 2016	Due date	Interest Rate
		<i>(€ thousand)</i>		
Ferrari S.p.A.	Euro	1,000,348	September 2017	EURIBOR 3M
Ferrari S.p.A.	Euro	300,105	September 2017	EURIBOR 3M
Ferrari S.p.A.	Euro	100,083	May 2017	EURIBOR 3M
Ferrari Financial Services S.p.A.	Euro	432,473	October 2019	EURIBOR 3M
Ferrari North Europe Ltd. (FNE Note)	Pound Sterling	3,281	n.a.	2%
Total		1,836,290		

The Company expects to repay the FNE Note in 2017.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

At December 31, 2016 a 10 basis point increase in interest rates on the floating rate financial liabilities, with all other variables held constant, would have resulted in a decrease in profit after tax of €2,121 thousand on an annualized basis.

Information on fair value measurement and qualitative and quantitative information on financial risks are provided in Note 27 and Note 30, respectively, to the Consolidated Financial Statements.

Further information on the Group's liquidity is provided in the “*Liquidity and Capital Resources*” section of this Annual Report. Based on this information the Company deems the going concern assumption adequate.

14. TRADE PAYABLES

Trade payables amounted to €11,598 thousand at December 31, 2016 and include €6,641 thousand due to Ferrari S.p.A. and €4,957 thousand due to third parties. Amounts due to Ferrari S.p.A. relate to corporate services rendered and costs recharged. Amounts due to third parties relate to costs for marketing-related events and legal and professional services.

The following sets for a breakdown of trade payables by currency at December 31, 2016:

	At December 31, 2016 (€ thousand)
Trade receivables denominated in:	
Euro	7,801
Pound Sterling	3,797
Total	11,598

Trade payables amounted to €51 thousand at December 31, 2015 (all denominated in Euro) and related to legal and professional expenses incurred in relation to the Separation.

Trade payables are due within one year and their carrying amount at the reporting date is deemed to approximate their fair value.

15. OTHER CURRENT LIABILITIES

Other current liabilities amounted to €5,636 thousand at December 31, 2016 and primarily relate to employee benefits, provisions, deferred income and VAT payable.

Deferred income principally relates to advances received from dealers for marketing-related events, such as new car launches.

16. EARNINGS PER SHARE

Earnings per share information is provided in Note 13 to the Consolidated Financial Statements.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

17. AUDIT FEES

The fees for services provided by the Company's independent auditors, Ernst & Young Accountants LLP, and its member firms and/or affiliates, to the Company and its subsidiaries are broken down as follows:

	For the year ended December 2016	For the year period from September 4 to December 31, 2016
	<i>(€ thousands)</i>	
Audit fees	1,554	10
Audit-related fees	25	—
Tax fees	32	—
Total	1,611	10

Audit fees of Ernst & Young Accountants LLP amounted to €100 thousand in 2016 (€10 thousand in 2015). No other services were performed by Ernst & Young Accountants LLP.

18. REMUNERATION

Detailed information on Board of Directors and key officer compensation is included in the “Corporate Governance” and “Remuneration of Directors” sections to the Annual Report.

19. COMMITMENTS AND CONTINGENCIES

At December 31, 2016, the Company had guaranteed debt of its subsidiary Ferrari Financial Services Inc. The book value of the related debt at December 31, 2016 was €93,012 thousand.

At December 31, 2015, the Company had no commitments or contingencies.

20. RELATED PARTY TRANSACTIONS

Pursuant to IAS 24, the related parties with which the Company has transactions are Ferrari S.p.A. and other companies within the Ferrari Group. The Group carries out transactions with related parties on commercial terms that are normal in their respective markets, considering the characteristics of the goods or services involved.

Related party transactions include:

- Purchase of demo vehicles and spare parts from Ferrari S.p.A. (Note 9)
- Corporate services and recharge of expenses to Ferrari S.p.A. (Note 3)
- Share services received from Ferrari S.p.A. mainly related to human resources, payroll, tax, legal, accounting and treasury. (Note 3)
- Participation in a Ferrari Group-wide cash management system where the operating cash management, main funding operations and liquidity investment of the Ferrari Group are centrally coordinated by Ferrari S.p.A. Deposits in Ferrari Group cash management pools represented the Company's participation in such pools. (Note 10)
- Financial liabilities with Ferrari S.p.A., Ferrari Financial Services S.p.A. and Ferrari North Europe Ltd. (Note 13)
- Financial receivables with Ferrari Financial Services Inc. originated in 2015 and fully settled in 2016 (Note 4)

The impact of transactions with related parties on the Company Financial Statements is disclosed separately in the relevant notes.

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Non-Executive Directors' compensation

For the period from January 1 to April 14, 2016, Non-Executive Directors' compensation amounted to €331 thousand and was fully settled in cash. Following the election of the Board of Directors at the Annual General Meeting of Shareholders on April 15, 2016, Non-Executive Directors have been given the option to receive the board retainer fee component of their Directors' compensation in 50% cash and 50% Ferrari common shares, or alternatively, to receive 100% in Ferrari common shares. Non-Executive Directors' compensation for the period from April 15, 2016 to December 31, 2016 amounted to €1,515 thousand, of which €1,110 thousand was settled in treasury shares in January 2017 and €405 thousand was settled in cash, also in January 2017. The amount settled in Ferrari common shares was accounted for as equity-settled share-based compensation and recognized as an increase to equity in 2016.

21. ORGANIZATIONAL STRUCTURE

The following table sets forth the Company's subsidiaries and associates at December 31, 2016.

Name	Country	Nature of business	Shares held by the Group
Subsidiaries consolidated on a line-by-line basis			
Directly held interests			
Ferrari S.p.A.	Italy	Manufacturing	100%
Indirectly held through Ferrari S.p.A.			
Ferrari North America Inc.	USA	Importer and distributor	100%
Ferrari Japan KK	Japan	Importer and distributor	100%
Ferrari Australasia Pty Limited	Australia	Importer and distributor	100%
Ferrari (HK) Limited	Hong Kong	Importer and distributor	100%
Ferrari International Cars Trading (Shanghai) Co. L.t.d.	China	Importer and distributor	80%
Ferrari Far East Pte Limited	Singapore	Service company	100%
Ferrari Management Consulting (Shanghai) Co. L.t.d.	China	Service company	100%
Ferrari South West Europe S.a.r.l.	France	Service company	100%
Ferrari Central East Europe GmbH	Germany	Service company	100%
G.S.A. S.A.	Switzerland	Service company	100%
Ferrari North Europe L.t.d.	UK	Service company	100%
Mugello Circuit S.p.A.	Italy	Racetrack management	100%
Ferrari Financial Services S.p.A.	Italy	Financial services	100%
Indirectly held through other Group entities			
Ferrari Financial Services Inc.	USA	Financial services	100%
Ferrari Auto Securitization Transaction, LLC	USA	Financial services	100%
Ferrari Auto Securitization Transaction - Lease, LLC	USA	Financial services	100%
Ferrari Auto Securitization Transaction - Select, LLC	USA	Financial services	100%
Ferrari Financial Services Titling Trust	USA	Financial services	100%
410, Park Display Inc.	USA	Retail	100%
Subsidiaries valued at cost			
Fondazione Ferrari	Italy	Service company	100%
Scuderia Ferrari Club S.c.a.r.l.	Italy	Service company	94%
New Business 33 S.p.A.	Italy	Holding company	100%
Associated companies valued at cost			
Fondazione Casa di Enzo Ferrari	Italy	Service company	25%
Branches			
UK Branch	UK	Sales and after sales support	

Ferrari N.V.
NOTES TO THE COMPANY FINANCIAL STATEMENTS

22. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 3, 2017, which is the date the financial statements were authorized for issue. The following events occurred:

On March 1, 2017, the Board of Directors approved a distribution to the holders of common shares of €0.635 per common share, corresponding to a total distribution to shareholders of approximately €120 million. The distribution remains subject to the adoption of the Company's 2016 Annual Accounts at the Annual General Meeting of Shareholders to be held on April 14, 2017.

March 3, 2017

Board of Directors

Sergio Marchionne
Amedeo Felisa
John Elkann
Piero Ferrari
Delphine Arnault
Louis C. Camilleri
Eddy Cue
Giuseppina Capaldo
Eduardo H. Cue
Sergio Duca
Lapo Elkann
Adam Keswick
Maria Patrizia Grieco
Elena Zambon

Other Information

Independent Auditor's Report

The report of the Company's independent auditor, Ernst & Young Accountants LLP, the Netherlands, is set forth at the end of this Annual Report.

Dividends

Dividends will be determined in accordance with the articles 23 of the Articles of Association of Ferrari N.V. The relevant provisions of the Articles of Association read as follows:

1. The Company shall maintain a special capital reserve to be credited against the share premium exclusively for the purpose of facilitating any issuance or cancellation of special voting shares. The special voting shares shall not carry any entitlement to the balance of the special capital reserve. The Board of Directors shall be authorized to resolve upon (i) any distribution out of the special capital reserve to pay up special voting shares or (ii) re-allocation of amounts to credit or debit the special capital reserve against or in favor of the share premium reserve.

2. The Company shall maintain a separate dividend reserve for the special voting shares. The special voting shares shall not carry any entitlement to any other reserve of the Company. Any distribution out of the special voting rights dividend reserve or the partial or full release of such reserve will require a prior proposal from the Board of Directors and a subsequent resolution of the meeting of holders of special voting shares.

3. From the profits, shown in the annual accounts, as adopted, such amounts shall be reserved as the Board of Directors may determine.

4. The profits remaining thereafter shall first be applied to allocate and add to the special voting shares dividend reserve an amount equal to one percent (1%) of the aggregate nominal value of all outstanding special voting shares. The calculation of the amount to be allocated and added to the special voting shares dividend reserve shall occur on a time- proportionate basis. If special voting shares are issued during the financial year to which the allocation and addition pertains, then the amount to be allocated and added to the special voting shares dividend reserve in respect of these newly issued special voting shares shall be calculated as from the date on which such special voting shares were issued until the last day of the financial year concerned. The special voting shares shall not carry any other entitlement to the profits.

5. Any profits remaining thereafter shall be at the disposal of the general meeting of Shareholders for distribution of profits on the common shares only, subject to the provision of paragraph 8 of this article.

6. Subject to a prior proposal of the Board of Directors, the general meeting of Shareholders may declare and pay distribution of profits and other distributions in United States Dollars. Furthermore, subject to the approval of the general meeting of Shareholders and the Board of Directors having been designated as the body competent to pass a resolution for the issuance of shares in accordance with Article 6, the Board of Directors may decide that a distribution shall be made in the form of shares or that Shareholders shall be given the option to receive a distribution either in cash or in the form of shares.

7. The Company shall only have power to make distributions to Shareholders and other persons entitled to distributable profits to the extent the Company's equity exceeds the sum of the paid in and called up part of the share capital and the reserves that must be maintained pursuant to Dutch law and the Company's Articles of Association. No distribution of profits or other distributions may be made to the Company itself for shares that the Company holds in its own share capital.

8. The distribution of profits shall be made after the adoption of the annual accounts, from which it appears that the same is permitted.

9. The Board of Directors shall have power to declare one or more interim distributions of profits, provided

that the requirements of paragraph 7 hereof are duly observed as evidenced by an interim statement of assets and liabilities as referred to in Section 2:105 paragraph 4 of the Dutch Civil Code and provided further that the policy of the Company on additions to reserves and distributions of profits is duly observed. The provisions of paragraphs 2 and 3 hereof shall apply mutatis mutandis.

10. The Board of Directors may determine that distributions are made from the Company's share premium reserve or from any other reserve, provided that payments from reserves may only be made to the Shareholders that are entitled to the relevant reserve upon the dissolution of the Company.

11. Distributions of profits and other distributions shall be made payable in the manner and at such date(s) - within four (4) weeks after declaration thereof - and notice thereof shall be given, as the general meeting of Shareholders, or in the case of interim distributions of profits, the Board of Directors shall determine.

12. Distributions of profits and other distributions, which have not been collected within five (5) years and one (1) day after the same have become payable, shall become the property of the Company.

On March 1, 2017 the Board of Directors resolved to make a distribution of €0.635 per common share in accordance with paragraph 10 of Article 23 of the Articles of Association.

Appropriation of profit or treatment of loss

The loss recorded for the 2016 year will be added to the accumulated losses.

Branch offices

Please make reference to Note 21 of the Company Financial Statements included in this Annual Report.

Subsequent events

Please make reference to Note 32 of the Consolidated Financial Statements included in this Annual Report.

Independent auditor's report

To: the shareholders and audit committee of Ferrari N.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of Ferrari N.V. (the Company), incorporated in Amsterdam, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements (collectively referred to as the financial statements).

In our opinion the financial statements give a true and fair view of the financial position of Ferrari N.V. as at December 31, 2016 and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code

The financial statements comprise:

- The consolidated and company statement of financial position as at December 31, 2016
- The following statements for 2016: the consolidated and company income statement, the consolidated and company statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of Ferrari N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	€28 million
Benchmark applied	Approximately 5% of consolidated profit before taxes
Explanation	We consider an earnings-based measure, particularly profit before taxes, as the appropriate basis for determining our overall materiality because the users of the financial statements of profit-oriented entities tend to focus on operational performance.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the audit committee that misstatements in excess of €1,4 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

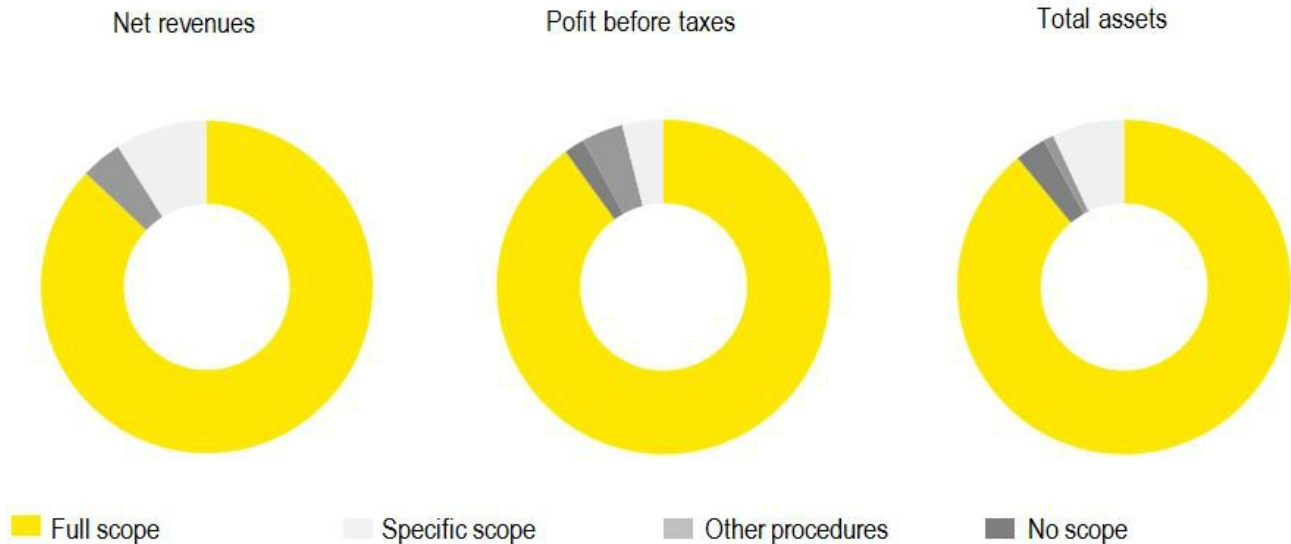
Ferrari N.V. is the parent of a group of entities. The financial information of this group is included in the consolidated financial statements of Ferrari N.V. The group has industrial, selling and financial services companies located in ten countries and a commercial presence in sixty markets worldwide.

Our group audit mainly focused on significant group entities. Group entities are considered significant components either because of their individual financial significance or because they are likely to include significant risks of material misstatement due to their specific nature or circumstances. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or for specific items.

In establishing the overall approach to the audit, we determined the type of work that is needed to be done by us, as group auditors, or by component auditors from Ernst & Young Global member firms and operating under our instructions.

Accordingly, we identified two group entities, which, in our view, required an audit of their complete financial information, either due to their overall size or their risk characteristics. Specific scope audit procedures on certain balances and transactions were performed on four entities. Other procedures were performed on a further twelve entities.

In total, group entities within the scope of our audit comprise 99% of revenues and 98% of profit before taxes and 97% of the group's total assets.



By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the audit committee. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit response
Revenue recognition	
The Company recognizes revenue for sales of vehicles, net of discounts, cash sales incentives and rebates recognized to dealers or customers, when persuasive evidence of an arrangement exists, collectability is reasonably assured, and the risks and rewards of ownership have transferred to the customer (for vehicle sales, generally when the vehicle is released to the carrier responsible for transporting vehicles to dealers). Our risk is mainly related to the cut-off of recognized revenue. The Company disclosed its accounting policy for revenue recognition in section 2 Significant Accounting policies of the consolidated financial statements.	We obtained an understanding of the processes related to revenue recognition and evaluated the design and tested the effectiveness of controls in this area relevant to our audit. We performed a combination of internal control and substantive audit procedures to address the risk relating to revenue recognition. Our focus included examining main standard contracts by dealer, performing extensive sales cut-off procedures, testing the calculation of underlying data for sales incentive accruals and performing disaggregated analytics over key revenues streams, such as sales of cars and engines, and comparisons with prior periods. Finally, we reviewed the adequacy of the disclosures made by the Company regarding revenue recognition.
Warranty and recall campaigns provision	
At December 31, 2016 the warranty and recall campaigns provision amounted to € 122,4 million. The Company records provisions for product warranty obligations, including the estimated cost of service and recall actions, when the related sale is recognized or when the recall actions are initiated. The Company issues various types of product warranties under which the performance of products delivered is generally guaranteed for a certain period or term, and records related provisions based on the expected costs of warranty obligations imposed by law or contract, as well as the expected costs for policy coverage and recall actions. The estimated future costs of these actions are principally based on assumptions regarding the lifetime warranty costs and service recall costs of each car line and each model year of that car line, as well as historical claims experience for Ferrari cars. In addition, the number and magnitude of additional service actions expected to be approved, and policies related to additional service actions, are taken into consideration. The costs related to these provisions are recognized within cost of sales. Due to the uncertainty and potential volatility of these estimated factors, changes in assumptions used could materially affect the result of the Company's operations. The Company disclosed its accounting policy for product warranty and liabilities in section 2. Significant Accounting policies of the consolidated financial statements.	We obtained an understanding of the warranty process, evaluated the design of, and performed tests of controls in this area. Our focus included evaluating the appropriateness of the Group's methodology, evaluating and testing assumptions used in the determination of the warranty and recall campaigns provision and testing the validity of the data used in the calculations. Finally, we reviewed the adequacy of the disclosures made by the Company regarding provisions for warranties and recall campaigns.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The board report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the audit committee of Ferrari N.V. on September 29, 2015 to perform the audit of its 2015 financial statements and have continued as its statutory auditor since then.

Description of responsibilities for the financial statements

Responsibilities of management and the audit committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The audit committee is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Rotterdam, March 3, 2017

Ernst & Young Accountants LLP

/s/ P.W.J. Laan