

Ferrari N.V.

2018 ANNUAL REPORT

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Board of Directors and Auditors

Board of Directors

Chairman

John Elkann

Chief Executive Officer

Louis C. Camilleri

Vice Chairman

Piero Ferrari

Directors

Delphine Arnault

Giuseppina Capaldo

Eddy Cue

Sergio Duca

Lapo Elkann

Amedeo Felisa

Maria Patrizia Grieco

Adam Keswick

Elena Zambon

Independent Auditors

Ernst & Young Accountants LLP

Letter from the Chairman and the Chief Executive Officer

Dear Shareholders,

We would like to begin this letter by remembering with great affection and gratitude the late Sergio Marchionne whose passing had such an undeniable impact on 2018. We are extremely proud of the way Ferrari's men and women reacted to that tragic loss, not only ensuring a sense of continuity but also achieving all of the goals we had set ourselves for the financial year. It was with a sense of great pride and responsibility that we accepted the roles of Chairman and Chief Executive Officer, respectively, and in doing so, committed ourselves to guiding Ferrari into the future whilst staying true to the principles laid down for us by our founder.

We spoke about that future on Capital Markets Day, which proved an invaluable opportunity to meet and dialogue with the financial community. We also presented our plans for the Company up to 2022 which centre around an exhilarating schedule of launches spanning innovative hybrid models that are the product of appropriate investment. Our range is already more complete than it has ever been. But in addition to its three classic pillars - sports cars, Grand Tourers and Special Series - we also further enhanced it with the Icona concept of which the Ferrari Monza SP1 and SP2 are the forerunners. This completely unprecedented limited edition concept offers a modern reinterpretation of a timeless style and marries it with leading-edge technologies and blistering performance. Last year, we also launched the 488 Pista and the 488 Pista Spider, which hailed a further leap forward in dynamic performance from the previous 8-cylinder special series.

Ferrari's solid financial results in 2018 either matched or exceeded our targets and were the best possible response to future challenges. In the course of 2018, we delivered 9,251 cars, a jump of over 10% on the previous year's figure with increases across all our regions. This too provides further confirmation of the global power of the brand.

One of the keys to our success is the enduring bond with our clients which we nurture through a series of initiatives inspired by passion and the sheer joy of driving our cars. Examples include the Ferrari Cavalcade and Cavalcade Classiche, the latter already eagerly-anticipated despite only being on its second outing.

On the motorsport front, the Scuderia Ferrari proved highly competitive in 2018, delivering our most successful F1 season of the last decade which, unfortunately, was still not quite enough for us to take the final, much coveted step.

Staying with racing, the GT categories almost all lived up to expectations, while in terms of our Corse Clienti activities, the Ferrari Challenge attracted an even larger field of drivers. F1 Clienti too had another very positive year and the XX Programmes received a boost in the form of the FXX-K EVO.

In terms of our brand diversification activities, we put the emphasis on loyalty to our unique heritage through meticulously selecting licensing and partnership opportunities, eliminating those that did not reflect the brand's values. We need to retain the Scuderia Ferrari-branded products demanded by our *tifosi* but also to simultaneously develop the range of the high quality creations so greatly appreciated by our clients.

In 2018, the Group's commitment to sustainability progressed hand-in-glove with our economic and financial growth. Aside from an intensive R&D focus on hybridizing the range, we also worked on improving the energy efficiency of the Ferrari complex and invested in that most fundamental of resources, our human capital, by boosting training hours by over 45%.

As with all of our activities, our responsibility is to look beyond the short term and guide the Ferrari of tomorrow towards achieving even more ambitious goals. As far as we are concerned there is no better way of honouring both our history and you, our shareholders, for the faith you have shown in us on our shared journey.

February 26, 2019

John Elkann
Chairman

Louis Carey Camilleri
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. 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. (“Fiat”) with and into FCA. References to the “Separation” refer to the series of transactions through which the Ferrari business was separated from FCA as summarized in “*Note on Presentation*” below and references to the “Restructuring” refer to a restructuring completed in October 2015 as part of the Separation.

Note on Presentation

This Annual Report includes the consolidated financial statements of Ferrari N.V. as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017 and 2016 prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, as well as IFRS as adopted by the European Union, 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, 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 referred to 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 on the New York Stock Exchange, and (iv) the distribution, following the initial public offering, of FCA’s remaining interest in the Company to FCA’s shareholders. Following the Separation Ferrari operates as an independent, publicly traded company.

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, 2015 and 2014 and the audited consolidated statement of financial position at December 31, 2016, 2015 and 2014;

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 debt owing to FCA 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, 2014.

The following information should be read in conjunction with “*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,				
	2018	2017	2016	2015	2014
	(€ million, except per share data)				
Net revenues	3,420	3,417	3,105	2,854	2,762
EBIT	826	775	595	444	389
Profit before taxes	803	746	567	434	398
Net profit	787	537	400	290	265
Net profit attributable to:					
<i>Owners of the parent</i>	785	535	399	288	261
<i>Non-controlling interests</i>	2	2	1	2	4
Basic earnings per common share (€) ⁽¹⁾	4.16 ⁽⁶⁾	2.83	2.11	1.52	1.38
Diluted earnings per common share (€) ⁽¹⁾⁽²⁾	4.14 ⁽⁶⁾	2.82	2.11	1.52	1.38
Dividend approved per common share (€) ⁽³⁾	0.71	—	—	—	—
Distribution approved per common share (€) ⁽⁴⁾⁽⁵⁾	—	0.635	0.46	—	—

(1) For 2014 and 2015, retrospectively reflects the issuance of 188,923,499 common shares as if the Separation had occurred on January 1, 2014. See also Note 13 to the Consolidated Financial Statements.

(2) In order to calculate the diluted earnings per common share the weighted average number of shares outstanding has been increased to take into consideration the theoretical effect of (i) the potential common shares that would be issued under the equity incentive plan for the years ended December 31, 2018 and 2017, and (ii) the potential common shares that would have been issued for the Non-Executive Directors’ compensation agreement for the years ended December 31, 2017 and 2016. For the years ended December 31, 2015 and 2014 there were no potentially dilutive instruments. See Note 13 to the Consolidated Financial Statements for additional information.

(3) Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 13, 2018, a dividend distribution of €0.71 per common share was approved, corresponding to a total distribution of €134 million. The distribution was made from the retained earnings reserve.

(4) Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 14, 2017, a cash distribution of €0.635 per common share was approved, corresponding to a total distribution of €120 million. The distribution was made from the share premium reserve which is a distributable reserve under Dutch law.

(5) Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 15, 2016, a cash distribution of €0.46 per common share was approved, 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.

(6) The increase in the basic and diluted earnings per common share in 2018 compared to 2017 includes the effects of applying the Patent Box tax regime starting in the third quarter of 2018. See Adjusted Basic and Diluted Earnings per Common Share for 2018 in the section “Operating Results—Non-GAAP Financial Measures” as well as Note 11 to the Consolidated Financial Statements, both included elsewhere in this Annual Report, for additional information.

Consolidated Statement of Financial Position Data

	At December 31,				
	2018	2017	2016	2015	2014
	(€ million, except number of shares issued)				
Cash and cash equivalents	794	648	458	183	134
Deposits in FCA Group cash management pools ⁽¹⁾	—	—	—	139	942
Total assets	4,852	4,141	3,850	3,875	4,641
Debt	1,927	1,806	1,848	2,260	510
Total equity/(deficit) ⁽²⁾	1,354	784	330	(19)	2,478
<i>Equity/(Deficit) attributable to owners of the parent</i>	<i>1,349</i>	<i>779</i>	<i>325</i>	<i>(25)</i>	<i>2,470</i>
<i>Non-controlling interests</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>6</i>	<i>8</i>
Share capital	3	3	3	4	4
Common shares issued (in thousands of shares) ⁽³⁾	187,921	188,954	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 of the Group were centrally coordinated by dedicated treasury companies with the objective of ensuring effective and efficient management of our funds. Following the completion of the Separation on January 3, 2016, these arrangements were terminated and we manage our liquidity and treasury function on a standalone basis.
- (2) The deficit 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, 2014.

Other Statistical Information

	For the years ended December 31,				
	2018	2017	2016	2015	2014
Shipments (number of cars)	9,251	8,398	8,014	7,664	7,255
Average number of employees for the period	3,651	3,336	3,115	2,954	2,843

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 41% 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.

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 Non Financial Statement section of our 2018 Annual Report addresses those aspects of our sustainability efforts that we have identified as being of greatest importance to our internal and external stakeholders.

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. For example, the gradual expansion of hybrid engine and electric engine technology will 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 in part 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, GT, special series and Icona cars which also supports the appeal of other Ferrari-branded luxury goods. We have focused on restoring the success of our Formula 1 racing team as our most recent Drivers' Championship and Constructors' Championship were in 2007 and 2008, respectively. We are focused on improving our racing results and restoring our historical position as the premier racing team. 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 brand and 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, in the next few years luxury performance cars will increasingly transition to hybrid and electric technology, albeit at a slower pace compared to mass market vehicles. See "*The introduction of hybrid cars is costly and its long term success is uncertain*".

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 museums 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. The increase in the number of cars we produce relative to the number of automotive collectors and purchasers in the secondary market may adversely affect our cars' value as collectible items and in the secondary market more broadly.

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.

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. The introduction of hybrid and electric technology and the associated changes in customer preferences that may follow are also a challenge we will face in future periods. See also "*If we are unable to keep up with advances in high performance car technology, our brand and competitive position may suffer*" and "*The introduction of hybrid cars is costly and its long term success is uncertain*". If we misjudge the market for our products or are delayed in recognizing trends and customer preferences, 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. We will encounter this risk, for example, as we introduce the Purosangue, a luxury high performance vehicle within the GT range that we are developing and will launch in the coming years. Furthermore 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.

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.

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, our reputation for quality and the driving experience for our customers. If we are unable to compete successfully, our business, results of operations and financial condition could be adversely affected.

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, as well as dealer operations and workshops, 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 successful new cars or delays in their launch that could result in others bringing new products and technologies to the market first, could compromise our competitive position and hinder the growth of our business. 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. For example, we are currently planning to introduce 15 new models in the 2019-2022 period (which is unprecedented for Ferrari over a similar time period). We have recently introduced the Icona limited editions, a new concept that takes inspiration from our iconic cars of the past and interprets them in a modern way with innovative materials and innovative technology. In the GT range, we are developing a luxury high performance vehicle, the Purosangue, and we are planning a new line of cars powered by V6 engines. In addition, we will gradually but rapidly 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 plan to redesign our international network footprint and skill set. We also plan to open additional retail stores in 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 low volume strategy may limit potential profits, and if volumes increase our brand exclusivity may be eroded.

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. This focus on maintaining exclusivity limits our potential sales growth and profitability.

On the other hand, our current growth strategy contemplates a measured but significant increase in car sales above current levels as we target a larger customer base and modes of use, we increase our focus on GT cars and our product portfolio evolves with a broader product range.

In pursuit of our strategy, 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.

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

We depend on the sales of a small number of car models to generate our revenues. Our current product range consists of six range models (including three sports cars and three GT cars) and two special series cars. While we anticipate significantly expanding our car offerings as part of our growth strategy through the introduction of 15 new products in the 2019-2022 period, a limited number of models will continue to account for a large portion of our revenues at any given time in the foreseeable future, compared to other automakers. 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, or that we will be able to launch new models on a timely basis compared to our competitors. It generally takes several years from the beginning of the development phase to the 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, our revenues and profits may also be affected by our “special series” and limited edition cars (including the new Icona limited editions) that we launch from time to time and which 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.

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. The EU economies in particular have suffered a prolonged period of slow growth since the 2008 financial crisis. In addition, uncertainties regarding future trade arrangements and industrial policies in various countries or regions, such as in the United Kingdom following the referendum to leave the European Union (see further *“We may be adversely affected by the UK determination to leave the European Union (Brexit)”*) create additional macroeconomic risk. In the United States, any policy to discourage import into the United States of vehicles produced elsewhere 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. Although China only represents approximately 8 percent of our net revenues and a limited proportion of our growth in the short term, slowing economic conditions in China may adversely affect our revenues in that region. A significant decline in the EU, the global economy or in the specific economies of our markets, or in consumers’ confidence, could have a material adverse effect on our business. See also *“Developments in China and other growth and emerging markets may adversely affect our business”*.

Developments in China and other growth and emerging markets may adversely affect our business.

We operate in a number of growth and emerging markets, both directly and through our dealers and we have experienced increasing demand in China and other regions in Asia.

We believe we have potential for further success in new geographies, in particular in China, but also more generally in Asia, 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 growth and 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 growth and 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. See also *“Global economic conditions may adversely affect us”*.

We may be adversely affected by the UK 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”). On March 29, 2017, the United Kingdom formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. Negotiations 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 remain ongoing. 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 and custom arrangements, during any transitional period and more permanently. Failure to reach appropriate agreements could adversely affect European or worldwide economic or market conditions. It is possible that there will be greater restrictions on

imports and exports between the UK and European Union countries and increased regulatory complexities which may prove challenging and costly. Approximately 9 percent of our cars and spare parts net revenues in 2018 were generated in the UK and we do not have any other significant operations in the UK, therefore, 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.

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 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 management 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 the future, we will also require a greater number of batteries and other components of hybrid engines as we introduce hybrid technology in our range model offering, and we expect producers of batteries will be called to increase the levels of supply 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 Corporation (“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, including us (see further “*Car recalls may be costly and may harm our reputation*”; see also “*Overview of Our Business—Regulatory Matters—Vehicle safety*”). Takata filed for bankruptcy protection in Japan and the United States in June 2017. 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 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, and 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 stop or delay production and shipment of our cars. As such damage from disasters or unpredictable events could have a material adverse impact on our business, results from 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 parks, 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 in 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.

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 profits related to Formula 1 activities may decline if either our team's performance worsens compared to other competing teams, or if the overall Formula 1 business suffers, including potentially as a result of increasing popularity of the FIA Formula E championship. 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, extensive talks were held in 2018 and are continuing among the owners of the Formula 1 business and all teams with regards to the arrangements relating to the participation of Ferrari and the other teams competing in the championship in the period following the 2020 expiration of the current arrangements between racing teams and the operator of Formula 1. We cannot be certain that we or other racing teams will be successful in negotiating acceptable terms and conditions for continued participation. If we were to withdraw from Formula 1 this would affect our marketing and brand strategies and we currently are unable to predict the consequences on our business, financial condition and results of operations.

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

We produce V8 and V6 engines for 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. While Maserati is required to compensate us for certain production costs we may incur 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.

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.

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. 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 greenhouse gas (“GHG”) and fuel economy (“CAFE”) levels and more stringent standards have been prescribed for model years 2017 through 2025. As an SVM, we expect to benefit from a derogation from currently applicable standards. We have also petitioned the EPA for alternative standards for the model years 2017-2021 and 2022-2025, which are aligned to our technical and economic capabilities. 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. Then, in December, 2017, we amended the petition by proposing alternative CAFE standards for model years 2016, 2017 and 2018 instead, covering also the 2016 model year. NHTSA have not yet responded to our petition. We will need in the future to file with NHTSA a petition for 2019-2020 and 2021 model years. If our petitions are rejected, or if we produce annually more than 10,000 vehicles globally, we will not be able to benefit from the more favorable CAFE standards levels which we have petitioned for and this may require us to purchase additional CAFE credits in order to comply with applicable CAFE standards.

In the United States, considerable uncertainty is associated with emissions regulations under the current administration. New regulations are in the process of being developed, and many existing and potential regulatory initiatives are subject to review by federal or state agencies or the courts. In August 2018 the NHTSA and the EPA issued a common proposal, the “Safer Affordable Fuel-Efficient (SAFE) Vehicles Rule for model years 2021-2026 Passenger Cars and Light Trucks” (SAFE Vehicles Rule). The SAFE Vehicles Rule, if finalized, would amend certain existing Corporate Average Fuel Economy (CAFE) and tailpipe carbon dioxide emissions standards for passenger cars and light trucks and establish new standards, all covering model years 2021 through 2026. The authorities’ stated preferred alternative is to retain the model year 2020 standards (specifically, the footprint target curves for passenger cars and light trucks) for both programs through model year 2026, but comment has been sought on a range of alternatives.

In the state of California (which has been granted special authority under the Clean Air Act to set its own vehicle emission standards), the California Air Resources Board (“CARB”) has enacted regulations under which manufacturers of vehicles for model years 2012 through 2025 which are in compliance with the EPA greenhouse gas emissions regulations are also deemed to be in compliance with California’s greenhouse gas emission regulations (the so-called “deemed to comply” option). The SAFE Vehicles Rule mentioned above proposes to withdraw the waiver granted to California under the Clean Air Act to establish more stringent standards for vehicle emissions that are applicable to model years 2021 through 2025. In response to the proposed California waiver withdrawal, on December 12, 2018 the CARB amended its existing regulations to clarify that the “deemed to comply” provision shall not be available for model years 2021-2025 if the EPA standards for those years are altered via an amendment of federal regulations. Ferrari currently avails itself of the “deemed-to-comply” provision to comply with CARB greenhouse gas emissions regulations. Therefore, it may necessary to also petition the CARB for SVM alternative standards and to increase the number of tests to be performed in order to follow the CARB specific procedures.

In addition, we are subject to legislation relating to the emission of other air pollutants such as, among others, the EU “Euro 6” standards and Real Driving Emissions (RDE) standards, 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. In 2016, NHTSA published guidelines for driver distraction, for which rulemaking activities have not progressed since early 2017. The costs of compliance associated with these and similar rulemaking 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 IV fuel consumption regulation targets a national average fuel consumption of 5.0L/100km by 2020.

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 levels of stringency effective starting from 2020. Moreover several autonomous Chinese regions and municipalities are implementing the requirements of the National 6 program even ahead of the mandated deadlines. 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.

We could lose our status as an 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 an 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 the regulation referred to in the paragraphs above please see “*Overview of Our Business—Regulatory Matters*”.

In the future, the advent of self-driving technology may result in regulatory changes that we cannot predict but may include limitations or bans on human driving in specific areas. Similarly, driving bans on combustion engine vehicles could be imposed, particularly in metropolitan areas, as a result of progress in electric and hybrid technology. Any such future developments may adversely affect the demand for our cars and our business.

In September 2017 the Chinese government issued the Administrative Measures on CAFC (Corporate Average Fuel Consumption) and NEV (New Energy Vehicle) Credits. This regulation establishes mandatory CAFC requirements, while providing additional flexibilities for SVMs (defined as manufacturers with less than 2,000 units imported in China per year) that achieve a certain minimum CAFC yearly improvement rate. Because our CAFC is expected to exceed the regulatory ceiling, we will be required to purchase NEV credits. There is no assurance that an adequate market for NEV credits will develop in China and if we are not able to secure sufficient NEV credits this may adversely affect our business in China.

The introduction of hybrid cars is costly and its long term success is uncertain.

We are gradually but rapidly introducing hybrid technology in our cars. In accordance with our strategy, we believe hybrid technology will be key to providing continuing performance upgrades to our sports car customers, and will also help us capture the preferences of the urban, affluent GT cars purchasers whom we are increasingly targeting, while helping us meet increasingly stricter emissions requirements.

While some of our past models, such as LaFerrari and LaFerrari Aperta, have included hybrid technology, the integration of such technology more broadly into our car portfolio over time may present challenges and costs. We expect to increase R&D spending in the medium term particularly on hybrid technology-related projects. Although we expect to price our future hybrid cars appropriately to recoup the investments and expenditures we are making, we cannot be certain that these expenditures will be fully recovered. In addition, this transformation of our car technology creates risks and uncertainties such as the impact on driver experience, and the impact on the cars’ residual value over time, both of which may be met with an unfavorable market reaction. Other manufacturers of luxury sports cars may be more successful in implementing hybrid technology. Longer term, although we believe that combustion engines will continue to be fundamental to the Ferrari driver experience, pure electric cars may become the prevalent technology for performance sports cars thereby displacing hybrid models. See also “*If we are unable to keep up with advances in high performance car technology, our brand and competitive position may suffer.*”

Because hybrid technology is a core component of our strategy, and we expect that a significant portion of our shipments will consist of hybrid vehicles in the medium term, if the introduction of hybrid cars proves too costly or is unsuccessful in the market, our business and results of operations could be materially adversely affected.

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 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 (which filed for bankruptcy in June 2017), we recorded a provision regarding this matter in the second quarter of 2016 for an amount of €37 million. This provision amounted to €25 million as of December 31, 2018. 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.

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.

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.

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, human error, disruption, or interruption to power supply, 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 by us and our third party service providers 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, with the consequence that such cyber incidents may remain undetected for long periods of time. For any of these reasons, we may experience system 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 periodically assess and implement actions to ameliorate risks to our systems, a significant or large scale malfunction or interruption of our 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. Therefore we are subject to a variety of ever-changing data protection and privacy laws on a global basis, including the EU General Data Protection Regulation, which came into force on May 25, 2018. To an increasing extent, the functionality and controls of our cars depend on in-vehicle information technology. Furthermore, such technology is capable of storing an increasing amount of personal information belonging to our customers. Any unauthorized access to in-vehicle IT systems may compromise the car security or the privacy of our customers' information and expose us to claims as well as reputational damage. Ultimately, any significant compromise in the integrity of our data security could have a material adverse effect on our business.

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

As of December 31, 2018, our gross consolidated debt was approximately €1,927 million (which includes our financial services), including €500 million aggregate principal amount of 1.500 percent notes due 2023, and €700 million aggregate principal amount of 0.250 percent notes due 2021, 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.

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 choose not to, or may not 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 fund 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. At December 31, 2018, an amount of \$782 million was outstanding under revolving securitizations carried out by Ferrari Financial Services Inc. 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.

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 Euro 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. For example, the U.S. Dollar gradually appreciated against the Euro in the first half of 2018, to remain relatively stable until early 2019, while the pound sterling remained subject to a high degree of volatility against the Euro. If the U.S. Dollar were to depreciate against the Euro, we expect that it would adversely impact our revenues and results of operations. Changes in exchange rates between the Euro on the one hand and, on the other hand, the main foreign currencies in which we operate, also affect our revenues and results of operations.

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. In addition, in the last months of 2018, the United States administration declared that it is considering imposing new tariffs on imported cars. Considerable uncertainty surrounds the introduction and scope of tariffs by the United States or other countries, as well as the potential for additional trade actions by the United States or other countries. The impact of any such tariffs on our operations and results is uncertain and could be significant, and we can provide no assurance that any strategies we implement to mitigate the impact of such tariffs or other trade actions will be successful. 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.

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 currently subject to mandatory audit review, to be completed by May 1, 2019, according to the new European Customs Legislation and therefore we are required 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.

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, a shareholder may be unable to sell their common shares at or above their 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 nict*). 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. ("Exor") is our largest shareholder, holding approximately 23.7 percent of our outstanding common shares and approximately 33.6 percent of our voting power (as of February 15, 2019). 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 of directors (the "Board of Directors"), capital increases and amendments to our articles of association. In addition, as of February 15, 2019, Piero Ferrari, the Vice Chairman of Ferrari, holds approximately 10.1 percent of our outstanding common shares and approximately 15.5 percent of voting interest in us (as of February 15, 2019). 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. John Elkann, our Chairman, is the Chairman and an executive director of FCA and Chief Executive Officer of Exor. Certain of our other directors and officers may also be directors or officers of FCA or Exor, our and FCA's largest shareholder. 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 23.7 percent of our outstanding common shares and approximately 33.6 percent of the voting power in us (as of February 15, 2019), while it holds approximately 29.0 percent of the outstanding common shares and approximately 42.1 percent of the voting power in FCA (based on SEC filings). 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. As of February 15, 2019, Exor had approximately 23.7 percent of our outstanding common shares and a voting interest in Ferrari of approximately 33.6 percent. As of February 15, 2019, Piero Ferrari held approximately 10.1 percent of our outstanding common shares and, as a result of the loyalty voting mechanism, had approximately 15.5 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 our 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 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 Securities 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. We are a holding company and our operations are conducted through our subsidiaries. As a result, our ability to pay dividends primarily depends on the ability of our subsidiaries, particularly Ferrari S.p.A., to generate earnings and to provide us with the necessary financial resources.

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—History of the Company*”.

Risks Related to Taxation

Changes to taxation or the interpretation or application of tax laws could have an adverse impact on our results of operations and financial condition.

Our business is subject to various taxes in different jurisdictions (mainly Italy), which include, among others, the Italian corporate income tax (“IRES”), regional trade tax (“IRAP”), value added tax (“VAT”), excise duty, registration tax and other indirect taxes. We are exposed to the risk that our overall tax burden may increase in the future.

Changes in tax laws or regulations or in the position of the relevant Italian and non-Italian authorities regarding the application, administration or interpretation of these laws or regulations, particularly if applied retrospectively, could have negative effects on our current business model and have a material adverse effect on our business, operating results and financial condition.

In order to reduce future potential disputes with tax authorities, we seek advance agreements with tax authorities on significant matters. In particular we filed a ruling application for advance pricing agreement (APA) on transfer pricing.

In addition, tax laws are complex and subject to subjective valuations and interpretive decisions, and we will periodically be subject to tax audits aimed at assessing our compliance with direct and indirect taxes. The tax authorities may not agree with our interpretations of, or the positions we have taken or intend to take on, tax laws applicable to our ordinary activities and extraordinary transactions. In case of challenges by the tax authorities to our interpretations, we could face long tax proceedings that could result in the payment of penalties and have a material adverse effect on our operating results, business and financial condition.

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—History of the Company.*”

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 breaks recognized by Italian tax regulations for R&D expenses (available, with the some limitations, until fiscal year 2020 according to current regulations) and for the investments on manufacturing equipment (available until fiscal year 2019 according to current regulations), which result in a tax saving. A change in regulations or interpretation might adversely affect the availability of such exemptions and result in higher tax charges.

Italian Law No. 190 of December 2014, as subsequently amended and supplemented (Finance Act 2015) introduced an optional Patent Box regime in the Italian tax system. The Patent Box regime is a tax exemption related to, *inter alia*, the use of intellectual property assets. Business income derived from the use of each qualified intangible asset is partially exempted from taxation for both IRES and IRAP purposes. In September 2018 we received the mandatory ruling from the Italian tax authorities according to which we are able to significantly reduce our tax expenses. The ruling covers the period starting from 2015 and it remains in force until fiscal year 2019, following which we may not be able to benefit from a comparably favorable regime.

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 235 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 167 authorized dealers operating 190 points of sale as of the end of 2018.

We believe our cars are the epitome of performance, luxury and styling. Our current sports and GT range consists of six models, including three sports cars (488 GTB, 488 Spider and 812 Superfast) and three GT cars (GTC4Lusso, GTC4Lusso T and Ferrari Portofino) and two special series cars (488 Pista and 488 Pista Spider). The Ferrari Portofino was unveiled in September 2017 and shipments began in the second quarter of 2018, while the 488 Pista was launched in March 2018 at the Geneva Motor Show, with shipments beginning in the third quarter of 2018. The 488 Pista Spider was launched in August 2018 and shipments will begin in 2019. Our most recent hypercar, the LaFerrari Aperta, was launched in 2016 to celebrate our 70th Anniversary and finished its limited series run in 2018. The Monza SP1 and SP2 were unveiled in 2018 to kick off a new pillar in our product offering, the Icona, a line of modern cars inspired by our iconic cars of the past, with deliveries expected to begin in 2019. We also produce very limited editions series (*fuori serie*) and one-off cars.

In 2018, we shipped 9,251 cars and recorded net revenues of €3,420 million, EBIT of €826 million, net profit of €787 million, and adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) of €1,114 million, adjusted earnings before interest and taxes (Adjusted EBIT) of €825 million and Adjusted Net Profit of €645 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 “*Operating Results—Non-GAAP Financial Measures.*”

We divide our regional markets into EMEA, Americas, Mainland China, Hong Kong and Taiwan and Rest of APAC, representing respectively 45.7 percent, 32.4 percent, 7.5 percent and 14.4 percent of units shipped in 2018.

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 official seat (*statutaire zetel*) is in Amsterdam, the Netherlands, and our corporate address and principal place of business is located at Via Abetone Inferiore n. 4, I-41053 Maranello (MO), Italy. Ferrari is registered with the Dutch Trade Register of the Chamber of Commerce under number 64060977. Its telephone number is +39-0536-949111. The name and address of the Company's agent in the United States is: Ferrari North America, Inc., 50 Sylvan Avenue, Englewood Cliffs, NJ 07632. Its telephone number is +1 (201) 816 2600.

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 as 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.

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, including a corporate restructuring intended to facilitate the initial public offering of our shares (the “IPO”). The IPO and the listing of common shares of our predecessor company (“Predecessor Ferrari”) on the NYSE were completed in October 2015. 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.

The remaining steps of the Separation were carried out through a series of corporate transactions, which occurred between January 1 and January 3, 2016, pursuant to which, 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. Immediately after two consecutive demergers under Dutch law, Predecessor Ferrari merged with and into Ferrari, as surviving company. Ferrari became the holding company of the Ferrari business.

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.

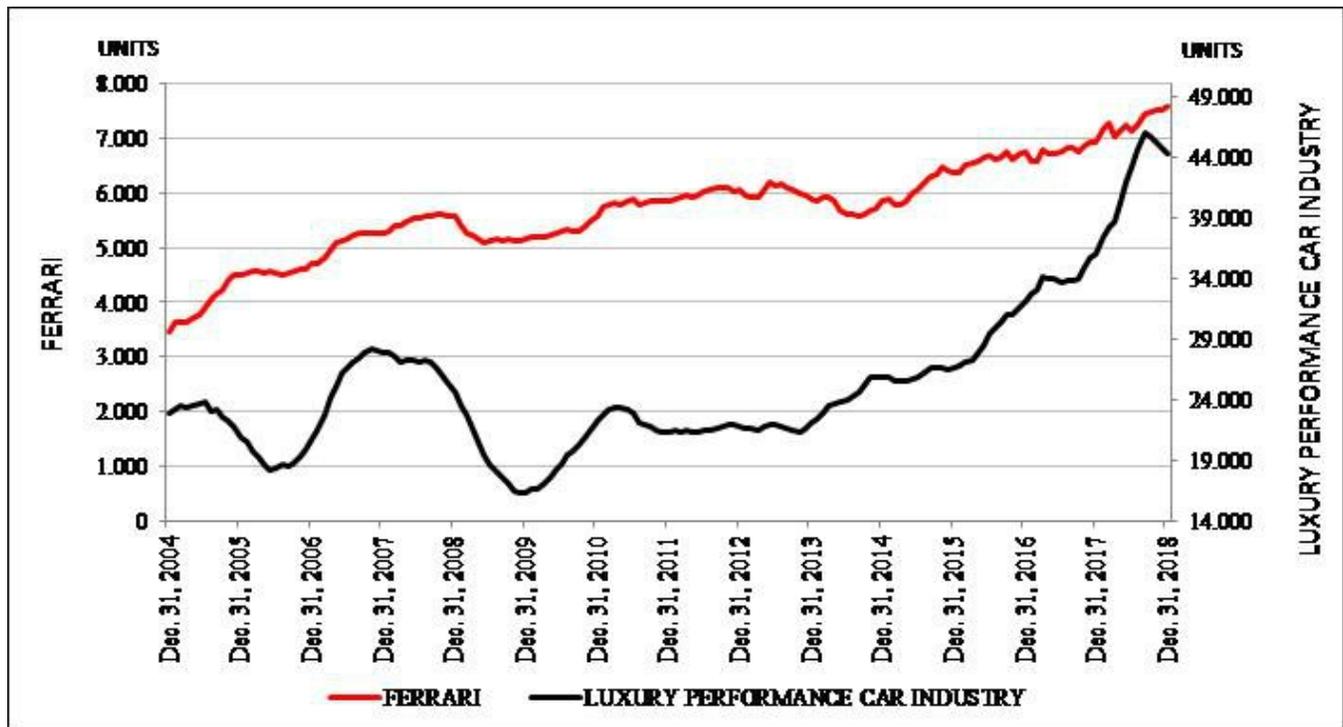
Industry Overview

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.

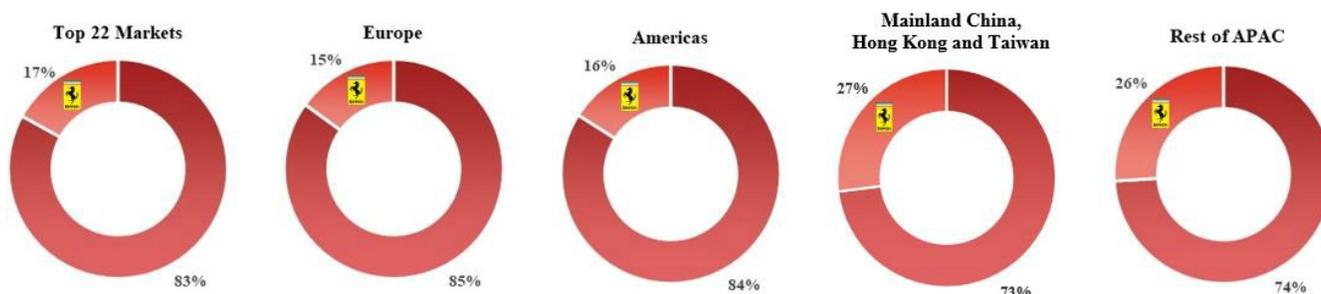


- Ferrari and Luxury Performance Car Industry data are updated to December 31, 2018.
- Data for the Luxury Performance Car Industry include all two door GT and sports cars with power above 500hp, and retail price above Euro 150,000 (including VAT) sold by Aston Martin, Audi, Bentley, Ferrari, Ford, Honda/Acura, Lamborghini, McLaren, Mercedes Benz, Porsche and Rolls-Royce.
- Ferrari data based on internal information for the 22 top countries (excluding Middle East countries) for Ferrari annual registrations and sales (which accounted for approximately 87% of the total Ferrari shipments in 2018).
- Data for the Luxury Performance Car Industry based on units registered (in Brazil, Japan, Taiwan, United Kingdom, Germany, France, Switzerland, Italy, Spain, Sweden, Netherlands, Belgium and Austria) or sold (in USA, South Korea, Thailand, Mainland China, Russia, Australia, New Zealand,

Singapore and Indonesia). Source: USA: US Maker Data Club, Brazil-JATO; Austria-OSZ; Belgium-FEBIAC; France-SIV; Germany-KBA; UK-SMMT; Italy-UNRAE; Netherlands-VWE; Spain-TRAFICO; Sweden-BranschData; Switzerland-ASTRA; Mainland China-China Automobile Industry Association-DataClub; Russia-AEBRUS; 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 2018, our volumes in the largest 22 markets were substantially in line with 2017, primarily driven by contribution from our range models. We had a market share of 17 percent in the luxury performance car market; with 19 percent of market share in the sports car segment and 14.5 percent of market share in the GT segment. The chart below sets forth our market shares in 2018 based on volumes in our largest 22 markets by geographical area.



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- Ferrari is market leader in several countries, including Mainland China, Japan and Taiwan, among others.

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.

Competition

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

In relation to sports cars our models are the 488 GTB, the 488 Spider and the 812 Superfast, as well as our latest special series models, the 488 Pista and 488 Pista Spider, and our principal competitors are Lamborghini, McLaren, Ford, Honda, Porsche, Mercedes, Aston Martin and Audi. In relation to GT our models are the Ferrari Portofino, the GTC4Lusso and the GTC4Lusso T, and our principal competitors are Rolls-Royce, Bentley, Aston Martin and Mercedes.

In recent years, the market has shifted somewhat with an increased focus on the GT cars market 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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In 2018, we shipped 9,251 cars and recorded net revenues of €3,420 million, EBIT of €826 million, net profit of €787 million, and adjusted earnings before interest, taxes, depreciation, and amortization (Adjusted EBITDA) of €1,114 million, adjusted earnings before interest and taxes (Adjusted EBIT) of €825 million and Adjusted Net Profit of €645 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 “*Operating Results—Non-GAAP Financial Measures.*”

Whilst broadening our product portfolio to target a larger customer base, we continue to pursue a low volume production strategy in order to maintain a reputation for exclusivity and scarcity among purchasers of our cars and we carefully manage our production volumes and delivery waiting lists to promote this reputation. We divide our regional markets into EMEA, Americas, Mainland China, Hong Kong and Taiwan and Rest of APAC, representing respectively 45.7 percent, 32.4 percent, 7.5 percent and 14.4 percent of units shipped in 2018.

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 490 million television unique viewers in 2018 (based on a new viewer calculation methodology applied by Formula 1 in the 2018 season) (*Source: Formula 1 Press Office*). Although our most recent Formula 1 world title was in 2008, we continuously enhance 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 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 18 Ferrari-owned stores and 17 franchised stores (including 5 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 clients and Ferrari enthusiasts.

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 Range, Special Series and Icona: Ferrari Line-Up Strategic Pillars



Our product offering comprises four main pillars: the sports range, the GT range, special series and Icona. Our current product range includes three sports cars, three GT cars and two special series cars, as well as two Icona cars (introduced in September 2018). 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).

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.

THE MOST COMPLETE FERRARI PRODUCT RANGE EVER

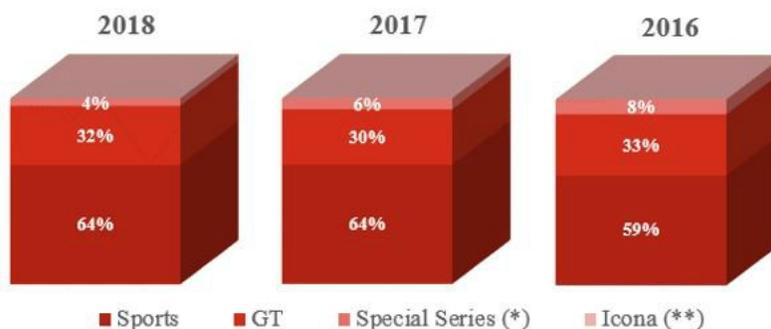
ROAD CARS

RANGE MODELS					
SPORTS			GRAN TURISMO		
V8 488 GTB	V8 488 Spider	V12 812 Superfast	V8 Portofino	V8 GTC4Lusso T	V12 GTC4Lusso
SPECIAL SERIES MODELS			FUORISERIE AND ONE-OFF		
V8 488 Pista	V8 488 Pista Spider	V8 Ferrari J50	V8 SP38		

TRACK CARS

FERRARI CHALLENGE	THE XX PROGRAMME	RACING CARS
V8 488 Challenge	V12 FXX K EVO	V8 488 GTE/GT3

The charts below set forth the percentage of our unit shipments (excluding the XX Programme, racing cars, Fuori Serie and one-off cars) for the years ended December 31, 2018, 2017 and 2016 by strategic pillar:



(*) Includes shipments of the LaFerrari and LaFerrari Aperta.

(**) Shipments of Icona cars to commence in 2019.

The table and charts below set forth our unit shipments for the years ended December 31, 2018, 2017 and 2016, by geographic market:

(Number of cars and % of total cars)

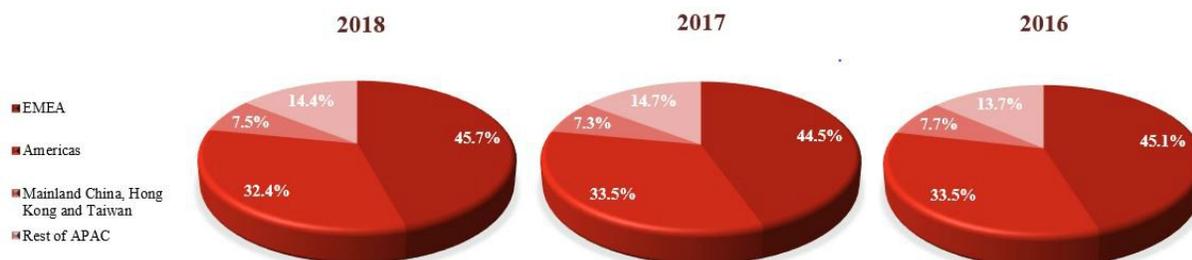
	For the years ended December 31,					
	2018	%	2017	%	2016	%
EMEA						
UK	981	10.6%	843	10.0%	769	9.6%
Germany	803	8.7%	710	8.5%	675	8.4%
Italy	479	5.2%	417	5.0%	364	4.5%
France	399	4.3%	346	4.1%	306	3.8%
Switzerland	380	4.1%	339	4.0%	333	4.2%
Middle East ⁽¹⁾	326	3.5%	331	3.9%	439	5.5%
Other EMEA ⁽²⁾	859	9.3%	751	9.0%	724	9.1%
Total EMEA	4,227	45.7%	3,737	44.5%	3,610	45.1%
Americas ⁽³⁾	3,000	32.4%	2,811	33.5%	2,687	33.5%
Mainland China, Hong Kong and Taiwan	695	7.5%	617	7.3%	619	7.7%
Rest of APAC ⁽⁴⁾	1,329	14.4%	1,233	14.7%	1,098	13.7%
Total	9,251	100.0%	8,398	100.0%	8,014	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) Rest of APAC mainly includes Japan, Australia, Singapore, Indonesia and South Korea.



Sports Range

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 812 Superfast (with 800 hp). Our current special series cars are the 488 Pista, powered by a 720 hp V8 engine, and its retractable hard top version, the 488 Pista Spider.

GT Range

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 two models equipped with our V8 engine, the Ferrari Portofino (with 600 hp) and the GTC4Lusso T (with 610 hp), the first Ferrari 4 seater equipped with a V8 turbo engine. We also offer one GT model equipped with our V12 engine, the GTC4Lusso (with 690 hp), our sport-luxury 4 seater and 4 wheel drive.

Special Series

We also from time to time design, engineer and produce special series cars which can be limited in time or volume and 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.

Icona

In September 2018, we introduced a new pillar of our product portfolio: the Icona, a unique concept which takes inspiration from the iconic cars of our history and reinterprets them in a modern fashion, pairing timeless design of the past with state-of-the-art materials and technology. The first examples of this strictly limited-edition product line-up are the Ferrari Monza SP1 and SP2 inspired by the classic collectible barchetta cars, 750Monza and 860Monza, and presented at our Capital Markets Day in September 2018.

Limited Edition Hypercars, Fuori Serie and One-Offs

In line with our tradition of hypercars starting with the 288GTO in 1984 through to the Enzo in 2002 and the LaFerrari Aperta, our latest hypercar which we launched in 2016, we also produce limited edition hypercars. 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 *fuori serie*). 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.

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 (inspired by the 512 BB, the F12 TRS (a radical two-seat roadster created on the platform of the F12berlinetta in 2014), the SP38 (a superlative mid-rear V8 turbo taking inspiration from the legendary Ferrari F40), the 458MM Speciale (the last mid rear model with a V8 natural aspirated engine in 2016) and the SP3JC (the only one-off made using the F12tdf in 2018). The program is expanding due to increasing demand.

Track 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 (GT racing) and Corse Clienti (the Ferrari Challenge one-make series, the Corso Pilota driving courses, the XX Programmes and the F1 Clienti activity).

Ferrari Challenge Trofeo Pirelli - 488 Challenge

Ferrari Challenge is the biggest one-make series in the world. The series was established in 1993 and the events are FIA approved, thus ensuring very high safety standards and dependable organization. The championship was an immediate success: the formula for the event ensures that cars are very closely matched, thus putting the focus on the drivers. There are three main series: Europe (which is the oldest), North America and Asia-Pacific. A brand new national championship will be launched in the United Kingdom in 2019.

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 started in 2017.

Competizioni GT (GT Racing)

The 488 GTE/GTLM and 488 GT3/GTD models 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 and in several GT International series, as well as historical races such as the Daytona 24 Hours and Le Mans 24 Hours. Since beginning competition in 2016, the 488 GTE/GTLM and 488 GT3/GTD have won several competitions, including, among others, the Pirelli World Challenge in the SprintX division as well as the Petit Le Mans in the GTD class (488 GT3). In 2019, Competizioni GT will launch a new non-competitive track activity, Club Competizioni GT, dedicated to clients who own older and present day GT cars.

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 program, 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 FXX K EVO was launched in October 2017 at the Finali Mondiali in Mugello.

F1 Clienti

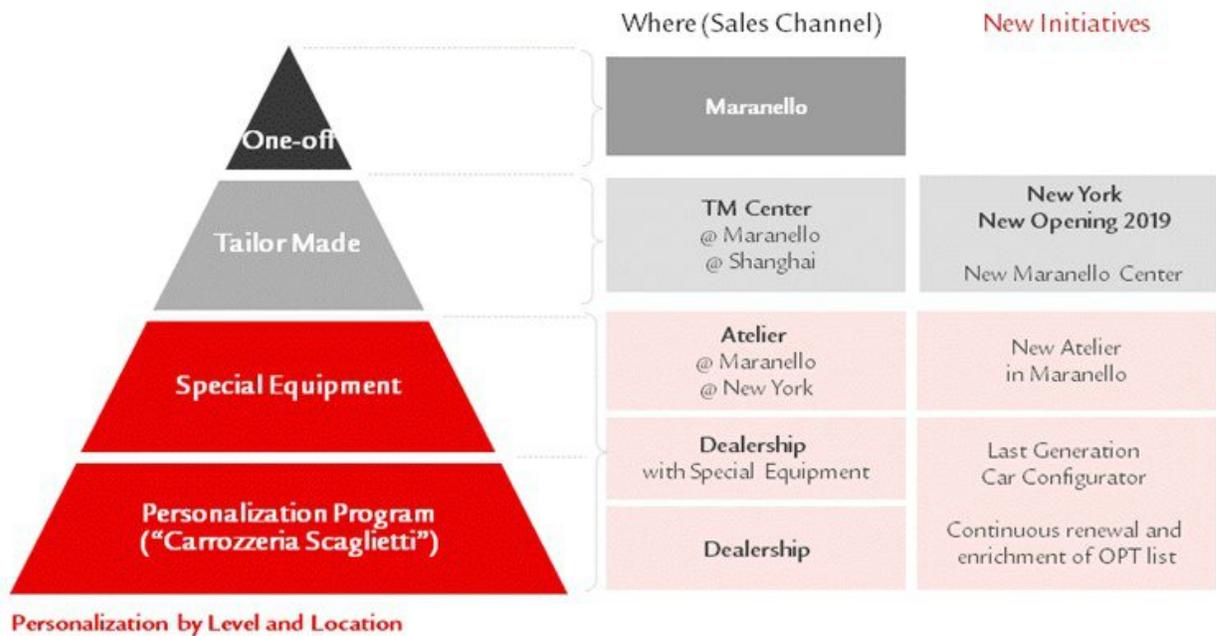
Introduced in 2003, the F1 Clienti program allows a limited number of exclusive Ferrari lovers to both purchase previously-used Scuderia Ferrari Formula 1 cars and experience them in full. Formula 1 cars that we sell as part of this program include recent cars of the 21st century, such as those driven by Kimi Raikkonen and Felipe Massa, and cars from decades ago, such as the 412 T2 of 1995, the last Formula 1 car to be powered by a 12-cylinder engine which is now back on the racetrack thanks to F1 Clienti.

Owners can focus exclusively on the driving experience, while the F1 Clienti program can arrange for the cars to be kept at Maranello for safekeeping, where F1 technicians and mechanics perform regular maintenance of the cars. The F1 Clienti program includes a series of events throughout the year that enable customers to experience the pleasure of driving on prestigious tracks in front of a live crowd.

Corso Pilota Driving Courses

Initiated in 1993, Corso Pilota driving courses enable Ferrari customers to experience and appreciate the full formidable performance of the Ferrari models in a safe environment. It provides an opportunity to attend various, increasingly technical and complex courses that begin with the “Sport”, “Avanzato”, and “Evoluzione” levels, and culminate with the “Challenge” course. Led by professional instructors with years of Ferrari driving experience, the courses are designed to progressively develop participants' driving style and skills so that they will obtain sufficient mastery to compete safely in real Challenge Championship races. The selection and preparation of the Ferrari cars used for the courses is of fundamental importance and the current fleet consists of 488 GTB, 812 Superfast and 488 Challenge models.

Personalization Offer



All of our models feature highly customizable interior and exterior options, which are included in our personalization catalogue. Some of these options include carbon fiber wheels, alternative brake caliper colors, parking cameras, MagneRide dual mode suspension, sport exhaust systems, panoramic roof option, various door panel 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 cars. 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 “Tailor Made” program provides an additional level of personalization in accordance with the expectations of our clients. 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 selection 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).

The “One-off” program is the maximum level of personalization and exclusivity. See “—*Limited Edition Hypercars, Fuori Serie and One-Offs*” above for more details.

Ferrari is developing new initiatives at all levels of the personalization offer in order to improve the customer experience, to differentiate from competitors and to maximize the potential of the personalization business. Some of the main initiatives will include:

- a completely new generation of car configurator tools;
- new Atelier and Tailor Made facilities in Maranello; and
- the opening of a Tailor Made Center in New York

Design

Design is a fundamental and distinctive aspect 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. Cockpits are designed to maximize the driving experience, tending towards more sporty or more comfortable, depending on the model. The interiors of our vehicles boast elegant and sophisticated trims and details that enhance the ergonomic layout of all main controls, many of which are clustered on the steering wheel. 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 Pininfarina. These partnerships helped Ferrari in defining its design language at the forefront of design advance. Throughout the years this area of excellence 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, with the objective of improving control over the entire design process and ensuring long-term continuity of the Ferrari style. The mission of the Ferrari Design Centre 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, Iconas, one-off models, concept cars and some track-only models. Ferrari Design also includes a Color & Trim unit which manages 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 in the styling and conceptual definition of Ferrari branded products produced by our licensees (see “—*Brand Activities*”).

Ferrari Design is organized as an integrated automotive design studio, employing a total workforce of approximately 90 people (full-time workers as well as 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.

The new building of the Ferrari Design Centre was opened in September 2018 and is our first facility fully dedicated to the Ferrari Design. Sitting at the heart of the Ferrari headquarters in Maranello, the building covers more than 5,600 square meters over four levels and houses the design offices, a fully-equipped model making studio and a vast indoor/outdoor presentation space on the top floor. Additionally, the new building hosts two Ateliers and the Tailor Made department to engage clients with Ferrari’s rich personalization services. The project aims to reflect the symbolic value of Ferrari’s advanced design process, drawing upon the interaction between digital technologies and the best Italian handmade craftsmanship tradition. The new building helps to improve the synergies between design studios, the physical modelling area and virtual modelling specialists, by bringing them together in a highly integrated and technological environment.

Ferrari Design Centre entirely designed our most recent cars, such as the Monza SP1 and SP2, the 488 Pista, the 488 Pista Spider, the FXX K EVO, the Ferrari Portofino, the 812 Superfast, the GTC4Lusso, the F12tdf, the 488 GTB, the 488 Spider, the 488 Challenge, the FXX K, the LaFerrari, the LaFerrari Aperta and the limited-series J50, as well as one-off cars including the F12 TRS, the 458MM Speciale and the SP38.

During its 9 years of activity, the Ferrari Design Centre has received prestigious design awards for several cars it has designed, among which:

- *SP38*: Design Award for Concept Cars & Prototypes - Concorso d’Eleganza Villa d’Este 2018
- *Ferrari Portofino*: Red Dot Best of the Best Award (2018)
- *812 Superfast*: Red Dot Design Award (2018)
- *FXX K EVO*: Red Dot Design Award (2018)
- *J50*: iF Gold Design Award (2018)
- *LaFerrari Aperta*: iF Design Award (2018)
- *812 Superfast*: Chicago Good Design Award (2017)

- *J50*: Red Dot Best of the Best (2017); Chicago Good Design Award (2017)
- *LaFerrari Aperta*: Honourable Mention - Sport, Performance and Innovation, International Compasso d'Oro Award (2017); Red Dot Design Award (2017)
- *GTC4Lusso*: iF Gold Design Award (2017); Red Dot Design Award (2017); Most Beautiful Supercar of the Year - International Automobile Festival Paris (2017); Chicago Good Design Award (2017)
- *458 MM Speciale*: iF Design Award (2017); Red Dot Design Award (2017)
- *488 GTB*: Red Dot Best of the Best (2016); iF Design Award (2016)
- *488 Spider*: iF Design Award (2016); Autonis Design Award (Auto Motor und Sport, D) - Beste Design - Neuheit: Cabrios (2016); Chicago Good Design Award (2016)
- *F12tdf*: Chicago Good Design Award (2016)
- *FXX K*: Red Dot Best of the Best (2015), iF Gold Award (2016); Compasso d'Oro ADI (2016)

Product Development

Product development and technological innovation

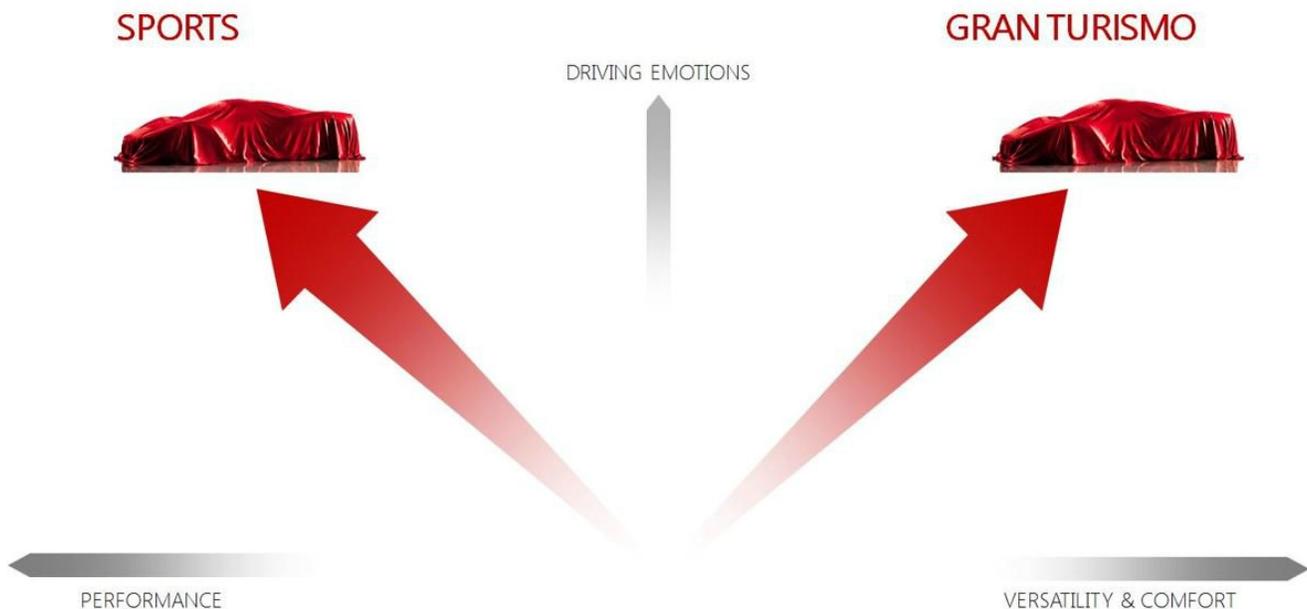
Our development efforts take into account the three defining dimensions of Ferrari cars; performance; versatility and comfort; and driving emotions.

Performance reflects features such as weight, horsepower, torque, aerodynamic efficiency, acceleration, and maximum speed, which all contribute to determine the lap time on track. We strive to ensure that every Ferrari is the best performing car in its segment.

Versatility derives from spaciousness, accessibility and mode of traction, including rear-wheel-drive or all-wheel-drive and, in future, electric-powered driving. Comfort results from the ease of the riding experience and on board interface. Regulation will affect development in this area - for example, a prescribed electric range may be required in future to access city centers.

Driving emotions is a key differentiator of Ferrari cars. There are three elements to driving emotions: sound, perceived acceleration and responsiveness of the car. Sound is an important part of the experience and very involving for the driver. Perceived acceleration is the driver's subjective impression of the car acceleration beyond the actual 0-100 or 0-200 km/h performance measured in the car technical specifications. Responsiveness requires that every driver command lead to a direct and controllable reaction of the car.

These three dimensions variably interact in our sports and GT cars. As we work on the future product range, we strive to improve on each of those dimensions, focusing for sports cars on performance and driving emotions, and for GT cars on versatility and comfort on board and fun to drive - driving emotions.



Innovation principles

We believe there are five key guidelines to innovation at Ferrari: focus on the three key defining dimensions described above, leveraging on Formula 1 know how, first mover positioning in core areas such powertrain and aerodynamics, customization of technologies available on the market (such as the turbo technology) and pursuit of synergies (arising from common architectures within our range). In addition to these internally driven factors, regulation is key in determining the direction of innovation.

Combustion engines

We believe internal combustion engines will remain important in Ferrari's powertrain mix and therefore we continue to invest significantly in new combustion engine technologies. In 2018 we won the "Engine of the Year" award for the newest edition of our V8 turbocharged engine mounted on the 488 Pista.

Going forward, Ferrari will have three engine families: we will maintain and develop the V12 naturally-aspirated engine family, long the pinnacle of Ferrari engines; we will implement the next technological step ups for the V8 family; and we will develop a completely new V6 family based on a specific and innovative architecture.

The industry effort to combine greater power outputs with lower emissions and consumption often leads to a higher turbo lag. Through a technological breakthrough, Ferrari has engineered a turbo engine with turbo engine performance but with the response of a naturally-aspirated engine. For example, the specific power output of the 488 Pista was increased to 184 horsepower without meaningful turbo lag.

In the future, we intend to use hybrid technology and Formula 1 technology to increase specific power output without turbo lag.

We are deploying considerable resources for the development of hybrid powertrains, which will be mounted on an increasingly larger proportion of our car models; this is intended to improve performance and driving experience while also satisfying customer preferences and regulatory requirements regarding emissions. LaFerrari and LaFerrari Aperta are early examples of our efforts in this field, and we believe they show our ability to apply our core mechanical know-how to new and expanding fields such as hybrid technology.

Architecture

In addition to engines, the other principal technical area we are focusing on is the architecture. Our architecture covers all principal technical specifications of future Ferrari models. We expect that innovation requirements will arise principally from: the evolution of engine families; the level of hybridization; modes of traction; the number of seats up to a real four-seater; and the body style, which will vary much more significantly than in the past in light of the introduction of the Purosangue.

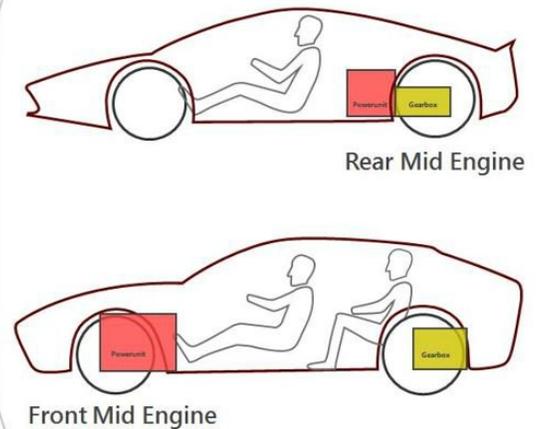
We expect that our core architectures will be the rear-mid-engine architecture and the front-mid-engine architecture, each comprising several variants.

Product Specification

Engine	V12 vs. V8 vs. V6
Hybridization	Yes vs. No
Traction	2WD vs. 4WD
Seating	2 vs. 2+ vs. 2+2 vs. 4
Body style	Coupè vs. Spider vs. "Purosangue"
Clearance	Low vs. High

NEW FERRARI PRODUCT RANGE

Architecture



Rear-mid-engine architecture

The rear-mid-engine architecture is designed to integrate multiple power units with a higher specific power output than the 488 Pista. In this architecture, combustion engines can be combined with an electric motor to realize hybridization, including a battery to enable electric range. In combination, we are developing a new and highly innovative double-clutch transmission gearbox. Hybridization will impact the weight of engines and therefore we will deploy new lightweight technologies to compensate this impact. Package efficiency will also be key to achieve a compact car that reduces weight and inertia. In order to apply the architecture to different powertrains, the wheelbase may vary.

Front-mid-engine architecture

The front-mid-engine architecture, also a transaxle powertrain concept, is even more flexible than the rear-mid-engine architecture. This architecture will be able to accommodate an all-wheel-drive powertrain, will allow for hybridization, and will have a flexible wheelbase suited to a variety of engines as well as seat configurations including two-seaters and four-seaters. It will be accessible, spacious and comfortable. Key to this architecture will be the new suspension systems we are developing, with a high range between comfort and sportiness.

New-generation human-machine interface

Particularly driven by growth in the GT segment, Ferrari is developing the next generation of human-machine interface technologies. Using state-of-the-art technologies we will be guided by the Formula 1 derived concept of "eyes on the street, hands on the steering wheel", for a focused, safe and enjoyable drive. We intend to add several new technologies, including a new head-up display, a new innovative cluster, a new steering wheel that features new commands and a new infotainment system, as well as tools aimed at positively enhancing the passengers' experience.

Autonomous driving

While we do not intend to develop self-driving cars, we will adopt certain features of autonomous driving technology in response to regulatory developments and customer preferences, especially in the GT segment. For example, in 2018 we launched initial functionalities for Advanced Driving Assistant Systems (ADAS) such as predictive braking and automatic cruise control on current models, and further innovations will be introduced in future models.

Ferrari is carefully monitoring the evolution of autonomous driving technologies, including sensors and artificial intelligence, and we will select and customize those innovations compatible with the Ferrari experience. These technologies will also have an important impact on the electronic architecture of our cars.

Production and Procurement

Production Process

Our production facilities are located in Maranello and in Modena, Italy (see “*Overview of Our Business—Properties*”). 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 750 total suppliers—entailing complex supply chain management to ensure continuity of production. Our stock of supplies is warehoused in Ubersetto, near Maranello.

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. All parts and components not produced in house at Ferrari are sourced from our panel of suppliers (see “*—Procurement*”).

The plants housing our production processes were entirely renovated or rebuilt between 2002 and 2012. We plan our investment activities based on an estimated plant useful life of approximately 20 years. We are planning investments in plant, machinery and equipment that reflect our focus on the hybridization and broadening of our product range to support future launches. 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, and to maintain state-of-the-art technology.

At December 31, 2018, our production processes employed over 1,460 engineers, technicians and other personnel, of which approximately 1,280 blue collar employees (including approximately 130 temporary production employees) and approximately 180 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 introduction of additional shifts or an increase of weekend shifts to address special peaks in demand. 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 to ensure it delivers the expected performance: 10 - 20 percent of engines are also hot tested and their power and torque is measured. In 2018 we produced an average of approximately 177 engines per day, including approximately 10 V12, 43 V8 (including 5 V8 turbo and 7 V8 aspirated for Maserati) and 124 V6 engines for Maserati (see “*—Manufacturing of Engines for Maserati*”).

Body Assembly

In parallel with the assembly of our engines, we prepare our body-shells at our body shop Carrozzeria Scaglietti in Modena. The main components of body-shells are not manufactured internally but are sourced from manufacturers for chassis, bodies and carbon fiber parts. At Carrozzeria Scaglietti we have two different production lines dedicated to the assembly of our V8 and V12 aluminium bodies, respectively. 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 on 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 hypercar, the LaFerrari Aperta, and the FXX K EVO.

Painting

When transferred to our paint shop, the bodies are 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. All body-shells are cleaned with automatic pressure blowers (to avoid the electrostatic effect) and carefully brushed with emu feathers (because of their natural electrostatic properties) to clean off any dirt particles or impurities before painting. The painting process 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 2018 we substituted our clear coat with a new generation 2K (bi-component) transparent coat that requires a lower baking temperature; this innovative process brings significant benefits as it allows us to simultaneously paint both aluminum and carbon fiber parts.

Assembly Line and Final Checks

The final assembly of our cars takes place in Maranello, in a dedicated building constructed in 2008. We have two different lines placed at ground level and the first floor of the building. For each model, the initial assembly operations take place simultaneously on different lines and sections to maximize efficiency so while the body is assembled on the main line, the powertrain, as well as the cockpit and the doors, are prepared on a specific sub-line. In 2018 the line on the first floor moved from one shift to two shifts. Given the special craftsmanship required for the production of our Icona cars, during the second half of 2018, we built a dedicated assembly line for the Ferrari Monza SP1 and SP2, the first models of this new product pillar.

Personalization and Road Tests

During the process of assembly of our cars we manage the fitting of all bespoke interiors, components and special equipment options that our clients choose as part of our personalization program (see “—*Sports and GT Range, Special Series and Icona: Ferrari Line-Up Strategic Pillars—Personalization Offer*”). After the assembly 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, Ghibli and Levante (turbo engines), and 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 2018, we sold approximately 900 V8 turbo engines and approximately 1,500 V8 aspirated engines to Maserati.

In 2011 we began producing a family of engines exclusively for Maserati, in much larger production volumes to be installed on the Quattroporte and Ghibli (mainly the F160 3.0-liter V6 Turbo engines), and in 2016 we started production of F161 engines to be installed on the Levante, Maserati’s SUV. We have a multi-year arrangement with Maserati to provide V6 engines, up to 2020. 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 2018, we sold approximately 28,000 V6 engines to Maserati in four different versions, ranging from 330 hp to 450 hp. In order to meet the V6 volumes and specifications requirements, in 2012 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 F160 V6 and F161 V6 engines also differs from the strategy applicable to the production of Ferrari engines. The vast majority of the engine components integrated in the engines we manufacture for Maserati are sourced externally from our panel of suppliers (see “—*Procurement*”) and then assembled in Maranello on our highly automated V6 assembly line.

Procurement

We source a variety of components, raw materials, supplies, utilities, logistics and other services from numerous suppliers. We recognize the contribution of our suppliers to our success in pursuing excellence in terms of luxury and performance, therefore we carefully select suppliers 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 for the supply of transmissions and brakes. 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, 2018, the purchases from our ten largest suppliers by value accounted for approximately 21 percent of total procurement costs, and no supplier accounted for more than 10 percent of our total procurement costs.

Sales and After-Sales

Our commercial team, which includes 334 employees at December 31, 2018, 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) Mainland China, Hong Kong and Taiwan, 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 and track cars 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/dealer. We regularly assess the composition of our dealer network in order to maintain the highest level of quality. At December 31, 2018, our network comprised 167 dealers operating 190 points of sale.

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

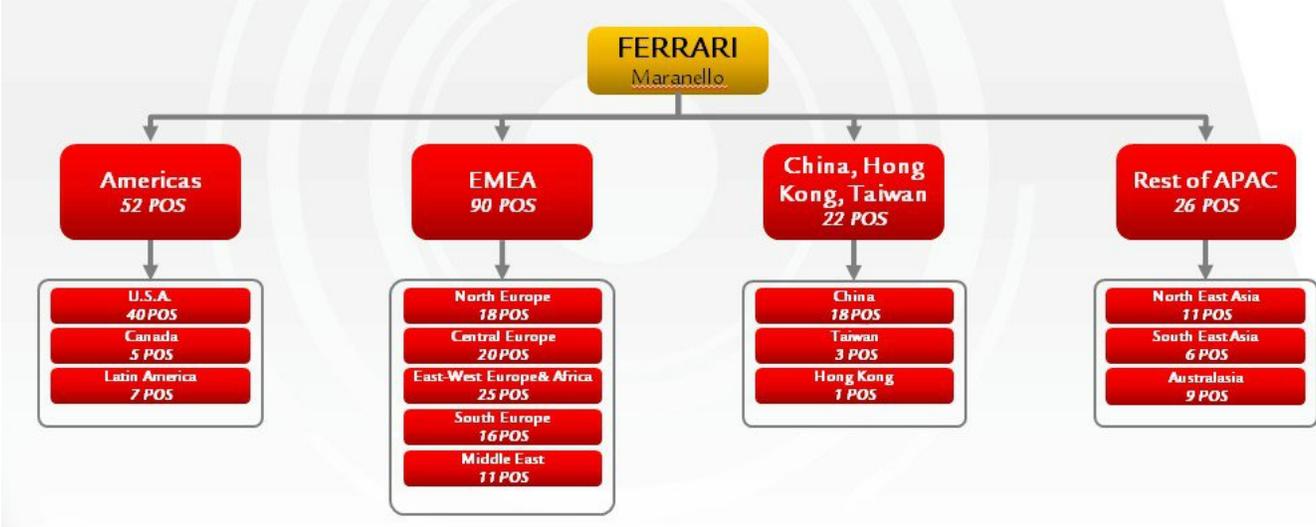
We believe that our careful and strict selection of the dealers that sell our cars is a key factor for promoting the integrity and success of our brand. Our selection criteria are based on the candidates’ reputation, financial solidity and proven track records. We are also mindful to select dealers who are able to provide a purchase and after-sales experience aimed at exceeding our clients’ high expectations. Furthermore, our dealers are committed to promote and market 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 with all dealers to ensure our operating standards are met. Our rigorous design, layout and corporate identity guidelines guarantee uniformity of the Ferrari image and client interface. Through our in-house Ferrari Academy we provide training to dealers for sales, after-sales and technical activities. This ensures that our dealer network delivers a consistent level of market leading standards across diverse cultural environments. We train and monitor dealers intensively. 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 regional representatives visit dealerships regularly to monitor and measure performance and 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 closely reflect 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 190 points of sale at December 31, 2018:



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 22 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 230 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 sell 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.

Our 7 Year Maintenance Program (free of charge for customers since 2011 on any new cars) is offered to further strengthen customer retention in the official network and has been coupled with the possibility to extend the statutory warranty term of our standard warranty terms through the POWER coverage program up to the 7th year of life of the car.

After the 7th year of life, the car (if in perfect maintenance condition) can be included in the MAIN POWER coverage program (Maintenance and POWER) up to the car's 15th year of life. Between the 10th year of life and the Classiche eligibility (20 year old car) Ferrari provides its customers, in addition to standard maintenance items, also certain specific maintenance kits (Ferrari Premium) to preserve car performance and safety systems. When a car follows the full maintenance program up to the 20th year of life, it automatically obtains the Ferrari Classiche certification.

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 2018, more than 65 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 in Maranello as well as other locations.

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 also have the opportunity to configure their cars through our personalization and bespoke program (see “—*Sports and GT Range, Special Series and Icona: Ferrari Line-Up Strategic Pillars—Personalization Offer*”).

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 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.

On September 18, 2018, on the occasion of the *Capital Markets Day*, Ferrari invited clients to Maranello for the World Premiere of the *Ferrari Monza SP1 and SP2*, the forerunners in our new Icona range.

Just a few weeks earlier, on August 25, 2018 a world premiere of the *488 Pista Spider*, the new special series model derived from the coupé version unveiled at the Geneva Motorshow, was held during the renowned Concours d'Elegance at Pebble Beach in California.

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 activities are mainly targeted to clients with a preference for sports models.

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* program, which consists of driving sessions with a team of highly qualified and skilled Ferrari instructors and technicians. In addition we also offer to our clients on-track driving courses (*Corso Pilota*), 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.

In addition to several track day activities, organized by local sales departments and dealers to allow clients to enjoy 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 (Europe, North America and the Asia-Pacific series), and non-competitive events, such as with *XX Programme* and *FI Clienti* activities, dedicated to clients who own respectively, non-homologated GT laboratory cars and F1 single-seaters previously used by the Scuderia Ferrari in the Formula 1 Championship. Ferrari Challenge and XX/Formula 1 events are run together in the so-called *Ferrari Racing Days*, which are open to the public and intended for a wider audience.

These track activities reached their climax at the *Finali Mondiali*, the last races of three Challenge series, which last year took place from November 1 to 4 at the Monza Circuit, with more than one hundred drivers, sporting customers from all over the world, and approximately 50,000 spectators in the stands.

In addition to on-track racing, we organize various on-the-road driving events, including both proprietary formats (*Ferrari Cavalcade*, including the *Cavalcade Classiche* and 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 these traditional events.

Another exclusive driving experience took place from April to June 2018, when Prancing Horse enthusiasts and collectors were invited to take turns behind the wheel of the *Ferrari Portofino* on some of Europe's most scenic roads.

Ferrari Classiche

The Ferrari Classiche department aims to provide Ferrari customers with a point of reference for managing their historic Ferrari vehicles with the objective of keeping as many of these classic cars on the road as possible. Services include the certification of the authenticity of classic Ferrari cars and vehicles of particular historical relevance, the management of Ferrari restoration and repair activities, as well as the management of Ferrari spare parts, including when these are no longer available on the market. The department also provides advice on repair operations carried out on Ferrari Classiche cars within its network.

Ferrari Classiche aims to create a platform of information and technical expertise to preserve and enhance over time the awareness and value of Ferrari's heritage and brand. We view the surviving Ferrari vehicles of historical value as the tangible legacy and incarnation of our brand. The Ferrari Classiche department also supports and encourages the direct participation of clients in strategic historical events.

The Ferrari Classiche department in Maranello consists of an office of specialists and a workshop in which historic cars are restored and repaired. In addition, in order to provide an enhanced service to owners away from the proximity of the main workshop in Maranello, starting in 2017 Ferrari Classiche authorized a new service network with 69 new "Officina Ferrari Classiche" workshops to date, primarily for vehicle repairs and the certifications' inspections or revalidation, and the network is expected to expand in future periods.

The originality of the car with respect to the initial specifications is checked via a technical inspection, performed either at the Ferrari Classiche facility in Maranello or at an authorized Officina Ferrari Classiche, and benefits from a comprehensive archive containing drawings of each of the individual chassis and details of historical components. Based on the evidence gathered during this inspection, the car is then presented to an expert committee, chaired by the founder's son, Piero Ferrari, for the certification.

At the Maranello workshop, Ferrari Classiche carries out full restorations using either original components and spare parts or replicas manufactured in accordance with the original specifications. Our restoration service offers our clients the opportunity to reinstate any classic Ferrari to its original pristine conditions.

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, GT and special series cars. The Formula 1 World Championship is the pinnacle of motorsports with approximately 490 million television unique viewers all over the world (based on a new viewer calculation methodology applied by Formula 1 in the 2018 season) (*Source: Formula 1 Press Office*). Overall audience numbers should also consider data from various social media platforms, which have become an increasing focus under the leadership of Liberty Media Corporation starting in 2017. In 2018, Formula 1 was one of the fastest-growing sports in terms of social media outreach, with an increase in total number of followers on Facebook, Twitter, Instagram and YouTube of 53.7 percent compared to 2017. (*Source: Formula 1 Press Office*).

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, Azerbaijan and the United States. This provides participants in the Formula 1 World Championship exceptional visibility on the world stage.

Scuderia Ferrari has been racing in the Formula 1 World Championship since the series was 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 235 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 in 2018 comprised four-time World Champion Sebastian Vettel, who joined Ferrari at the beginning of 2015, and Kimi Raikkonen, who won the World Drivers title in 2007 for Scuderia Ferrari and competed for the team for eight seasons. The 2018 season was Raikkonen's last at Ferrari as he will be replaced by Charles Leclerc for the 2019 season.

2018 was the most successful in the last ten years for Scuderia Ferrari, with the team winning six races (five with Vettel and one with Raikkonen) and achieving as many pole positions. Both Vettel and the team were runner-ups in their respective point standings. Scuderia Ferrari's tally of 571 points is the team's best performance since the current scoring system was introduced in 2010.

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

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 govern technical matters ranging from tires, weight to ignition, fueling and throttle requirements, as well as racing rules, such as 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. Shares in the prize fund 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 are typically among the most highly paid athletes in the world. In 2018, certain changes to FIA regulations were issued and will become effective in 2019. These changes to the regulations relate to aerodynamics, drivers' weight, fuel allowance and the requirement for drivers to wear biometric gloves for additional safety. Extensive talks were held in 2018 and are continuing among the owners of the Formula 1 business and all teams to help configure the future structure of the sport for 2021 and beyond, when the current agreement will have expired.

Improvements in technology and, from time to time, changes in regulation, such as those we will experience in 2019, 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 gear-shifting, 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 car to recover, store and deploy energy generated both by the vehicle during braking and by the exhaust gases through a turbocharger.

The high brand visibility we achieve through participation in the Formula 1 World Championship has historically enabled us to benefit from significant sponsorships. Philip Morris International has been Scuderia Ferrari's partner for over forty years and currently remains our Title Partner. Starting from the Japanese Grand Prix in October 2018, the "Mission Winnow" logo has appeared on the cars' livery and drivers' overalls, promoting a Philip Morris corporate campaign for a healthier future. Shell has also been a long term Sponsor and Technical Partner of Scuderia Ferrari (since 1996). Other official sponsors include Ray-Ban, Kaspersky lab, UPS, Lenovo, Weichai, Mahle, Hublot, AMD, OMR and Alfa Romeo. 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 racetrack.

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 2018, almost 76,000 people attended the MotoGP World Championship at Mugello, one of the largest audience ever recorded in the 28 years of the Mugello circuit's history.

In 2011, the Mugello circuit won its fifth "Best Grand Prix" award, the highest honor given in the motor sport world to 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 stores, licensed theme parks and the development of a line of apparel and accessories sold exclusively in our monobrand stores and on our website www.store.ferrari.com.

Ferrari owns and manages two museums, one in Maranello and one in Modena, which attracted more than 540,000 visitors in 2018.

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. Ferrari branded products include consumer electronics, sportswear, toys, video games, watches and other accessories, as well as theme parks.

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. Ferrari World opened on Yas Island, on the North East side of Abu Dhabi's mainland, in 2010. 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.

Our second theme park, Ferrari Land Portaventura, opened in April 2017 near Barcelona, and includes Red Force, the tallest and fastest roller-coaster in Europe. 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

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

At December 31, 2018, there were a total of 35 retail Ferrari stores, including those in Maranello, Milan, Rome, Macau, Miami, Los Angeles, Johannesburg, Dubai and Abu Dhabi, of which 17 franchised stores (including 5 Ferrari Store Junior) and 18 stores owned and operated by us.

We require all franchisees to operate our monobrand 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 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.



Research and Development

We engage in research and development activities aimed at improving the design, performance, safety, efficiency and reliability of our cars. The first stage of product development is the research phase. In this phase, we research the specifications of new models that we believe will appeal to our clients and will be commercially viable. Costs we incur for the development of cars 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 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. Our capitalized development costs are primarily affected by the timing of renewals to our product range and more recently, by our intention to integrate hybrid technology more broadly into our product portfolio.

We also incur research and development expenses in connection with Formula 1 racing activities, including initiatives to maximize the performance, efficiency and safety of our racing cars. While we develop these technologies for initial use in our Formula 1 racing cars, we seek to transfer these components and technologies, where appropriate, to models in our current and future product range. Technological developments and changes in the regulations of the Formula 1 World Championship lead us to design, develop and construct a new racing car each year. The costs incurred for these activities are expensed as incurred and classified as research and development costs in the income statement. Research and development costs for Formula 1 activities can vary from year to year and may be difficult to predict because they are subject to, among other things, changes in race regulations and the need to respond to our car's performance relative to other racing teams.

Research and development costs expensed, which primarily relate to our Formula 1 racing and research phase activities, remained relatively consistent from 2016 to 2018. As a result of our strategy to update and broaden our product range and significantly increase our efforts relating to hybrid technology, our overall research and development expenditure, and in particular our capitalized development costs, increased during the period from 2016 to 2018.

The following table summarizes our research and development for the years ended December 31, 2018, 2017 and 2016:

	For the years ended December 31,		
	2018	2017	2016
Capitalized development costs ⁽¹⁾	318	185	141
Research and development costs expensed (A)	528	556	510
Total research and development	846	741	651
Amortization of capitalized development costs (B)	115	101	104
Research and development costs as recognized in the consolidated income statement (A+B)	643	657	614

(1) Capitalized to developed costs within intangible assets during the year.

Our results of operations are dependent on the comparative success of our product offering over time. Our range models typically have a lifecycle of four to five years, while our special series, hypercars and limited edition cars (and starting in 2019, our Icona cars) typically have shorter lifecycles. A portion of our research and development efforts are related to the development of the various components used in our models, and in particular, hybrid, electronic and mechanical components. Our new models generally include new technological content, part of which is related to the output from the component research and development efforts. Our continued focus on component development has the objective of reducing the costs to develop new models.

Financial Services

We offer retail client financing for the purchase of our cars and dealer financing through the operations of Ferrari Financial Services (“FFS”). We offer retail client financing:

- directly in the United States through our fully owned subsidiary Ferrari Financial Services Inc. (“FFS Inc”);
- through our associate Ferrari Financial Services GmbH in certain markets in EMEA (primarily the UK, Germany and Switzerland), and
- through various partnerships in other European countries and other major international markets, such as Japan and Australia.

We also offer direct dealer financing in the United States through FFS Inc.

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

Starting in 2016, FFS Inc has pursued a strategy of autonomous financing for our financial services activities in the United States, further reducing dependency on intercompany funding and increasing the portion of self-liquidating debt with various securitization transactions.

At December 31, 2018, the consolidated financial services portfolio was €878 million and originated in the United States.

Intellectual Property

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

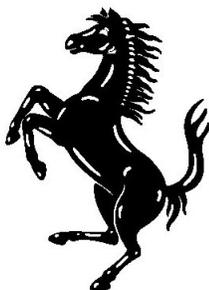
We file patent applications in Europe, and around the world (including in the United States) to protect technology and improvements considered important to our business. No single patent is material to our business as a whole.

We also own a number of registered trademarks, designs and patents, including approximately 485 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 more than 4,000 applications/registrations in approximately 140 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):



The names of our sports, GT, special series and Icona car models and Formula 1 single-seater models are also registered as trademarks (and logotypes) and we also register their domain names and the cars' design.

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 672 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 "*Overview of Our Business—Production and Procurement—Production Process*"). Except for some leased technical equipment, we own all of our facilities and equipment in Maranello.

Between 2002 and 2012 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.

In 2018 we completed the new Ferrari Design Centre, a building that covers more than 5,600 square meters over four levels.

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.

We also own the Mugello racing circuit in Scarperia, near Florence, which we rent to racing events organizers (see "*Overview of Our Business—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 for our regular range, special series and prototype cars.

The total carrying value of our property, plant and equipment at December 31, 2018 was €850,550 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, 2018, we had a total of 3,851 employees, including 110 executives. Of these, approximately 3,647 were based at our Maranello facility, and approximately 204 in offices around the world (including 8 executives), mostly in North America and China.

	At December 31,		
	2018	2017	2016
White collar employees	1,691	1,531	1,407
<i>Italy</i>	1,517	1,358	1,216
<i>Rest of the world</i>	174	173	191
Blue collar employees	2,050	1,757	1,751
<i>Italy</i>	2,047	1,754	1,748
<i>Rest of the world</i>	3	3	3
Executives	110	92	90
Total	3,851	3,380	3,248

Approximately 12 percent of the employees were trade union members in 2018. 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. 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 expired 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 an SVM or similar designation in certain jurisdictions where we sell cars. 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.

Approval and market surveillance

In May 2018 the European Parliament and European Council issued Regulation 2018/858, establishing the new framework for the approval and market surveillance of motor vehicles (repealing Directive 2007/46/EC). While the previous regulatory framework of Directive 2007/46/EC was focused on technical standards, the new regulation has a broader scope by including market surveillance requirements in order to ensure the enforcement of applicable standards. The key objectives of Regulation 2018/858 are: enhancing the independence of technical services (i.e. the approved testing laboratories) as well as improving the quality of the testing of vehicles and setting stricter requirements for technical services; introducing market surveillance in order to verify the conformity of vehicles on the market to the applicable standards, and requiring corrective measures in case of non-compliance or where a vehicle poses a safety risk or a risk to the environment; strengthening the type approval system with more stringent oversight by the EU. The Commission has the power to suspend, restrict or withdraw the designation of technical services, to order recalls, and to impose financial penalties.

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. 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 were 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 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. Pursuant to the derogation approved by the European Commission following our petition, 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 ("GHG") 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. In March 2017, EPA announced its intention to reconsider this decision, extending the review period for GHG standards definition.

In July 2017, the NHTSA published a notice of intent to prepare an Environmental Impact Statement ("EIS") for model years 2022-2025 CAFE standards, inviting stakeholders to provide comments. The EIS purpose is to define the potential

environmental impacts of the model years 2022-2025 CAFE standards and represents the first step of the rulemaking process relating to those model years.

In August 2018 the NHTSA and the EPA issued a common proposal, the “Safer Affordable Fuel-Efficient (SAFE) Vehicles Rule for model years 2021-2026 Passenger Cars and Light Trucks” (SAFE Vehicles Rule). The SAFE Vehicles Rule, if finalized, would amend certain existing CAFE and tailpipe carbon dioxide emissions standards for passenger cars and light trucks and establish new standards, all covering model years 2021 through 2026. More specifically, NHTSA is proposing new CAFE standards for model years 2022 through 2026 and amending its 2021 model year CAFE standards because they are no longer deemed to be maximum feasible standards, and EPA is proposing to amend its carbon dioxide emissions standards for model years 2021 through 2025 because they are no longer deemed appropriate and reasonable in addition to establishing new standards for model year 2026. The authorities’ stated preferred alternative is to retain the model year 2020 standards (specifically, the footprint target curves for passenger cars and light trucks) for both programs through model year 2026, but comment has been sought on a range of alternatives. No final decision has been taken to date.

Under current regulation, for model years 2017-2025, the EPA allows a SVM, defined as manufacturer with less than 5,000 yearly unit sales in the United States, to petition for a less stringent standard. The EPA has granted us SVM status. We have therefore petitioned the EPA for alternative standards for the model years 2017-2021 and 2022-2025, which are aligned to our technical and economic capabilities.

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 December, 2017, we amended the petition by proposing alternative CAFE standards for model years 2016, 2017 and 2018, covering also the 2016 model years. NHTSA have not yet responded to our petition. If our petitions are rejected or if we produce annually more than 10,000 vehicles globally, we will not be able to benefit from the more favorable CAFE standards levels which we have petitioned for and this may require us to purchase additional CAFE credits in order to comply with applicable CAFE standards.

The state of California has been granted special authority under the Clean Air Act to set its own vehicle emission standards. In February 2010, the California Air Resources Board (“CARB”) enacted regulations under which manufacturers of vehicles for model years 2012-2016 which are in compliance with the EPA greenhouse gas emissions regulations are also deemed to be in compliance with California’s greenhouse gas emission regulations (the so-called “deemed to comply” provision). In November 2012, the CARB extended these rules to include model years 2017-2025. In 2017 CARB performed a technical assessment regarding greenhouse gas standards for model years 2022 through 2025, in parallel with EPA and NHTSA, and confirmed in March 2017 that the standards defined in 2012 may be still considered appropriate. The SAFE Vehicles Rule mentioned above proposes to withdraw the waiver granted to California under the Clean Air Act to establish more stringent standards for vehicle emissions that are applicable to model years 2021 through 2025. In response to the proposed California waiver withdrawal, on December 12, 2018 the CARB amended its existing regulations to clarify that the “deemed to comply” provision shall not be available for model years 2021-2025 if the EPA standards for those years are altered via an amendment of federal regulations. Ferrari currently avails itself of the “deemed-to-comply” provision to comply with CARB greenhouse gas emissions regulations. Therefore, it may be necessary to also petition the CARV for SVM alternative standards and to increase the number of tests to be performed in order to follow the CARB specific procedures.

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 targeted 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 2020. In September 2017 the Chinese government issued the Administrative Measures on CAFC (Corporate Average Fuel Consumption) and NEV (New Energy Vehicle) Credits. This regulation establishes mandatory CAFC requirements, while providing additional flexibility for SVMs (defined as a manufacturer with less than 2,000 units imported in China per year) that achieve a certain minimum CAFC yearly improvement rate. Manufactures that exceed the CAFC regulatory ceiling are required to purchase NEV credits.

Exhaust and evaporative emissions requirements

In 2007, the European Union adopted a series of updated 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). SVMs (vehicle manufacturers with a worldwide annual production lower than 10,000 units) are required to be compliant with RDE standards starting from 2020 while non-SVMs have been required to comply with RDE standards starting from 2017. In 2018, the European Commission

issued Regulation 2018/1832 for the purpose of improving the emission type approval tests and procedures for light passenger and commercial vehicles, including those for in-service conformity and RDE and introducing devices for monitoring the consumption of fuel and electric energy. Under the new EU Regulation, which became applicable in January 2019, among other things, the extended documentation package provided by manufacturers to type approval authorities to describe Auxiliary Emission Strategies (AES) is no longer required to be kept confidential, and the decision whether to allow access to such documentation package is left to national authorities. In addition, the Regulation introduced a new methodology for checking In-Service Conformity (ISC) which includes RDE tests. Compliance is tested based on ISC checks performed by the manufacturer, the granting type approval authority (GTAA), and accredited laboratories or technical services. Test results will be publicly available; in addition, the GTAA will publish annual reports on the ISC checks performed, in order to improve transparency.

In the United States, the “Tier 3” Motor Vehicle Emission and Fuel Standards issued by the EPA were finalized in April 2014. 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. 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 GHG 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 technical 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 (6a and 6b) effective starting from 2020. In July 2018 China’s central government launched a three-year plan to reduce air pollution, extending targets for reducing lung-damaging airborne particulate pollution to the country’s 338 largest cities. This plan includes reductions in steel and other industrial capacity, reducing reliance on coal, promoting electric vehicles and cleaner transport, enhancing air-pollution warning systems, and increasing inspections of businesses for air pollution infractions. Several autonomous regions and municipalities are implementing the requirements of the National 6 program even ahead of the mandated deadlines. For instance, Shenzhen and Beijing announced the introduction of the 6b level requirements starting from July 2019 and January 2020, respectively.

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 EU or by individual Member States. In 2009, the EU established a simplified framework for vehicle safety, repealing more than 50 directives and replacing them with a single regulation (the “General Safety Regulation”) aimed at incorporating relevant United Nations standards. This incorporation process began in 2012. With respect to regulations on advanced safety systems, the EU now requires new model cars from 2011 onwards to have electronic stability control systems and tire pressure monitoring systems. Regulations on low-rolling resistance tires have also been introduced. The framework is reviewed periodically, and a revised version of the General Safety Regulation is currently under discussion. In May 2018, the European Commission adopted a proposal for a regulation which mandates new model cars to be compliant, among other things, with Advanced Emergency Braking, Emergency Lane Keeping systems, and car crash test requirements. In 2017 the EU published technical requirements for the Emergency Call (eCall) system, mandatory for new model cars starting from 2018. Starting from July 1, 2019, new types of pure electric vehicle and new types of hybrid electric vehicle capable of operating without propulsion from a combustion engine operating are required to be equipped with an Acoustic Vehicle Alerting System (AVAS), and from July 1, 2021 for all new vehicles of such types, in order to alert pedestrians that a vehicle is moving at low speeds.

Under U.S. federal law, all vehicles sold in the United States must comply with Federal Motor Vehicle Safety Standards (“FMVSS”) promulgated by the 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 owner. Moreover, the Transportation Recall Enhancement, Accountability, and Documentation Act (“TREAD”) 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). U.S. federal law also sets forth minimum sound requirements for hybrid and electric vehicles (FMVSS No. 141). Because of our status as SVM, Ferrari is required to be compliant at the end of the phase-in period.

On May 4, 2016, the NHTSA published a Consent Order Amendment (the “Amended Consent Order”) to the November 3, 2015 Takata Consent Order regarding 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 filed a Part 573 Defect Information Report on May 23, 2016 with the NHTSA and has initiated a global recall relating to certain cars produced between 2008 and 2011. In December 2016, the NHTSA issued a Third Amendment to the Coordinated Remedy Order (“ACRO”) which included the list of Ferrari vehicles sold in the United States up to model year 2017 to be recalled. As a consequence of the ACRO, Ferrari decided to extend the Takata global recall campaign to all vehicles worldwide mounting non-desiccated Takata passenger airbag inflators. In January 2017 Ferrari, in accordance with the Amended Consent Order and the ACRO, filed with the NHTSA a Part 573 Defect Information Report to include model year 2012 Zone A vehicles. In January 2018, Ferrari, in accordance with the Amended Consent Order and the ACRO, also filed with the NHTSA a Part 573 Defect Information Report to include model year 2013 Zone A vehicles. In January 2019, Ferrari, in accordance with the Amended Consent Order and the ACRO, filed with the NHTSA a Part 573 Defect Information Report to include model year 2014 - 2018 vehicles worldwide. 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 2016 to cover the cost of the worldwide global Takata recall due to uncertainty of recoverability of the costs from Takata. At December 31, 2018 the provision amounted to €25 million.

In 2016, the 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, may be difficult and/or costly. We are in the process of evaluating these guidelines and their potential impact on our results of operations and financial position and determining what steps and/or countermeasures, if any, we will need to make. However, NHTSA rulemaking on driver distraction guidelines has not progressed since early 2017, and the announced Phase III draft on voice-activated controls has not yet been published.

In 2017 Chinese authorities published an updated version of the current local general safety standard which allows China to become the driver market for the Event Data Recorder mandatory installation starting from 2021. Technical requirements are expected to be defined in mid-2019, once the current draft standard is adopted in its final form.

Operating Results

Results of Operations

Consolidated Results of Operations – 2018 compared to 2017 and 2017 compared to 2016

The following is a discussion of the results of operations for the year ended December 31, 2018 as compared to the year ended December 31, 2017, and for the year ended December 31, 2017 as compared to the year ended December 31, 2016. 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,					
	2018	Percentage of net revenues	2017	Percentage of net revenues	2016	Percentage of net revenues
	(€ million, except percentages)					
Net revenues	3,420	100.0 %	3,417	100.0 %	3,105	100.0 %
Cost of sales	1,623	47.4 %	1,651	48.3 %	1,580	50.9 %
Selling, general and administrative costs	327	9.6 %	329	9.6 %	295	9.5 %
Research and development costs	643	18.8 %	657	19.2 %	614	19.8 %
Other expenses, net	4	0.1 %	7	0.2 %	24	0.8 %
Result from investments	3	0.1 %	2	0.1 %	3	0.2 %
EBIT	826	24.2%	775	22.7%	595	19.2%
Net financial expenses	23	0.7 %	29	0.9 %	28	0.9 %
Profit before taxes	803	23.5%	746	21.9%	567	18.3%
Income tax expense	16	0.5 %	209	6.1 %	167	5.4 %
Net profit	787	23.0%	537	15.8%	400	12.9%

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)				
	2018	Percentage of net revenues	2017	Percentage of net revenues	2016	Percentage of net revenues	2018 vs. 2017		2017 vs. 2016		
	(€ million, except percentages)										
Cars and spare parts ⁽¹⁾	2,535	74.1 %	2,456	71.9 %	2,180	70.2 %	79	3.2 %	276	12.7 %	
Engines ⁽²⁾	284	8.3 %	373	10.9 %	338	10.9 %	(89)	(23.8)%	35	10.5 %	
Sponsorship, commercial and brand ⁽³⁾	506	14.8 %	494	14.5 %	488	15.7 %	12	2.4 %	6	1.1 %	
Other ⁽⁴⁾	95	2.8 %	94	2.7 %	99	3.2 %	1	1.4 %	(5)	(5.1)%	
Total net revenues	3,420	100.0%	3,417	100.0%	3,105	100.0%	3	0.1 %	312	10.0 %	

(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 Ferrari financial services activities and net revenues from the management of the Mugello racetrack.

2018 compared to 2017

Net revenues for 2018 were €3,420 million, an increase of €3 million, or 0.1 percent (an increase of 3.2 percent on a constant currency basis), from €3,417 million for 2017.

The increase in net revenues was attributable to the combination of (i) a €79 million increase in cars and spare parts net revenues, (ii) a €12 million increase in sponsorship, commercial and brand net revenues, and (iii) a €1 million increase in other net revenues, partially offset by (iv) a €89 million decrease in engines net revenues.

Cars and spare parts

Cars and spare parts net revenues were €2,535 million for 2018, an increase of €79 million, or 3.2 percent, from €2,456 million for 2017. The increase was primarily attributable to a €145 million increase in net revenues from range and special series cars, partially offset by a €66 million decrease in net revenues from hypercars and limited edition cars.

The €145 million increase in net revenues from range and special series cars and spare parts was principally attributable to an increase in shipments driven by the 812 Superfast, as well as a greater contribution from personalization programs and pricing increases, partially offset by significant negative foreign currency exchange impact. Shipments of V12 range and special series models increased by approximately 25 percent, primarily attributable to shipments of the 812 Superfast, which commenced in the third quarter of 2017, partially offset by the phase-outs of the limited series F12tdf and the F12berlinetta in 2017. Shipments of V8 range and special series models increased by approximately 7 percent, mainly due to the Ferrari Portofino and our first shipments of the newly launched 488 Pista, partially offset by the phase-out of the California T in 2018.

The €145 million increase in net revenues from range and special series cars and spare parts was composed of increases in all four of our geographical regions, including: (i) an €88 million increase in EMEA, (ii) a €32 million increase in Americas, (iii) a €21 million increase in Rest of APAC, and (iv) a €4 million increase in Mainland China, Hong Kong and Taiwan.

- (i) The €88 million increase in EMEA net revenues was primarily attributable to positive volume and pricing, as well as greater contribution from personalization programs. The positive volume was driven by double-digit growth in shipments in the UK, Italy, France, Switzerland, Germany and Other EMEA.
- (ii) The €32 million increase in Americas net revenues was primarily attributable to positive volume and pricing, as well as a greater contribution from our personalization programs, partially offset by negative foreign currency translation impact.
- (iii) The €21 million increase in Rest of APAC net revenues was primarily attributable to positive volumes in Japan and to a lesser extent in Australia and other countries within Rest of APAC, partially offset by negative foreign currency translation impact in Japan and Australia.
- (iv) The €4 million increase in Mainland China, Hong Kong and Taiwan net revenues was primarily attributable to positive volume and mix, partially offset by negative foreign currency translation impact.

The positive volume impacts referred to above were primarily attributable to the Ferrari Portofino, the 812 Superfast and the newly launched 488 Pista, partially offset by the phase-out of the California T.

The €66 million decrease in net revenues from hypercars and limited edition cars was primarily attributable to a decrease in shipments of the LaFerrari Aperta, which finished its limited series run in 2018, partially offset by deliveries of the strictly limited edition Ferrari J50 and the FXX K EVO.

Engines

Net revenues generated from engines were €284 million for 2018, a decrease of €89 million, or 23.8 percent, from €373 million for 2017. The €89 million decrease was mainly attributable to a decrease in net revenues generated from the sale of engines to Maserati, driven by a decrease in the number of engines shipped in 2018 compared to 2017.

Sponsorship, commercial and brand

Net revenues generated from sponsorship, commercial agreements and brand management activities were €506 million for 2018, an increase of €12 million, or 2.4 percent, from €494 million for 2017. The increase was primarily related to sponsorship revenues and a higher 2017 championship ranking compared to 2016, partially offset by other brand related activities and negative foreign currency exchange impact.

Other

Other net revenues, which primarily relate to our financial services activities and management of the Mugello racetrack, amounted to €94 million for 2017 and €95 million for 2018.

2017 compared to 2016

Net revenues for 2017 were €3,417 million, an increase of €312 million, or 10.0 percent (an increase of 8.4 percent on a constant currency basis), from €3,105 million for 2016.

The increase in net revenues, including the positive impact of foreign currency hedging instruments, was attributable to the combination of (i) a €276 million increase in cars and spare parts net revenues, (ii) a €35 million increase in engines net revenues and (iii) a €6 million increase in sponsorship, commercial and brand net revenues, partially offset by (iv) a €5 million decrease in other net revenues.

Cars and spare parts

Cars and spare parts net revenues were €2,456 million for 2017, an increase of €276 million, or 12.7 percent, from €2,180 million for 2016. The increase was primarily attributable to a €249 million increase in net revenues from range and special series cars and spare parts, as well as a €27 million increase in net revenues from hypercars and limited edition cars.

The €249 million increase in net revenues from range and special series cars and spare parts was principally attributable to an increase in shipments of approximately 360 cars (excluding the LaFerrari and the LaFerrari Aperta) and positive mix, along with a greater contribution from personalization programs and pricing increases. Shipments of V12 range and special series models increased by approximately 25 percent, primarily attributable to an increase in shipments of the GTC4Lusso and our first shipments of the newly launched 812 Superfast which is now being sold in most of our markets, partially offset by the phase-outs of the F12berlinetta and the FF, as well as the F12tdf, which finished its limited series run. Shipments of V8 range models were in line with 2016, as increases in shipments of the 488 family and the GTC4Lusso T were substantially offset by the phase-out of the California T.

The €249 million increase in net revenues from range and special series cars and spare parts reflects increases in all four of our major geographical markets, including (i) a €146 million increase in EMEA, (ii) a €40 million increase in Americas, (iii) a €36 million increase in Rest of APAC, and (iv) a €27 million increase in Mainland China, Hong Kong and Taiwan.

- (i) The €146 million increase in EMEA net revenues was primarily attributable to an increase in shipments and a greater contribution from personalization programs. The increase in shipments was driven by double-digit growth in shipments in Italy, France, and the UK, as well as mid-single digit growth in Germany, Switzerland and Other EMEA. The increase in shipments was primarily related to the 488 and GTC4Lusso families, as well as our first shipments of the newly launched 812 Superfast, which commenced in EMEA in the third quarter of 2017. This increase was partially offset by the phase-outs of the California T and F12berlinetta, as well as the F12tdf. A decrease in net revenues in the Middle East was primarily due to a reallocation of shipments into different markets triggered by difficult market conditions in the Middle East.
- (ii) The €40 million increase in Americas net revenues was primarily attributable to positive volume and mix, along with a greater contribution from our personalization programs, partially offset by negative foreign currency translation impact. In particular, the positive volume was driven by the 488 family and the GTC4Lusso, as well as the entry of the GTC4Lusso T and the 812 Superfast on the market in the fourth quarter of 2017, partially offset by the phase-outs of the California T and F12berlinetta, as well as the F12tdf.

- (iii) The €36 million increase in Rest of APAC net revenues was primarily attributable to increases in Japan and other Rest of APAC, and to a lesser extent in Australia. The increase in Japan was driven by single-digit growth in shipments, primarily due to the GTC4Lusso family, partially offset by the phase-outs of the California T and F12berlinetta as well as negative foreign currency translation impact. Double-digit growth in shipments was achieved in Australia and Rest of APAC, supported by the 488 and the GTC4Lusso families.
- (iv) The €27 million increase in Mainland China, Hong Kong and Taiwan net revenues was primarily attributable to a positive mix, driven by the GTC4Lusso family and other V12 models, particularly in Mainland China, partially offset by a slowdown in Hong Kong due to our decision to terminate the distributor in 2016 and the new dealership only becoming fully operational in the third quarter of 2017.

The €27 million increase in net revenues from supercars and limited edition cars was primarily attributable to shipments of LaFerrari Aperta, partially offset by the phase out of the LaFerrari shipments, which ended in 2016, as well as the non-registered racing car FXX K and the strictly limited edition F60 America completing their limited series run in 2016.

Engines

Net revenues generated from engines were €373 million for 2017, an increase of €35 million, or 10.5 percent, from €338 million for 2016. The €35 million increase was mainly attributable to an increase in net revenues generated from the sale of engines to Maserati, driven by a 25 percent increase in the volume of engines shipped, partially offset by a decrease in net revenues from the rental of engines to Formula 1 racing teams due to the termination of the rental agreement with one of the Formula 1 teams.

Sponsorship, commercial and brand

Net revenues generated from sponsorship, commercial agreements and brand management activities were €494 million for 2017, an increase of €6 million, or 1.1 percent, from €488 million for 2016. The increase was primarily related an increase in net revenues from sponsorship and brand activities, partially offset by a decrease in Formula 1 net revenues due to our lower ranking in the World Constructors' Championship in 2016 compared to 2015.

Other

Other net revenues were €94 million for 2017, a decrease of €5 million, or 5.1 percent, from €99 million for 2016. The €5 million decrease in other net revenues was primarily driven by the deconsolidation of the financial services business in Europe since November 2016 following the sale of a majority stake in FFS GmbH to FCA Bank.

Cost of sales

	For the years ended December 31,						Increase/(Decrease)			
	2018	Percentage of net revenues	2017	Percentage of net revenues	2016	Percentage of net revenues	2018 vs. 2017	2017 vs. 2016		
	(€ million, except percentages)									
Cost of sales	1,623	47.4%	1,651	48.3%	1,580	50.9%	(28)	(1.7)%	71	4.5%

2018 compared to 2017

Cost of sales for 2018 was €1,623 million, a decrease of €28 million, or 1.7 percent, from €1,651 million for 2017. As a percentage of net revenues, cost of sales decreased from 48.3 percent in 2017 to 47.4 percent in 2018.

The decrease in cost of sales was primarily attributable to (i) a decrease of €122 million driven by lower engine volumes and lower industrial costs, including warranty charges, partially offset by (ii) an increase in costs of €94 million driven by an increase in volumes, as well as higher depreciation.

The increase in cost of sales related to volumes was driven by the 812 Superfast, the Ferrari Portofino and the newly-launched 488 Pista, partially offset by the phase-outs of the F12tdf, the F12berlinetta and the California T.

2017 compared to 2016

Cost of sales for 2017 was €1,651 million, an increase of €71 million, or 4.5 percent, from €1,580 million for 2016. As a percentage of net revenues, cost of sales decreased from 50.9 percent in 2016 to 48.3 percent in 2017.

The increase in cost of sales was primarily attributable to (i) increased costs of €58 million driven by an increase in volumes and personalization programs, (ii) increased costs of €46 million driven by an increase in production volumes of engines for Maserati and costs for other supporting activities and (iii) an increase in production costs, including depreciation, of €4 million, partially offset by (iv) the effect of charges in 2016 for Takata airbag inflator recalls of €37 million.

The €58 million increase in cost of sales related to volumes and personalization programs was driven by the 488 family, the GTC4Lusso and the 812 Superfast. The €46 million increase in cost of sales related to the production of engines for Maserati and other supporting activities was driven by a 25 percent increase in the volume of engines shipped to Maserati.

Selling, general and administrative costs

	For the years ended December 31,						Increase/(Decrease)			
	Percentage of net revenues		Percentage of net revenues		Percentage of net revenues		2018 vs. 2017		2017 vs. 2016	
	2018	2017	2018	2017	2018	2017				
	(€ million, except percentages)									
Selling, general and administrative costs	327	9.6%	329	9.6%	295	9.5%	(2)	(0.5)%	34	11.5%

2018 compared to 2017

Selling, general and administrative costs for 2018 were €327 million, a decrease of €2 million, or 0.5 percent, from €329 million for 2017. As a percentage of net revenues, selling, general and administrative costs were substantially unchanged.

2017 compared to 2016

Selling, general and administrative costs for 2017 were €329 million, an increase of €34 million, or 11.5 percent, from €295 million for 2016. As a percentage of net revenues, selling, general and administrative costs were substantially unchanged.

The increase in selling, general and administrative costs was primarily attributable to (i) share-based compensation expense related to the equity incentive plan, (ii) costs related to initiatives for Ferrari's 70th anniversary, and (iii) costs related to new directly operated Ferrari stores, partially offset by (iv) the costs of the former CEO (Mr. Amedeo Felisa) retirement package recognized in 2016 and (v) a decrease in costs due to the deconsolidation of FFS GmbH since November 2016.

Research and development costs

	For the years ended December 31,						Increase/(Decrease)			
	Percentage of net revenues		Percentage of net revenues		Percentage of net revenues		2018 vs. 2017		2017 vs. 2016	
	2018	2017	2018	2017	2018	2017				
	(€ million, except percentages)									
Research and development costs expensed during the year	528	15.4%	556	16.3%	510	16.4%	(28)	(5.2)%	46	9.2%
Amortization of capitalized development costs	115	3.4%	101	2.9%	104	3.4%	14	14.6%	(3)	(3.4)%
Research and development costs	643	18.8%	657	19.2%	614	19.8%	(14)	(2.1)%	43	7.1%

2018 compared to 2017

Research and development costs for 2018 were €643 million, a decrease of €14 million, or 2.1 percent, from €657 million for 2017. As a percentage of net revenues, research and development costs were 18.8 percent in 2018 compared to 19.2 percent in 2017.

The decrease in research and development costs was attributable to a decrease of €28 million in research and development costs expensed, primarily driven by lower research and development costs for Formula 1 activities and lower research activities for our GT and sports cars, partially offset by an increase of €14 million in amortization of capitalized development costs.

2017 compared to 2016

Research and development costs for 2017 were €657 million, an increase of €43 million, or 7.1 percent, from €614 million for 2016. As a percentage of net revenues, research and development costs were 19.2 percent in 2017 compared to 19.8 percent in 2016.

The increase in research and development costs was attributable to an increase of €46 million in research and development costs expensed, partially offset by a decrease of €3 million in amortization of capitalized development costs.

The €46 million increase in research and development costs expensed during the year was primarily driven by research and development to support the innovation of our product range and components, in particular in relation to hybrid technology, partially offset by a decrease in research and development expenses for Formula 1 activities.

Other expenses, net

	For the years ended December 31,			Increase/(Decrease)			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(€ million, except percentages)						
Other expenses, net	4	7	24	(3)	(53.5)%	(17)	(72.0)%

2018 compared to 2017

Other expenses, net for 2018 amounted to net other expenses of €4 million, a decrease of €3 million, or 53.5 percent, compared to net other expenses of €7 million for 2017.

For 2018, other expenses, net included other expenses of €19 million, which mainly related to indirect taxes, accruals for provisions and miscellaneous expenses, partially offset by other income of €15 million, which mainly related to a favorable ruling on a prior year's legal dispute, and to a lesser extent other miscellaneous income.

For 2017, other expenses, net included other expenses of €12 million, which mainly related to indirect taxes and miscellaneous expenses, partially offset by other income of €5 million, which mainly related to gains on disposals of property, plant and equipment, rental income and miscellaneous income.

2017 compared to 2016

Other expenses, net for 2017 amounted to net other expenses of €7 million, a decrease of €17 million, or 72.0 percent, compared to net other expenses of €24 million for 2016.

For 2017, other expenses, net included other expenses of €12 million, which mainly related to indirect taxes and miscellaneous expenses, partially offset by other income of €5 million, which mainly related to gains on disposals of property, plant and equipment, rental income and miscellaneous income.

For 2016, other expenses, net included other expenses of €30 million, which mainly related to provisions (primarily due to disputes with a distributor), indirect taxes and miscellaneous expenses, partially offset by other income of €6 million, which mainly related to gains on the disposal of property plant and equipment, rental income and miscellaneous income.

EBIT

	For the years ended December 31,						Increase/(Decrease)			
	2018	Percentage of net revenues	2017	Percentage of net revenues	2016	Percentage of net revenues	2018 vs. 2017	2017 vs. 2016		
									(€ million, except percentages)	
EBIT	826	24.2%	775	22.7%	595	19.2%	51	6.6%	180	30.3%

2018 compared to 2017

EBIT for 2018 was €826 million, an increase of €51 million, or 6.6 percent, from €775 million for 2017. As a percentage of net revenues, EBIT increased from 22.7 percent in 2017 to 24.2 percent in 2018.

The increase in EBIT was primarily attributable to the combined effects of (i) positive volume impact of €118 million, (ii) positive contribution from other supporting activities of €26 million, (iii) a decrease in research and development costs of €14 million, and (iv) a decrease in selling, general and administrative costs of €2 million, partially offset by (v) negative product mix of €17 million and (vi) negative foreign currency exchange impact of €92 million (including foreign currency hedging instruments) primarily driven by fluctuations in the U.S. Dollar, the Pound Sterling and the Japanese Yen compared to the Euro.

The positive volume impact of €118 million was attributable to an increase in total shipments, driven by the 812 Superfast, the Ferrari Portofino and the 488 Pista. The negative product mix of €17 million was primarily attributable to the combined impact of lower sales of LaFerrari Aperta and the strong performance of the Ferrari Portofino, partially offset by the 812 Superfast, as well as pricing increases and deliveries of the strictly limited edition Ferrari J50 and the FXX K EVO. The positive contribution from other supporting activities of €26 million was primarily attributable to sponsorship activities, a higher 2017 championship ranking compared to 2016 and a favorable ruling on a prior year's legal dispute, partially offset by a lower contribution from other brand related activities and engines supplied to Maserati.

The increase in EBIT as a percentage of net revenues from 22.7 percent in 2017 to 24.2 percent in 2018 was primarily attributable to the combination of the previously mentioned effects on EBIT, including a decrease in cost of sales as a percentage of net revenues from 48.3 percent in 2017 to 47.4 percent in 2018.

2017 compared to 2016

EBIT for 2017 was €775 million, an increase of €180 million, or 30.3 percent, from €595 million for 2016. As a percentage of net revenues, EBIT increased from 19.2 percent in 2016 to 22.7 percent in 2017.

The increase in EBIT was primarily attributable to (i) positive volume impact of €67 million, (ii) favorable mix impact of €80 million, (iii) positive net foreign currency exchange impact of €53 million (resulting from positive €101 million relating to foreign currency hedging instruments, partially offset by an adverse impact on revenues from the weakening of foreign currencies against the Euro) and (iv) a decrease of €57 million in other supporting costs, including the effect of charges in 2016 for Takata airbag inflator recalls of €37 million, partially offset by (v) an increase in research and development costs of €43 million and (vi) an increase in selling, general and administrative costs of €34 million.

The positive volume impact was attributable to an increase in shipments of approximately 360 cars (excluding the LaFerrari and LaFerrari Aperta), driven by the GTC4Lusso and the 488 families, as well as our first shipments of the newly launched 812 Superfast, together with positive contribution from our personalization programs. These positive effects on volume were partially offset by the phase-outs of the California T and the F12berlinetta, as well as the F12tdf, which finished its limited series run in 2017. The favorable mix impact of €80 million was primarily attributable to an increase in shipments of the LaFerrari Aperta, as well as an increase in shipments of our V12 range and special series models and pricing increases. These positive effects on mix were partially offset by the end of the LaFerrari lifecycle in 2016, as well as the non-registered racing car FXX K and the strictly limited edition F60 America completing their limited series runs in 2016.

The increase in EBIT as a percentage of net revenues from 19.2 percent in 2016 to 22.7 percent in 2017, was primarily attributable to the combination of the previously mentioned effects on EBIT above, including a decrease in cost of sales as a percentage of net revenues from 50.9 percent in 2016 to 48.3 percent in 2017.

Net financial expenses

	For the years ended December 31,			Increase/(Decrease)			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(€ million, except percentages)						
Net financial expenses	23	29	28	(6)	(19.5)%	1	5.5%

2018 compared to 2017

Net financial expenses for 2018 were €23 million compared to €29 million for 2017, representing a decrease of €6 million.

The decrease in net financial expenses was primarily attributable to (i) a decrease in interest expenses and (ii) a decrease in net foreign exchange losses. The decrease in interest expenses was mainly driven by lower interest on bank borrowings due to the full repayment of the Term Loan in November 2017, partially offset by higher interest on bonds due to a new bond issued in November 2017. For the year ended December 31, 2017, net financial expenses included gains resulting from exercising the Delta Topco option.

2017 compared to 2016

Net financial expenses for 2017 were €29 million compared to €28 million for 2016, representing an increase of €1 million.

An increase in (i) net foreign exchange losses and (ii) interest expenses on bonds was substantially offset by (iii) a decrease in interest expenses on bank borrowings, primarily related to the Term Loan and the Bridge Loan which were fully repaid in November 2017 and March 2016, respectively, and (iv) gains resulting from exercising the Delta Topco option.

Income tax expense

	For the years ended December 31,			Increase/(Decrease)			
	2018	2017	2016	2018 vs. 2017		2017 vs. 2016	
	(€ million, except percentages)						
Income tax expense	16	209	167	(193)	(92.2)%	42	24.5%

2018 compared to 2017

Income tax expense for 2018 was €16 million, a decrease of €193 million, or 92.2 percent, from €209 million for 2017. The decrease in income tax expense was primarily attributable to the positive impact from the application of the Patent Box tax regime (as described below), including €141 million of Patent Box benefits related to the years 2015 to 2017 (of which €139 million was from direct use and €2 million was from indirect use of copyrights, patents, trademarks, designs and know-how) and the estimated Patent Box tax benefit relating to the year 2018, which amounted to €61 million.

In September 2018, the Group signed an agreement with the Italian Revenue Agency in relation to the Patent Box tax regime, which provides a tax benefit for companies that generate income through the use, both direct and indirect, of copyrights, patents, trademarks, designs and know-how. For further information see Note 12 “Income Taxes” to our Consolidated Financial Statements included elsewhere in this Annual Report.

2017 compared to 2016

Income tax expense for 2017 was €209 million, an increase of €42 million, or 24.5 percent, from €167 million for 2016. The increase in income tax expense was primarily attributable to an increase in profit before taxes from €567 million in 2016 to €746 million in 2017, partially offset by a decrease in the effective tax rate net of IRAP from 25.8 percent in 2016 to 24.2

percent in 2017. The decrease in the effective tax rate net of IRAP was primarily attributable to the combined effects of a reduction in the corporate income tax rate from 27.5 percent to 24.0 percent (effective from 2017), deductions related to eligible research and development costs and depreciation of fixed assets in accordance with tax regulations in Italy, partially offset by a decrease in net deferred tax assets due to the Tax Cuts and Jobs Act (the “Tax Act”), which was enacted into law in the U.S. on December 22, 2017.

The Tax Act includes various changes to the tax law, including a reduction in the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. We recognized the effects of the changes in the tax rate and laws resulting from the Tax Act in 2017, which resulted in a €4.7 million decrease in net deferred tax assets.

Recent Developments

See “Subsequent Events and 2019 Outlook”.

Liquidity and Capital Resources

Liquidity Overview

We require liquidity in order to fund our business operations and meet our obligations. Short-term liquidity is required to purchase raw materials, parts and components for car production, as well as to fund selling, general, 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 product range and broaden our future product portfolio. We make capital investments, primarily in Italy, for initiatives to develop and introduce new products, enhance manufacturing efficiency and improve capacity, as well as for maintenance and environmental compliance. Our capital expenditure in 2018 was primarily to support continuous product range renewal and expansion, as well as research and development expenditure to transition our product portfolio to hybrid technology. We fund our capital expenditure primarily with cash generated 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. We 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 other things, 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 the launches of new models, during the phase out of existing models and at the end of the second quarter when our inventory levels are generally higher to support the summer plant shutdown.

We generally receive payment for cars between 30 and 40 days after the car is shipped (except when we provide dealer financing or sell invoices to a factor) while we tend to pay most suppliers between 60 and 90 days after we receive the raw materials or components. Additionally, we also receive advance payments from our customers, mainly for our hypercars and limited edition cars (and starting in 2019, our Icona cars). 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 of the above, including the advances received from customers on certain models, we tend to receive payment for cars shipped before we are required to make payment for the raw materials and components used in manufacturing the cars.

Our capital expenditure requirements are, among other things, influenced by the timing and the number of new model launches. Our development costs, as well as our other investments in capital expenditure, generally peak in periods when we develop a significant number of new models to renew or refresh our product range. Going forward, our capital expenditure will also be influenced by research and development expenditure to support the expansion of our product range. We significantly increased our capital expenditure in 2018 and we expect our capital expenditure will continue to increase in 2019 to further our investments in hybrid technology and fuel future growth. 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.

The payment of taxes also affects our working capital. We typically pay our taxes in two advances. In 2017, we paid the remaining balance of 2016 taxes as well as the first advance in relation to 2017 taxes in the second quarter, and we paid the second advance in relation to 2017 taxes in the fourth quarter. In the second quarter of 2018, we paid the remaining balance of 2017 taxes as well as the first advance in relation to 2018 taxes. As a result of signing an agreement in September 2018 with the Italian Revenue Agency in relation to our application of the Patent Box tax regime for the years 2015 to 2019, our tax expense

was significantly reduced in 2018 and we did not pay the second advance in relation to 2018 taxes in the fourth quarter of 2018. The current Patent Box ruling remains in force until fiscal year 2019. The potential applicability of the Patent Box tax regime beyond 2019 will depend on future changes to Italian tax legislation. See Note 11 “Income Taxes” to the Consolidated Financial Statements for additional details related to the Patent Box.

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, 2018, 2017 and 2016. For additional details of our cash flows, see our Consolidated Financial Statements included elsewhere in this Annual Report.

	For the years ended December 31,		
	2018	2017	2016
	(€ million)		
Cash flows from operating activities	934	663	1,005
Cash flows used in investing activities	(637)	(379)	(320)
Cash flows used in financing activities	(152)	(85)	(411)
Translation exchange differences	1	(9)	1
Total change in cash and cash equivalents	146	190	275

Operating Activities — Year Ended December 31, 2018

For the year ended December 31, 2018, our cash flows from operating activities were €934 million, primarily the result of:

- (i) profit before tax of €803 million, adjusted to add back €289 million of depreciation and amortization expense, €30 million of other non-cash expenses and income (including net gains on disposals of property, plant and equipment and intangible assets as well as non-cash result from investments), €23 million of net finance costs and €16 million in provisions accrued. Other non-cash expenses were primarily attributable to share-based compensation expense under the equity incentive plan;
- (ii) €62 million of cash related to the net change in inventories, trade payables and trade receivables. In particular, the movement was attributable to (a) cash generated from trade payables of €40 million driven by higher capital expenditures and an increase in volumes, (b) cash generated by trade receivables of €27 million, partially offset by (c) cash absorbed by inventory of €5 million.

These cash inflows were partially offset by:

- (i) €107 million of cash absorbed from receivables from financing activities driven by an increase in the financial services portfolio in the United States;
- (ii) €83 million of cash absorbed by the change in other operating assets and liabilities, primarily attributable to a decrease in advances for the LaFerrari Aperta and the Ferrari J50;
- (iii) €11 million of net finance costs paid; and
- (iv) income tax paid of €88 million, primarily related to the payment of the remaining balance of 2017 taxes as well as the first advance in relation to 2018 taxes.

Operating Activities — Year Ended December 31, 2017

For the year ended December 31, 2017, our cash flows from operating activities were €663 million, primarily the result of:

- (i) profit before tax of €746 million, adjusted to add back €261 million of depreciation and amortization expense, €39 million of other non-cash expenses and income (including net gains on disposals of property, plant and equipment and intangible assets as well as non-cash result from investments), €29 million of net finance costs and €13 million in provisions accrued. Other non-cash expenses were primarily attributable to share-based compensation expense under the equity incentive plan and equity-settled Non-Executive Directors' compensation.

These cash inflows were partially offset by:

- (i) €73 million related to cash absorbed by the change in other operating assets and liabilities, primarily attributable to a decrease in advances for the LaFerrari Aperta in 2017, partially offset by advances received for the Ferrari J50;
- (ii) €61 million related to cash absorbed by the net change in inventories, trade payables and trade receivables. In particular, the movement was attributable to (a) cash absorbed by inventory of €88 million driven by projected volume growth in line with our 2018 production outlook, and (b) cash absorbed by trade receivables of €2 million, partially offset by (c) cash generated from trade payables of €29 million, driven by an increase in volumes;
- (iii) €44 million related to cash absorbed from receivables from financing activities driven by an increase in the financial services portfolio in the United States;
- (iv) €32 million of net finance costs paid; and
- (v) income tax paid of €215 million, primarily related to the payment of the remaining balance of 2016 taxes and advances of 2017 taxes.

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, €82 million in provisions and €28 million of net finance costs, partially offset by €41 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; and
- (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.

These cash inflows were partially offset by:

- (i) €20 million in net finance costs paid;
- (ii) €16 million related to cash absorbed by the net change in inventories, trade payables and trade receivables. In particular, the movement was attributable to (a) cash absorbed by inventory of €33 million, (b) cash absorbed by trade receivables of €89 million, partially offset by (c) cash generated from trade payables of €106 million, all of which were driven by an increase in volumes and Maserati engines; and

- (iii) 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.

Investing Activities — Year Ended December 31, 2018

of: For the year ended December 31, 2018, our net cash used in investing activities was €637 million, primarily the result

- (i) capital expenditures of €301 million related to additions to property, plant and equipment and €338 million related to intangible assets, partially offset by proceeds from the sale of property, plant and equipment and intangible assets.

Investing Activities — Year Ended December 31, 2017

of: For the year ended December 31, 2017, our net cash used in investing activities was €379 million, primarily the result

- (i) €392 million of capital expenditures, mainly including €189 million related to additions to property, plant and equipment and €203 million relating to intangible assets.

These cash outflows were partially offset by:

- (i) €8 million of proceeds from exercising the Delta Topco option; and
- (ii) €5 million of proceeds from the sale of property, plant and equipment and intangible assets.

Investing Activities — Year Ended December 31, 2016

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

- (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.

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.

Financing Activities — Year Ended December 31, 2018

of: For the year ended December 31, 2018, our net cash used in financing activities was €152 million, primarily the result

- (i) €133 million of dividends paid to owners of the parent;
- (ii) €100 million related to the repurchase of common shares;
- (ii) €8 million related to the net change in other debt;
- (iii) €4 million related to the net change in borrowings from banks, and
- (iv) €2 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) €95 million of proceeds net of repayments related to our revolving securitization programs in the United States.

Financing Activities — Year Ended December 31, 2017

For the year ended December 31, 2017, net cash used in financing activities was €85 million, primarily the result of:

- (i) €795 million related to the full repayment of the Term Loan, including €100 million of mandatory scheduled payments in June 2017 and €695 million for the full repayment of the remaining balance in November 2017, primarily with the proceeds of the 2021 Bond;
- (ii) €120 million related to a cash distribution of reserves to holders of our common shares;
- (iii) €8 million related to the net change in other debt; and
- (iv) €1 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) €694 million of net proceeds related to the issuance of the 2021 Bond (see “*Bonds*” below), which were used, together with additional cash held, for the full repayment of the Term Loan;
- (ii) €141 million of proceeds net of repayments related to our revolving securitization programs in the USA; and
- (iii) €4 million of net proceeds of other bank borrowings.

Financing Activities — Year Ended December 31, 2016

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

- (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 to holders of our common shares; 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 2023 Bond (see “*Bonds*” 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.

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 (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, 2018 and 2017.

	At December 31,	
	2018	2017
	(€ million)	
Cash and cash equivalents	794	648
Total liquidity	794	648
Bonds	(1,198)	(1,194)
Securitized	(683)	(556)
Borrowings from banks	(36)	(38)
Other debt	(10)	(18)
Total debt	(1,927)	(1,806)
Net Debt	(1,133)	(1,158)
Funded portion of the self-liquidating financial receivables portfolio	793	685
Net Industrial Debt	(340)	(473)

For further details on total debt, see Note 25 "Debt" to the Consolidated Financial Statements included elsewhere in this Annual Report.

Cash and cash equivalents

Cash and cash equivalents were €794 million at December 31, 2018 compared to €648 million at December 31, 2017. See "Cash Flows" above for further details.

Approximately 78 percent of our cash and cash equivalents were denominated in Euro at December 31, 2018 (approximately 67 percent at December 31, 2017). 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 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 €78 million at December 31, 2018 (€66 million at December 31, 2017), is subject to certain repatriation restrictions and may only be repatriated as dividends. We do not currently believe that such transfer restrictions have an adverse impact on our ability to meet our liquidity requirements.

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 related funding. Such cash amounted to €26.5 million and €28.2 million at December 31, 2018 and 2017, respectively.

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,	
	2018	2017
	(€ million)	
Euro	616	435
Chinese Yuan	73	62
U.S. Dollar	50	88
Japanese Yen	24	26
Other currencies	31	37
Total	794	648

Total Available Liquidity

Our total available liquidity (defined as cash and cash equivalents plus undrawn committed credit lines) at December 31, 2018 was €1,294 million (€1,148 million at December 31, 2017).

The following table summarizes our total available liquidity:

	At December 31,	
	2018	2017
	(€ million)	
Cash and cash equivalents	794	648
Undrawn committed credit lines	500	500
Total available liquidity	1,294	1,148

The undrawn committed credit lines relate to a revolving credit facility. For further details see Note 25 “Debt” to the Consolidated Financial Statements included elsewhere in this Annual Report.

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, 2018, 2017 and 2016.

	For the years ended December 31,		
	2018	2017	2016
	(€ million)		
Cash flows from operating activities	934	663	1,005
Cash flows used in investing activities	(637)	(379)	(320)
Free Cash Flow	297	284	685
Change in the self-liquidating financial receivables portfolio	107	44	(405)
Free Cash Flow from Industrial Activities	404	328	280

Free Cash Flow for the year ended December 31, 2018 was €297 million compared to €284 million for the year ended December 31, 2017 and €685 million for the year ended December 31, 2016. 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, 2018 was €404 million, an increase of €76 million compared to €328 million for the year ended December 31, 2017. The increase was primarily attributable to an increase in EBITDA, a decrease in tax payments due to the Patent Box benefit and the positive impact from changes in working capital, partially offset by an increase in capital expenditures.

Free Cash Flow from Industrial Activities for the year ended December 31, 2017 was €328 million compared to €280 million for the year ended December 31, 2016. The increase was primarily attributable to an increase in EBITDA and a decrease in tax payments (primarily due to the fact that in 2016 we made payments to settle the 2015 tax balance from the FCA Group tax consolidation) partially offset by an increase in capital expenditures, advances no longer being received for the LaFerrari Aperta and cash absorbed from an increase in net working capital.

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 and amortization and depreciation. Adjusted EBITDA is defined as EBITDA as adjusted for income and costs, which 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, 2018, 2017 and 2016, 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,		
	2018	2017	2016
	(€ million)		
Net profit	787	537	400
Income tax expense	16	209	167
Net financial expenses	23	29	28
Amortization and depreciation	289	261	248
EBITDA	1,115	1,036	843
(Release of charges)/Charges for Takata airbag inflator recalls	(1)	—	37
Adjusted EBITDA	1,114	1,036	880

Adjusted EBIT

Adjusted EBIT represents EBIT as adjusted for income and costs, which 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, 2018, 2017 and 2016.

	For the years ended December 31,		
	2018	2017	2016
	(€ million)		
EBIT	826	775	595
(Release of charges)/Charges for Takata airbag inflator recalls	(1)	—	37
Adjusted EBIT	825	775	632

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, which was 24.0 percent for the years ended December 31, 2018 and 2017, and 27.5 percent for the year ended December 31, 2016, and the Italian Regional Income Tax (“IRAP”), which was 3.9 percent for all years presented. We provide 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, 2018, 2017 and 2016.

	For the years ended December 31,		
	2018	2017	2016
	(€ million)		
Net profit	787	537	400
Patent box benefit for the period 2015-2017	(141)	—	—
(Release of charges)/Charges for Takata airbag inflator recalls (net of tax effect)	(1)	—	25
Adjusted Net Profit	645	537	425

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, which was 24.0 percent for the years ended December 31, 2018 and 2017, and 27.5 percent for the year ended December 31, 2016, and the Italian Regional Income Tax (“IRAP”), which was 3.9 percent for all years presented. We provide 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, 2018, 2017 and 2016.

		For the years ended December 31,		
		2018	2017	2016
Net profit attributable to owners of the Company	€ million	785	535	399
Patent box benefit for the period 2015-2017	€ million	(141)	—	—
(Release of charges)/Charges for Takata airbag inflator recalls (net of tax effect)	€ million	(1)	—	25
Adjusted profit attributable to owners of the Company	€ million	643	535	424
Weighted average number of common shares	thousand	188,606	188,951	188,923
Adjusted basic earnings per common share	€	3.41	2.83	2.25
Weighted average number of common shares for diluted earnings per common share	thousand	189,394	189,759	188,946
Adjusted diluted earnings per common share	€	3.40	2.82	2.24

(1) The weighted average number of common shares for diluted earnings per share was increased to take into consideration the theoretical effect of (i) the potential common shares that would be issued under the equity incentive plan for the years ended December 31, 2018 and 2017, and (ii) the potential common shares that would have been issued for the Non-Executive Directors' compensation agreement for the years ended December 31, 2017 and 2016.

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 (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, 2018, and 2017.

	At December 31,	
	2018	2017
	(€ million)	
Cash and cash equivalents	794	648
Debt	(1,927)	(1,806)
Net Debt	(1,133)	(1,158)
Funded portion of the self-liquidating financial receivables portfolio	793	685
Net Industrial Debt	(340)	(473)

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, 2018, 2017 and 2016.

	For the years ended December 31,		
	2018	2017	2016
	(€ million)		
Cash flows from operating activities	934	663	1,005
Cash flows used in investing activities	(637)	(379)	(320)
Free Cash Flow	297	284	685
Change in the self-liquidating financial receivables portfolio	107	44	(405)
Free Cash Flow from Industrial Activities	404	328	280

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 in November 2016.

Constant Currency Information

The "Results of Operations" discussion above includes information about our net revenues on a constant currency basis, which excludes the effects of foreign currency translation from our subsidiaries with functional currencies other than Euro, as well as the effects of foreign currency transaction impact and foreign currency hedging. We use this information to assess how the underlying revenues changed independent of fluctuations in foreign currency exchange rates and hedging. We calculate constant currency by (i) applying the prior-period average foreign currency exchange rates to translate current period revenues of foreign subsidiaries expressed in local functional currency other than Euro, (ii) applying the prior-period average foreign currency exchange rates to current period revenues originated in a currency other than the functional currency of the applicable entity, and (iii) eliminating the variances of any foreign currency hedging (see Note 2 "Significant Accounting Policies" to the Consolidated Financial Statements, included elsewhere in this Annual Report, 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 revenues excluding the impact of currency fluctuations year-on-year and the impacts of hedging provide additional useful information to investors regarding the operating performance on a local currency basis.

Subsequent Events and 2019 Outlook

Subsequent Events

Under a new common share repurchase program announced by Ferrari on December 28, 2018, the Company has purchased 335,346 common shares for a total consideration of €33.4 million. As a result, as of February 22, 2019 the Company held an aggregate of 6,338,189 common shares in treasury.

On February 26, 2019, the Board of Directors of Ferrari N.V. recommended to the Company's shareholders that the Company declare a dividend of €1.03 per common share, totaling approximately €194 million. The proposal is subject to the approval of the Company's shareholders at the Annual General Meeting to be held on April 12, 2019.

2019 Outlook

The Group targets the following performance in 2019:

- Net revenues: > Euro 3.5 billion, over 3% growth versus 2018
- Adj. EBITDA: Euro 1.2-1.25 billion, approx. 10% growth versus 2018
- Adj. EBIT: Euro 0.85-0.9 billion, approx. 6% growth versus 2018
- Adj. diluted EPS: Euro 3.50-3.70 per share, approx. 6% growth versus 2018
- Industrial free cash flow: ~ Euro 0.45 billion, over 10% growth versus 2018

February 26, 2019

Board of Directors

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

Major Shareholders

Exor is the largest shareholder of Ferrari through its approximately 23.7 percent shareholding interest in our outstanding common shares (as of February 15, 2019). See “*Overview—History of the Company*.” As a result of the loyalty voting mechanism, Exor’s voting power is approximately 33.6 percent (as of February 15, 2019). In addition, as of February 15, 2019, Mr. Piero Ferrari holds approximately 10.1 percent of our outstanding common shares and, as a result of the loyalty voting mechanism, his voting power is approximately 15.5 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 that 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, based on regulatory filings with the Netherlands Authority for the Financial Markets (*stichting Autoriteit Financiële Markten*, the “AFM”). G.A. is a Dutch private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) with interests represented by shares, 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., as of February 20, 2019, were John Elkann, Jeroen Preller, Florence Hinnen, Tiberto Brandolini d’Adda, Alessandro Nasi, Andrea Agnelli, Luca Ferrero de’ Gubernatis Ventimiglia and Eduardo Teodorani-Fabbi.

Based on the information in Ferrari’s shareholder register, regulatory filings with the AFM and the SEC and other sources available to us, the following shareholders owned, directly or indirectly, in excess of three percent of the common shares holding voting rights of Ferrari, as of February 15, 2019:

Shareholder	Number of common shares	Percentage owned ⁽¹⁾
Exor N.V. ⁽²⁾	44,435,280	23.7%
Piero Ferrari ⁽²⁾	18,894,295	10.1%
BlackRock, Inc. ⁽³⁾	9,877,693	5.3%
T. Rowe Price Associates, Inc. ⁽⁴⁾	6,762,433	3.6%
Other public shareholders	107,658,623	57.3%

(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”), 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, BlackRock, Inc. is a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) and, out of the common shares beneficially owned as set forth in the table, it has sole voting power over 8,933,118 common shares.

(4) 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 2,832,321 common shares.

Based on the information in Ferrari’s shareholder register and other sources available to us, as of February 15, 2019, approximately 44.5 million Ferrari common shares, or 23.7 percent of the outstanding Ferrari common shares, were held in the United States. As of the same date, approximately 1,700 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 at 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. 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 of shareholders of Ferrari, 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.

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 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 Shareholders' 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 in the case of transfers of Ferrari common shares: (i) by any party to the Shareholders' Agreement, to a party that qualifies as a "Loyalty Transferee" (as defined in the Ferrari Articles of Association) of such party, (ii) by Exor, to any affiliate of G.A., to a successor in business of G.A. and to any affiliate of a successor in business of G.A., 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 Ferrari common shares which in the aggregate do not exceed, during the whole period of validity of the Shareholders' Agreement, 0.5 percent 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”). 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 company 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 rules, the Company is permitted to follow its so called home country practice with regard to certain corporate governance standards. Therefore, the Company has adopted, except as discussed below under “Compliance with Dutch Corporate Governance Code”, the best practice provisions of the revised Dutch corporate governance code issued by the Corporate Governance Code Monitoring Committee, which entered into force on January 1, 2018 (the “Dutch Corporate Governance Code”) and is applicable as from financial year 2017. The Dutch Corporate Governance Code contains principles and best practice provisions that regulate relations *inter alia* between the board of directors of a company and its committees and the relationship with the general meeting of shareholders.

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 this and 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”). At the extraordinary general meeting of shareholders held on September 7, 2018, the number of the Directors was set at twelve and the current slate of Directors was appointed on April 13, 2018, although Mr. Louis C. Camilleri, who was previously a non-executive Director, was then appointed executive Director by the extraordinary general meeting of shareholders on September 7, 2018, to replace Mr. Marchionne, who passed away in July 2018. The term of office of the current Directors will expire following the Company’s 2019 annual general meeting of shareholders. Each Director may be reappointed at any subsequent annual general meeting of shareholders; the next annual general meeting of shareholders is currently expected to be held on April 12, 2019.

The Board of Directors as a whole is responsible for the strategy of the Company. The Board of Directors is composed of one executive Director (i.e., Mr. Camilleri, Chief Executive Officer) and eleven non-executive Directors, who do not have day-to-day responsibility within the Company or the Group. Mr. Amedeo Felisa, the Company’s Chief Executive Officer until May 2, 2016, currently serves as a non-executive Director. 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.

The Board of Directors appointed the following internal committees: (i) an Audit Committee, (ii) a Governance and Sustainability Committee, and (iii) a Compensation Committee. On certain key industrial matters, the CEO is supported by the Senior Management Team (the “SMT”), which is responsible for reviewing the operating performance of the businesses, collaborating on certain operational matters, supporting the Chief Executive Officer with his tasks and executing decisions of the Board of Directors and the day-to-day management of the Company, primarily to the extent it relates to the operational management.

Set forth below is the name, year of birth and position of each of the persons currently serving as Directors of Ferrari N.V. Unless otherwise indicated, the business address of each person listed below will be c/o Ferrari, Via Abetone Inferiore n. 4, I-41053 Maranello (MO), Italy.

Name	Year of Birth	Position
John Elkann ⁽¹⁾	1976	Chairman and Non-Executive Director
Louis C. Camilleri	1955	Chief Executive Officer and Executive Director
Piero Ferrari	1945	Vice Chairman and Non-Executive Director
Sergio Duca	1947	Senior Non-Executive Director
Delphine Arnault	1975	Non-Executive Director
Giuseppina Capaldo	1969	Non-Executive Director
Eddy Cue	1964	Non-Executive Director
Lapo Elkann	1977	Non-Executive Director
Amedeo Felisa	1946	Non-Executive Director
Maria Patrizia Grieco	1952	Non-Executive Director
Adam Keswick	1973	Non-Executive Director
Elena Zambon	1964	Non-Executive Director

⁽¹⁾ On February 26, 2019, the Board of Directors resolved to submit to the Shareholders' vote at the next Annual General Meeting of Shareholders (which is currently expected to be held on April 12, 2019) the appointment of Mr. John Elkann, our current Chairman and Non-Executive Director, as Executive Director.

Eight Directors currently qualify as independent (representing a majority) for purposes of NYSE rules and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and seven Directors qualify as independent (representing a majority) for purposes of 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 a corporate body of the company, or the corporate strategy and the main risks of the business, pursuant to best practice provisions 2.2.6, 2.2.7 and 1.1.2 of the Dutch Corporate Governance Code.

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

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

The Board of Directors has also resolved to appoint Sergio Duca 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 and NYSE rules:

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

In addition, Piero Ferrari is considered independent within the meaning of the NYSE rules.

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, 2018 to the year-end there were three meetings of the Board of Directors. The attendance rate at these meetings was 91.88 percent.

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

John Elkann (Chairman of the Company and non-executive Director) - Mr. John Elkann is Chairman and Chief Executive Officer of EXOR and Chairman of Fiat Chrysler Automobiles N.V.. 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. John Elkann is Chairman of Giovanni Agnelli B.V. He is Vice Chairman of GEDI Gruppo Editoriale S.p.A. and board member of The Economist Group. Mr. Elkann is a trustee of MoMA. He also serves as Chairman of the Giovanni Agnelli Foundation. Mr. John Elkann is the brother of Mr. Lapo Elkann (non-executive Director).

Born in 1976, Italian citizenship.

Louis C. Camilleri (Chief Executive Officer and Executive Director) - 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 President and CEO of Kraft Foods International in 1995 and then he 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.

Piero Ferrari (Vice Chairman and non-executive Director) - Mr. Piero Ferrari has been Vice Chairman of Ferrari S.p.A. since 1988. He also serves as Chairman of HPE-COXA, is board member and Vice President 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.

Sergio Duca (Chairman of the Board of Directors and Senior Non-Executive Director) - Mr. Duca is the Chairman of the Board of Statutory Auditors of Enel S.p.A. since April 2010 and member of the Statutory Auditors of BasicNet S.p.A. since 2017. He is also a director of Tofaş Türk Otomobil Fabrikası Anonim Şirketi and member of the corporate governance committee, risk management committee and audit committee of the board of directors of Tofaş Türk Otomobil Fabrikası Anonim Şirketi. 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 until April 2015, member of the Board of ASTM S.p.A. and Chairman of the Audit Committee of ASTM S.p.A. from 2010 until 2013, 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 Silvio Tronchetti Provera Foundation, chairman of the board of auditors of 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.

Delphine Arnault (non-executive Director) - Born on April 4th 1975, Delphine Arnault 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 in 2008. 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 SE in April 2012 and 21st Century Fox in June 2013. Delphine Arnault has served as a director of Havas since May 2013.

Born in 1975, French 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 TIM S.p.A. (2018-present). She was an independent member of the Board of Directors of Exor S.p.A. from 2012 to 2015, Credito Fondiario S.p.A. (2014-2017) and Banca Monte dei Paschi di Siena S.p.A (December 2017-2018). 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 Macchi di Cellere Gangemi law firm in the Banking and Finance, Corporate and M&A sectors (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 Director of PhD "Contract Law and Business" (2007-2011). 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.

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.

Lapo Elkann (non-executive Director) - Mr. Lapo Edovard Elkann is Chairman and Founder of Italia Independent Group and of Garage Italia Customs. Born in New York in 1977, after studying in France and England and gaining experience as assistant to Henry Kissinger, Lapo emerged as 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 started a collaboration with Ferrari to create 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. Lapo Elkann also serves on the board of directors of Pinacoteca Giovanni e Marella Agnelli. Mr. Lapo Elkann is the brother of Mr. John Elkann (Chairman of the Company and non-executive Director).

Born in 1977, Italian citizenship.

Amedeo Felisa (non-executive Director) - Mr. Felisa currently serves as Chairman and CEO of Atop S.p.A. Mr Felisa has been the CEO 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. From 1996 to 2004 he was the general manager of the 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 of Ferrari, 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 mechanic engineering from the Milan Politecnico.

Born in 1946, Italian citizenship.

Maria Patrizia Grieco (non-executive Director) - Mrs. Maria Patrizia 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 the Legal and General Affairs directorate. 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 CIR and she is currently on the boards of Anima Holding, Ferrari and Amplifon. Mrs. Grieco is also a member of the steering committee of Assonime and of the board of directors of Bocconi University. Maria Patrizia Grieco was appointed Chairman of the Italian Corporate Governance Committee in 2017. The purpose of the Committee is the promotion of good corporate governance practices of Italian listed companies.

Born in 1952, Italian citizenship.

Adam Keswick (non-executive Director) - Mr. Keswick first joined the Jardine Matheson Group in 2001 before being appointed to the Board of Jardine Matheson in 2007. He was Deputy Managing Director of Jardine Matheson 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 vice chairman of the supervisory board of Rothschild & Co.

Born in 1973, British 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 - Zambon Open Education. Ms. Zambon is a member of the Board of Unicredit and 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, Board Member of FBN, Family Business Network, 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” 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.

Composition of the Board of Directors

Pursuant to Dutch law, as from the 2017 financial year, Ferrari should strive to achieve that its Board of Directors contain a minimum of 30% male and 30% female board members and should explain in its annual report if this requirement is not met. Four of our current twelve Directors are female and eight are male, and therefore the Board of Directors complies with the above mentioned standard. The Company envisages to continue achieving sufficient diversity of views and the expertise needed for a good understanding of current affairs and longer-term risks and opportunities related to the Company’s business and therefore adopted a Diversity Policy effective as of 31 December 2017 and a profile for non-executive Directors. The Diversity Policy stipulates that one of the targets is that “at least 30% of the seats of the Board of Directors are occupied by women and at least 30% by men”.

Board Regulations

The current regulations of the Board of Directors 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 against the resolution being adopted in this way prior to the adoption of the resolution.

The Audit Committee

The Audit Committee is responsible, *inter alia*, 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 application 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 review and approval of related party transactions, (x) the independent auditors' qualifications, independence, remuneration and any non-audit services for the Company, (xi) the functioning of the Company's internal auditors and of the independent auditors, (xii) risk management guidelines and policies, and (xiii) the implementation and effectiveness of the Company's ethics and compliance program.

The Audit Committee currently consists of Mr. Duca (Chairperson), Ms. Capaldo and Mrs. Grieco, each of whom is 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 section 2(3) of the Dutch Decree on the Establishment of an audit committee. No Audit Committee member may serve on more than four audit committees for other public companies, absent a waiver from the Board of Directors, which must be disclosed in the Company's annual report. Unless decided otherwise by the Audit Committee, the independent auditors of the Company, the Chief Financial Officer and the Head of Internal Audit are required to attend its meetings, while the Chief Executive Officer is free, but not required, to attend the meetings of the Audit Committee, unless the Audit Committee determines otherwise, and shall attend the meetings of the Audit Committee if the Audit Committee so requires. The Audit Committee shall meet with the independent auditor at least once per year outside the presence of the executive Directors and management.

In 2018 the Audit Committee met seven times and the average attendance rate was 95.24 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, (iv) discussing with management the Company's policies and practices related to compensation and issuing recommendations thereon, and (v) to prepare the remuneration report.

The Compensation Committee currently consists of Ms. Zambon (Chairperson), Mr. Cue and Mr. Ferrari. The Compensation Committee is elected by the Board of Directors and is comprised of at least three non-executive Directors, at most one of whom may not be independent under Dutch Corporate Governance Code. Unless decided otherwise by the Compensation Committee, the Head of Human Resources of the Company attends its meetings.

In 2018 the Compensation Committee met twice with 100 percent attendance of its members at such meetings. The Compensation Committee reviewed the remuneration report and the implementation of the Remuneration Policy. Further information on the activities of the Compensation Committee are included in the remuneration report.

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) periodic assessment of the size and composition of the Board of Directors, (iii) periodic 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. John Elkann (Chairperson), Ms. Capaldo and Mr. Duca. The Governance and Sustainability Committee is elected by the Board of Directors and is comprised of at least three Directors. More than half of the members shall be independent under the Dutch Corporate Governance Code, and at most one of the members may be an executive Director.

In 2018 the Governance and Sustainability Committee met once with 100 percent attendance of its members at such meeting. The Committee reviewed the Board of Directors' and Committee's assessments, the Sustainability achievement and objectives, and the recommendations for Directors' election.

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 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, arbitral 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"), which shall be determined outside the presence of the director concerned. All transactions, where there is a Conflict of Interest, must be concluded on terms that are customary in the branch concerned and approved by the Board of Directors. 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 2.1.8 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 N.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. Elkann is Chief Executive Officer of Exor, our and FCA's largest shareholder, and an executive director of FCA. 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 29 "Related Party Transactions" 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 engineering services to Ferrari, see Note 29 to our Consolidated Financial Statements.

Loyalty Voting Structure

In connection with the separation from Fiat Chrysler Automobiles N.V., 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.

As of February 15, 2019, Exor held approximately 23.7 percent of our outstanding common shares and approximately 33.6 percent of the voting power in us, Piero Ferrari held approximately 10.1 percent of our outstanding common shares and approximately 15.5 percent of the voting power in us and public shareholders hold approximately 50.9 percent of the voting power in us.

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 of the Special Voting Shares ("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 issuance of common shares, the entitlement to attend to 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”. As at 31 December 2018, 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 Act (*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 depositary 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 depositary 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 Act (*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 with a director or employee of the Company 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 Act.

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 Exchange Act.

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 in the Articles of Association. 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 official 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 department, 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 the Internal Audit department, 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_eng_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.

The Company closely monitors the effectiveness of and compliance with the Code of Conduct. Violations of the Code of Conduct are usually determined through, among other things: periodic activities carried out by the Internal Audit department of the Group; reports received in accordance with the whistleblowing management procedures; and checks forming part of the standard operating procedures. The Internal Audit department investigates violations of the Code of Conduct during standard periodic or specific audits. Periodic reporting is provided to the Chairman and CEO as well as to the Audit Committee. For all Code of Conduct violations, the disciplinary measures taken are commensurate with the seriousness of the case and comply with local legislation. The relevant corporate departments are notified of violations, irrespective of whether criminal action is taken by the authorities.

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 for integrity and ethical conduct.

Diversity Policy

The Board of Directors adopted a diversity policy for the Board of Directors (the "Diversity Policy") effective as of 31 December 2017, since the Company believes that diversity in the composition of the Board of Directors in terms of age, gender, expertise, professional background and nationality is an important mean of promoting debate, balanced decision making and independent actions of the Board of Directors.

The Diversity Policy gives weight to the following diversity factors in Board of Directors composition: age, gender, expertise, work and personal background and nationality. The Company considers each of these aspects key drivers to support the above mentioned goals and to achieve sufficient diversity of views and the expertise needed for a proper understanding of current affairs and longer-term risks and opportunities related to the Company's business. The Board of Directors and its Governance and Sustainability Committee consider such factors when evaluating nominees for election to the Board of Directors and during the annual performance assessment process.

The Company has already achieved the following concrete targets: (a) at least 30% of the seats of the Board of Directors are occupied by women and at least 30% by men; and (b) diversity in the age of the members of the Board of Directors by having one or more members of the Board of Directors aged under 50 at the day of their nomination; provided that, in the candidate selection process, rules and generally accepted principles of non-discrimination (on grounds such as ethnic origin, race, disability or sexual orientation) will be taken into account. In addition, the Company aims to achieve within the next several years (from the adoption of the Diversity Policy) the target that the nationality of the members of the Board of Directors shall be reasonably consistent with the geographic presence of the Company's business, and that no nationality should count for more than 60% of the members of the Board of Directors.

To ensure its correct implementation, the Diversity Policy will be taken into account in the nomination of executive Directors, and in the adoption of a profile for non-executive Directors as well as in nominating and recommending non-executive Directors. Since the financial year 2017, the targets relating to gender and age have been realized.

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 2.1.7(iii) of the Dutch Corporate Governance Code: for each shareholder, or group of affiliated shareholders, who directly or indirectly hold more than ten percent of the shares in the company, there is at most one supervisory board member who can be considered to be affiliated with or representing them as stipulated in best practice provision 2.1.8, sections vi. and vii.*

Since our non-executive Director Mr. John Elkann also serves as chairman and chief executive officer of Exor N.V., Mr John Elkann is affiliated with a shareholder holding more than 10% of the shares in the Company. Given the family ties between Mr. Lapo Elkann and Mr. John Elkann, the Company has two non-executive Directors affiliated with a shareholder

holding more than 10% of the shares. The composition of the Board of Directors therefore deviates from best practice provision 2.1.7(iii) of the Dutch Corporate Governance Code. The Company believes that Mr. John Elkann and Mr. Lapo Elkann bring valuable contributions to the Board of Directors 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 both such Directors to participate in the Company's Board of Directors. For these reasons the Company does not apply this provision of the Dutch Corporate Governance Code.

- *Best practice provision 2.2.4 of the Dutch Corporate Governance Code: The supervisory board should also draw up a retirement schedule in order to avoid, as much as possible, supervisory board members retiring simultaneously. The retirement schedule should be published on the company's website.*

The Company does not have a retirement schedule as referred to in best practice provision 2.2.4 of the Dutch Corporate Governance Code, because the Company's 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. As the Company is listed on the NYSE, the Company also follows certain common U.S. governance practices, one of which is the reappointment of our Directors at each annual general meeting of shareholders. In light of this term of office, the Company does not have a retirement schedule in place.

- *Best practice provision 4.1.8 of the Dutch Corporate Governance Code: Management board and supervisory board members nominated for appointment should attend the general meeting at which votes will be cast on their nomination.*

Pursuant to best practice provision 4.1.8 of the Dutch Corporate Governance Code, every executive and non-executive Director nominated for appointment should attend the general meeting at which votes will be cast on its nomination. Since, pursuant to Article 14.3 of the Articles of Association, the term of office of Directors is approximately one year, such period expiring on the day the first annual general meeting of shareholders of the Company is held in the following calendar year, all members of the Board of Directors are nominated for (re)appointment each year. By publishing the relevant biographical details and curriculum vitae of each nominee for (re)appointment, the Company ensures that the Company's general meeting of shareholders is well informed in respect of the nominees for (re)appointment and in practice only the Chairman, the Chief Executive Officer and the Vice-Chairman will therefore be present at the general meeting.

- *Best practice provision 5.1.4 of the Dutch Corporate Governance Code: Neither the audit committee nor the remuneration committee can be chaired by the chairman of the management board or by a former executive director of the company.*

Our Senior Non-Executive Director, Mr. Sergio Duca, is also the Chairperson of the Audit Committee, which is not in line with best practice provision 5.1.4 of the Dutch Corporate Governance Code. The Company believes that Mr. Duca, in light of his extensive experience with audits and his knowledge in this respect, brings a valuable contribution to the Audit Committee and therefore believes it is in Ferrari's best interest and appropriate for Mr. Duca to chair the Audit Committee.

- *Best practice provision 5.1.4 of the Dutch Corporate Governance Code: The committees referred to in best practice 2.3.2 should be comprised exclusively of non-executive directors.*

On February 26, 2019, the Board of Directors resolved to submit to the Shareholders' vote at the next Annual General Meeting of Shareholders (which is currently expected to be held on April 12, 2019) the appointment of Mr. John Elkann, our current Chairman and Non-Executive Director, as Executive Director. Mr. John Elkann has a position on the Governance and Sustainability Committee, to which best practice provision 5.1.4 of the Dutch Corporate Governance Code applies. The position of Mr. Elkann as executive Director (subject to the Shareholders' approval at the next Annual General Meeting) in this committee inter alia follows from the duties of the governance and sustainability committee, which are more extensive than the duties of a selection and appointment committee and include duties that warrant participation of an executive Director in the view of the Company.

REPORT OF THE NON-EXECUTIVE DIRECTORS

Introduction

This is the report of the non-executive Directors of the Company over the financial year 2018, as referred to in best practice provision 5.1.5 of the Dutch Corporate Governance Code.

It is the responsibility of the non-executive Directors to supervise the policies carried out by the executive Director and the general affairs of the Company and its affiliated enterprise, including the implementation of the strategy of the Company regarding long-term value creation. In so doing, the non-executive Directors act solely in the interest of the Company. With a view of maintaining supervision on the Company, the non-executive Directors regularly discuss Ferrari's long-term business plans, the implementation of such plans and the risks associated with such plans with the executive Directors.

According to the Articles of Association, the Board of Directors is a single board and consists of three or more members, comprising both members having responsibility for the day-to-day management of Ferrari (executive Directors) and members not having such day-to-day responsibility (non-executive Directors). The tasks of the executive and non-executive Directors in a one-tier board such as the Company's Board of Directors may be allocated under or pursuant to the Articles of Association, provided that the general meeting of shareholders has stipulated whether such Director is appointed as executive or as non-executive Director and furthermore provided that the task to supervise the performance by the Directors of their duties can only be performed by the non-executive Directors. Regardless of an allocation of tasks, all Directors remain collectively responsible for the proper management and strategy of the Company (including supervision thereof in case of non-executive Directors).

Details of the current composition of the Board of Directors, including the non-executive Directors, and its committees are set forth in the section "Board of Directors".

Supervision by the non-executive Directors

The non-executive Directors supervise the policies carried out by the executive Directors and the general affairs of the Company and its affiliated enterprise. In so doing, the non-executive Directors have also focused on the effectiveness of the Company's internal risk management and control systems, the integrity and quality of the financial reporting and Ferrari's long-term business plans, the implementation of such plans and the risks associated.

The non-executive Directors also determine the remuneration of the executive Directors and nominate candidates for the Director appointments. Furthermore, the Board of Directors may allocate certain specific responsibilities to one or more individual Directors or to a committee comprised of eligible Directors of the Company and subsidiaries of the Company. In this respect, the Board of Directors has allocated certain specific responsibilities to the Audit Committee, the Compensation Committee and the Governance and Sustainability Committee. Further details on the manner in which these committees have carried out their duties, are set forth in the sections "The Audit Committee", "The Compensation Committee" and "The Governance and Sustainability Committee".

The non-executive Directors supervised the adoption and implementation of the strategies and policies by the Group, reviewed this annual report, including the Remuneration Report and the Group's financial results, received updates on legal and compliance matters and they have been regularly involved in the review and approval of transactions entered into with related parties. The non-executive Directors have also reviewed the reports of the Board of Directors and its committees and the recommendations for the appointment of Directors.

During 2018, there were three meetings of the Board of Directors. Portions of these meetings took place without the executive Directors being present. The average attendance at those meetings was 91.88 percent. An overview of the attendance of the individual Directors per meeting of the Board of Directors and its committees set out against the total number of such meetings is set out below:

Name	Meeting Board of Directors	Audit Committee	Governance and Sustainability Committee	Compensation Committee
John Elkann ⁽¹⁾	3/3	0	1/1	1/1
Louis C. Camilleri ⁽¹⁾	3/3	0	0	1/1
Piero Ferrari ⁽¹⁾⁽²⁾	3/3	0	1/1	1/1
Sergio Duca	3/3	7/7	1/1	0
Delphine Arnault	2/3	0	0	0
Giuseppina Capaldo	3/3	7/7	0	0
Eddy Cue ⁽¹⁾⁽²⁾	2/3	0	1/1	1/1
Lapo Elkann	2/3	0	0	0
Amedeo Felisa	3/3	0	0	0
Maria Patrizia Grieco	3/3	6/7	0	0
Adam Keswick	3/3	0	0	0
Elena Zambon	3/3	0	0	2/2

⁽¹⁾ In 2018, the Compensation Committee held two meetings, on February 23 and September 12. As of September 7, 2018, Louis C. Camilleri and John Elkann ceased to be members of the Compensation Committee. On the same date, Piero Ferrari and Eddy Cue were appointed as members of the Compensation Committee.

⁽²⁾ In 2018, the Governance and Sustainability Committee held one meeting, on February 23. As of September 7, 2018, Piero Ferrari and Eddy Cue ceased to be members of the Governance and Sustainability Committee. On the same date, Giuseppina Capaldo was appointed as a member of the Governance and Sustainability Committee.

During these meetings, key topics discussed were, amongst others: the Group's strategy, the Group's financial results and reporting, sustainability, acquisitions and divestments, executive compensation, technological developments, risk management, updates on legal and compliance, risk management, human resources with the Head of Human Resources, implementation of the Remuneration Policy and the Remuneration Report.

Independence of the non-executive Directors

The non-executive Directors are required by Dutch law to act solely in the interest of the Company. The Dutch Corporate Governance Code stipulates the corporate governance rules relating to the independence of non-executive Directors and requires under most circumstances that a majority of the non-executive Directors be "independent."

Currently, eight out of eleven non-executive Directors are considered to be independent under the NYSE definition while seven non-executive Directors are considered to be independent under the Dutch Corporate Governance Code. Mr. Amedeo Felisa, Mr. Piero Ferrari, Mr. John Elkann and Mr. Lapo Elkann are considered not to be independent under the Dutch Corporate Governance Code. Mr. Amedeo Felisa is the former CEO of Ferrari and Mr. Piero Ferrari holds approximately 10 percent of our outstanding common shares. In addition Mr. Lapo Elkann and Mr. John Elkann are not considered independent for the reasons set forth in the section "Compliance with Dutch Corporate Governance Code". Mr. Sergio Duca, the Senior Non-Executive Director of the Board of Directors, is independent under the Dutch Corporate Governance Code in accordance with best practice provision 2.1.9 of the Dutch Corporate Governance Code.

Although it wishes to state that best practice provision 2.1.7 (iii) of the Dutch Corporate Governance Code is not complied with given that more than one non-executive directors are affiliated with Ferrari's largest shareholder, Exor N.V., and notwithstanding the foregoing regarding the non-independent directors, Ferrari is of the opinion that the independency requirements as referred to in best practice provision 2.1.10 of the Dutch Corporate Governance Code are otherwise met by the Company.

Evaluation by the non-executive Directors

The non-executive Directors are responsible for supervising the Board of Directors and its committees, as well as the individual executive and non-executive Directors, and are assisted by the Governance and Sustainability Committee in this respect.

In accordance with the Governance and Sustainability Committee Charter, the Governance and Sustainability Committee assists and advises the Board of Directors with respect to periodic assessment of the performance of individual Directors. In this respect, the Governance and Sustainability Committee has, amongst others, the duties and responsibilities to review annually the Board of Directors' performance and the performance of its committees and to review each Director's continuation on the Board of Directors at appropriate regular intervals as determined by the Governance and Sustainability Committee.

In 2018, the Governance and Sustainability Committee's periodic assessments took place during the meeting held on February 23. During that meeting, the Governance and Sustainability Committee focused on the results of the periodic assessments and the performance of the Board of Directors, its committees and the individual Directors, keeping also into account the self-assessment prepared by each Director. During such meeting the Governance and Sustainability Committee dealt also with the directors' nomination process, the assessment of Directors' qualifications, the size and composition of the Board of Directors and the committees, and the recommendations for Directors' election.

The non-executive Directors have been regularly informed by each committee as referred to in best practice provision 2.3.5 of the Dutch Corporate Governance Code and the conclusions of those committee were taken into account when drafting this report of the non-executive Directors.

The non-executive Directors were able to review and evaluate the performance of the Audit Committee, the Governance and Sustainability Committee and the Compensation Committee based on the assessments made by the Governance and Sustainability Committee. The self-assessment of the Committees were also discussed by the Board of Directors. The outcome of the evaluations is that there is no need to amend the size or composition of the Audit Committee, the Governance and Sustainability Committee and the Compensation Committee, nor is there any reason to amend their charters on this basis. Further details on the manner in which these committees have carried out their duties, are set forth in sections "The Audit Committee", "The Compensation Committee" and "The Governance and Sustainability Committee".

On the basis of the preparations by the Governance and Sustainability Committee, the non-executive Directors were able to review the Board of Director's assessments, the individual Directors' assessments and the recommendation for Directors' election. The Board of Directors concluded that each of the Directors continues to demonstrate commitment to its respective role in the Company.

Also, pursuant to the Compensation Committee Charter, the Compensation Committee implements and oversees the remuneration policy as it applies to non-executive Directors, executive Directors and senior officers reporting directly to the executive Directors. The Compensation Committee administers all the equity incentive plans and the deferred compensation benefits plans. On the basis of the assessments performed, the non-executive Directors determine the remuneration of the executive director and nominate candidates for the Director appointments.

The non-executive Directors have supervised the performance of the Audit Committee, the Compensation Committee and the Governance and Sustainability Committee.

STATEMENT BY THE BOARD OF DIRECTORS

Based on the assessment performed, the Board of Directors believes that, as of December 31, 2018, the Group's and the Company's Internal Control over Financial Reporting is considered effective and that (i) the Board Report provides sufficient insights into any material weaknesses in the effectiveness of the internal risk management and control systems (please refer to section "Principal Characteristics of the Internal Control System and Internal Control over Financial Reporting" of this Annual Report), (ii) the internal risk management and control systems are designed to provide reasonable assurance that the financial reporting does not contain any material inaccuracies (please refer to section "Principal Characteristics of the Internal Control System and Internal Control over Financial Reporting" of this Annual Report), (iii) based on the current state of affairs, it is justified that the Group's and the Company's financial reporting is prepared on a going concern basis (please refer to Note 2 to the Consolidated Financial Statements of this Annual Report and Note 2 to the Company Financial Statements of this Annual Report for additional information on the basis of preparation), and (iv) the Board Report states those material risks and uncertainties that are, in the Board of Director's judgment, relevant to the expectation of the Company's continuity for the period of twelve months after the preparation of the Board Report (please refer to the chapter "Risk Factors" of this Annual Report).

February 26, 2019

Louis C. Camilleri

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.

February 26, 2019

Board of Directors

John Elkann

Louis C. Camilleri

Piero Ferrari

Sergio Duca

Delphine Arnault

Giuseppina Capaldo

Eddy Cue

Lapo Elkann

Amedeo Felisa

Maria Patrizia Grieco

Adam Keswick

Elena Zambon

Non Financial Statement

Ferrari Group

About Ferrari

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 235 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 167 authorized dealers operating 190 points of sale as of the end of 2018.

Our Strategy

Our strategy focuses on maintaining our leading position in the luxury performance sports car market, enhancing and protecting the value and exclusivity of the Ferrari brand. We focus on cost-efficiencies and aim to achieve profitable growth by pursuing the following strategies.

Controlled growth

Regular new model introductions and enhancements

Pursue excellence in racing

Controlled growth in adjacent luxury and lifestyle categories

Materiality Matrix of Ferrari Group

In 2018, we updated the analysis of the most relevant sustainability topics (materiality analysis), for our Group and our stakeholders, to better reflect sustainability context developments, changes in our drivers and goals and our 2019-2022 plan. This was done by also taking into account various stakeholder engagement initiatives carried out during the year. These initiatives have shown a significant convergence on the assessment of the most material topics for our stakeholders with respect to the Group's vision.

The potentially relevant topics were identified by taking into consideration sector benchmarking analyses, UN Sustainable Development Goals (SDGs), international studies and publications. The Senior Management Team (SMT) assessed through a questionnaire the relevance of the sustainability topics for our Group and our stakeholders. Furthermore, a sample of stakeholders was engaged in order to have a perception of the relative importance of the identified topics (as described in the Stakeholder engagement paragraph). This process has been complemented through a qualitative analysis by our SMT, which resulted in the materiality matrix below.

MATERIALITY MATRIX OF FERRARI GROUP



The materiality matrix highlights the assessed topics that are most relevant for our Group and our stakeholders and therefore represent our strategic sustainability priorities.

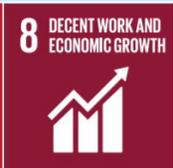
Specifically, the most relevant topics are related to product responsibility: image and brand reputation, innovation, quality and safety of products and customers, customer satisfaction and supply chain responsible management. Special attention is also paid to ethical business conduct and risk management and compliance. The analysis also confirmed the importance of the development of human capital and the commitment to employees' health and safety. With a particular focus on reducing emissions, the environmental responsibility is also a key aspect.

This materiality matrix translated into our sustainability approach characterized by:

1. A high attention and care for products and relationships with clients

MATERIAL TOPIC	RELEVANT UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)
Image and brand reputation	
Innovation: technology and design	
Quality and safety of products and customers	
Customer satisfaction	
Responsible communication and marketing	

2. Focus on the well-being and development of all Ferrari employees

MATERIAL TOPIC	RELEVANT UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)
Human capital	  
Health and safety	
Work-life balance and employees' wellness	
Diversity, inclusion and non-discrimination	
Industrial relations	

3. A specific focus on compliance and a strong business ethic

MATERIAL TOPIC	RELEVANT UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)
Ethical business conduct	   
Risk management & Compliance	
Emissions	
Environmental commitment	
Supply chain responsible management	
Relationship with Institutions and Authorities	

4. Keeping the essence of Ferrari alive

MATERIAL TOPIC	RELEVANT UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS (SDGs)
Economic and financial performance	 
Attention to enthusiasts	
Education	
Local communities	
Sport fair play	
Relationship with sponsors	

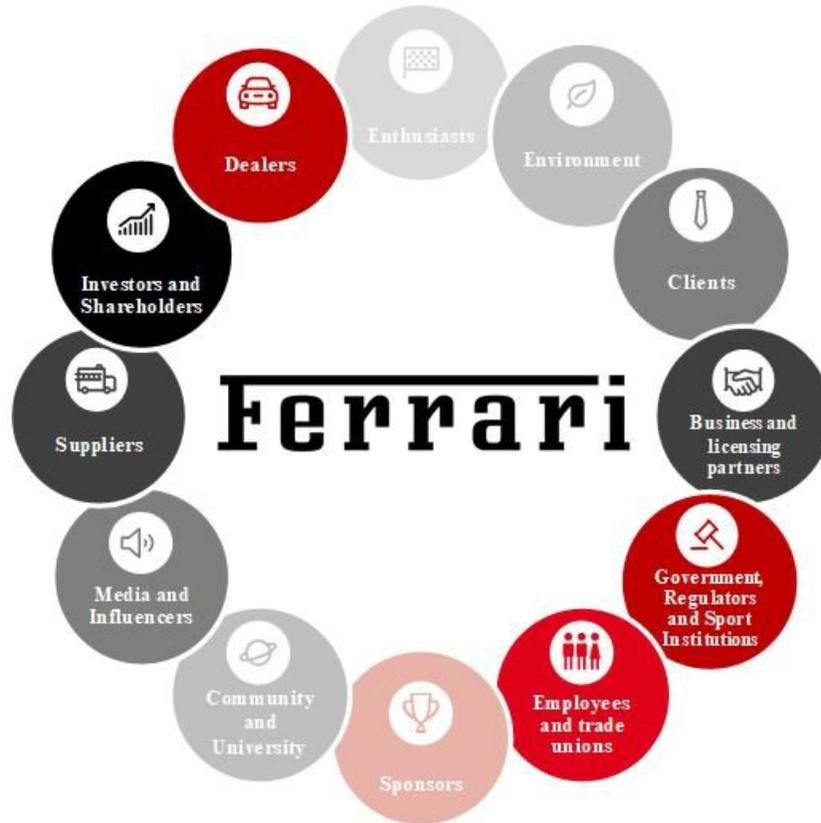
The abovementioned material topics have been linked to those Sustainable Development Goals (SDGs) that are impacted by our business. For the most material topics, the table below shows the pursued policies, the related key risks and risk trends and the relevant chapters within this Annual Report.

MOST SIGNIFICANT MATERIAL TOPICS	PURSUED POLICIES	KEY RISKS AND RISK TRENDS	RELEVANT CHAPTERS OF THE ANNUAL REPORT
Image and brand reputation	Enhancing and protecting the value and exclusivity of the Ferrari brand	Brand image	Overview of our business
Ethical business conduct	Maintaining a culture dedicated to integrity, responsibility and ethical behavior	Non-compliance with laws, regulations, local standards (including tax) and codes	Integrity of Business Conduct; Anti-Bribery and Corruption; Whistleblowing
Innovation: technology and design	Being focused on developing new technologies and distinctive designs	Brand image; Competition	Product Responsibility
Human capital	Redesigning the working environment, enabling individual development, enhancing teamwork	Attraction, development and retention of talents	Our People
Emissions	Developing hybrid powertrains and other innovations to meet specific regulatory requirements and preparing for a low-emission future	Non-compliance with laws, regulations, local standards (including tax) and codes	Our Environmental Responsibility
Quality and safety of products and customers	Designing and manufacturing with the safety of our customers and other road users in mind	Non-compliance with laws, regulations, local standards (including tax) and codes	Product Responsibility
Risk management & Compliance	Taking an integrated approach to risk management; Acting with the highest level of integrity, complying with applicable laws	Non-compliance with laws, regulations, local standards (including tax) and codes	Integrity of Business Conduct; Sustainability Risks
Customer satisfaction	Being devoted to the highest level of customer satisfaction; Assessing product and service satisfaction	Brand image; Competition	Product Responsibility
Health and safety	Enforcing a safety-first culture	Attraction, development and retention of talents	Our People
Supply chain responsible management	Implementing a responsible and efficient supply chain management; Encouraging adoption of sustainable practices and sharing among our business partners and suppliers	Non-compliance with laws, regulations, local standards (including tax) and codes;	Product Responsibility

Stakeholder Engagement

As an international firm with ambitious corporate objectives and a complex value chain, we need to develop forms of communication and collaboration with both our internal and external stakeholders that allow us to understand their various needs, interests and expectations.

This Statement is addressed to all stakeholders involved in our activities, as shown in the following image:



In 2018, we carried out various stakeholder engagement activities in order to enhance the voice of our stakeholders. We held a workshop with our employees where we explained what sustainability stands for within Ferrari while discussing their priorities connected to the sustainability topics. We also engaged with our top investors to better understand what they believe are the main ESG drivers for Ferrari. Finally, to reach a significant number of stakeholders we conducted an online questionnaire, with over 3,000 responses, assessing their sustainability priorities. Another specific sustainability questionnaire was addressed to the Presidents of all the Scuderia Ferrari Clubs. All these activities allowed us to further strengthen our materiality analysis.

Considering the rising environmental and social changes, these engagement activities are an important part of the sustainability approach to help us identify our sustainability risks and opportunities, as well as to support management in reaching our objectives.

Our 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) periodic assessment of the size and composition of the Board of Directors, (iii) periodic 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. John Elkann (Chairperson), Ms. Capaldo and Mr. Duca. The Governance and Sustainability Committee is elected by the Board of Directors and is comprised of at least three Directors. More than half of the members shall be independent under the Dutch Corporate Governance Code, and at most one of the members may be an executive Director.

In 2018, the Governance and Sustainability Committee met once with 100 percent attendance of its members at such meeting. The Committee reviewed the Board of Directors' and Committee's assessments, the Sustainability achievement and objectives, and the recommendations for Directors' election.

Integrity of Business Conduct

The foundation of Ferrari's governance model is the Code of Conduct that reflects our commitment to a culture dedicated to integrity, responsibility and ethical behavior. Ferrari endorses the United Nations ("UN") Declaration on Human Rights, the International Labor Organization ("ILO") Conventions and the Organization for Economic Co-Operation and Development ("OECD") Guidelines for Multinational Companies. Accordingly, the Code of Conduct is intended to be consistent with such guidelines and aims to ensure that all members of Ferrari Group's workforce act with the highest level of integrity, comply with applicable laws, and build a better future for our Company and the communities in which we do business. The complete Code of Conduct can be found on our website at <http://corporate.ferrari.com/en/governance/code-conduct>.

Ferrari's integrity system is comprised of these primary elements:

- Principles that capture the Company's commitment to important values in business and personal conduct
- Practices that are the basic rules that must guide our daily behaviors required to achieve our overarching Principles
- Procedures that further articulate the Company's specific operational approach to achieving compliance and that may have specific application limited to certain geographical regions and/or businesses as appropriate.

Our Code of Conduct is approved by the board of directors of Ferrari N.V. and applies to all board members and officers, as well as full-time and part-time employees of the Ferrari Group. The Code of Conduct also applies to all temporary, contract and all other individuals and companies that act on behalf of the Ferrari Group.

Internal Audit investigates possible violations of the Code of Conduct during standard periodic audits and through specific Business Ethics Compliance (BEC) Audits.

The Company's governance model includes policies for respecting Human Rights, which prohibit child and forced labor and pay attention to safe working environment for our employees.

Anti-Bribery and Corruption

Ferrari's Code of Conduct includes, among others, rules related to anti-bribery, anti-corruption, competitive behavior and conflicts of interest. Ferrari is committed to the highest standards of integrity, honesty and fairness in all internal and external affairs and will not tolerate any kind of bribery. The laws of virtually all countries in which Ferrari operates prohibit bribery. Ferrari's policy is that no one - director, officer, or other employee, agent or representative - shall, directly or indirectly, give, offer, request, promise, authorize, solicit or accept bribes or any other perquisite (including gift or gratuities with the exception of commercial items universally accepted in an international context of modest economic value, permitted by applicable laws and in compliance with the Code of Conduct and all applicable practices and procedures) in connection with their work for Ferrari at any time or for any reason.

A violation of anti-bribery and anti-corruption laws is a serious offense for both companies and individuals, which can result in significant fines, reputational damage and imprisonment of individuals.

Whistleblowing

Violations of the Code of Conduct are determined through periodic activities carried out by our Internal Audit, through the analysis of the reports received in accordance with the Ethics Helpline Management Procedures and through checks forming part of the standard operating procedures.

The Ethics Helpline is a dedicated channel that allows employees, suppliers, dealers, consumers and other stakeholders to request advice about the application of the Code of Conduct, and to report any concerns about alleged situations, events, or actions that they believe may be inconsistent with the Code of Conduct. Stakeholders can also report alleged violations anonymously if permitted by local law. The Ethics Helpline can be accessed either by phone or by web intake (with multiple language available) and is an essential element of the management process, in accordance with the Code of Conduct, in relation to raised concerns. It is managed by an independent provider, available 24 hours a day, seven days a week.

Furthermore, Ferrari employees may also seek advice concerning the application and interpretation of the Code of Conduct by contacting their immediate supervisor, Human Resources representatives, or the Legal Department.

Internal Audit with the support of the Legal Department, Human Resources and other business functions possibly involved assesses all the allegations received, the results and potential disciplinary actions are reported based on the necessary escalation process (the relevant internal functions are notified of the violations).

On November 15, 2017, Italy’s law for whistleblowing, which contains provisions for the protection of reporters of crimes or irregularities that have come to light in the context of a public or private employment relationship, was definitively adopted (Law n. 179/2017). The law concerns the protection of workers, public or private, who report or denounce crimes or other illegal conduct which they have come to know about in the context of their employment relationship. Our whistleblowing procedures are in line with the provisions of Law n.179/2017.

The violations of the Code of Conduct have been categorized according to the Principles of the Code of Conduct. Accordingly, Managing Our Assets and Information includes Communicating Effectively, Protecting Ferrari Assets and Maintaining Appropriate Records. The category Interacting with External Parties comprises Avoiding Conflicts of Interest and Supporting Our Communities. Conducting Business covers Sustainably Purchasing Goods or Services, Transacting Business Legally and Engaging in Sustainable Practices. Finally, Protecting Our Workforce includes behaviors related to Maintaining a Fair and Secure Workplace, and Ensuring Health and Safety. For all Code of Conduct violations, the disciplinary measures taken are commensurate with the seriousness of the case and comply with local legislation.

WHISTLEBLOWING REPORTING AS OF DECEMBER 31, 2018

Category	Reports received in 2018	Total 2018 reports closed*	Reports in which a violation was confirmed
Conducting business	13	13	6
Interacting with external parties	4	4	2
Managing our assets and information	3	2	0
Protecting our workforce	8	12	3
Total	28	31	11

* including 5 WB received in 2017

Periodic reporting is provided to the CEO as well as to the Audit Committee.

Sustainability Risks

We are committed to creating a culture of sustainability. Creating such a culture requires effective risk management, responsible and proactive decision-making, and innovation. Our efforts are aimed at minimizing the negative impacts of our business.

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 and manage risks crucial to achieving its identified business targets, and for the continuity of the Group.

Ferrari has adopted the COSO Framework (Committee of Sponsoring Organizations of the Treadway Commission) as the foundation of its enterprise risk management (ERM) and is currently in the process of reviewing its ERM model to be in line with the last COSO publication (“Enterprise Risk Management - Integrating Strategy and Performance”). The Senior Management Team (“SMT”) is responsible for identifying, prioritizing and mitigating risks and for the establishment and maintenance of a

risk management system across our business functions. At least annually, our risk management framework and risks are discussed with the Group’s Audit Committee.

We have integrated the analysis and assessment of socio-environmental risks in our risk management framework and are currently integrating our risk management activities with the outcomes of the materiality analysis described in the paragraph “Materiality Matrix of Ferrari Group”.

In particular, the most material topics identified by Ferrari are strongly connected with the following key risks and risk trends:

Topics	Key risks and risk trends
Image and brand reputation	Brand Image
Innovation: technology and design	Brand image; Competition
Customer satisfaction	

The preservation and enhancement of the value of the Ferrari brand is crucial in driving demand for our cars and revenues. The perception and recognition of the Ferrari brand are of strategic importance and depend on many factors such as the design, technology, 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.

We believe that we compete primarily thanks to our brand image, the performance and design of our cars, our reputation for quality and the driving experience for our customers.

Topics	Key risks and risk trends
Ethical business conduct	Non-compliance with laws, regulations, local standards (including tax) and codes
Emissions	
Risk management and Compliance	
Quality and safety of products and customers	
Supply chain responsible management	

We are subject to comprehensive and constantly evolving laws, regulations and policies throughout the world. In Europe, United States and China, for example, significant governmental regulation is driven by environmental, fuel economy, vehicle safety and noise emission concerns and regulatory enforcement has become more active in recent years.

Topics	Key risks and risk trends
Human capital	Attraction, development and retention of talents
Health and Safety	

Our success depends on the ability of our senior executives and other members of management to effectively manage individual areas of our business and our business as a whole. 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.

A detailed description of how we respond to these risks can be found in the section “Risk, Risk Management and Control Systems”.

Product Responsibility

Research, Innovation and Technology

Innovation is in our DNA and we will continue pushing boundaries to respond to customers' desires, always setting new standards in the "Ferrari way". Innovation drives products and processes, which represent one of our key differentiating factors. This is why we are focused on developing new technologies and distinctive designs.

Participation in the Formula 1 world championship with Scuderia Ferrari is an important source of technological innovation, which is then transferred into our road cars. Moreover, our development efforts take into account the three defining dimensions of Ferrari cars: performance, versatility and comfort, as well as driving emotions. In addition to these internally driven factors, regulation is key in determining the direction of technical innovation.

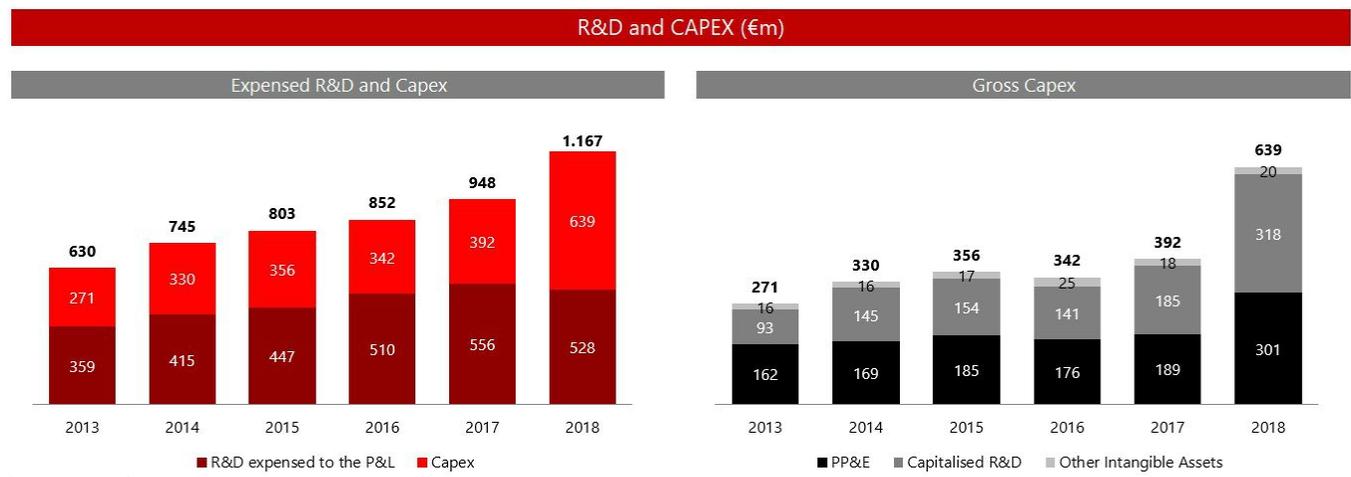
One of our other main focuses is on innovating our working methods, which involves stimulating the creativity of our employees. With this in mind, we have implemented programs designed to encourage the development of ideas and solutions that will improve products, methods and the working environment. Pole Position Evo, for instance, rewards ideas put forward by individual staff members. In 2018, we received more than 9,200 suggestions from employees (+21% vs. 2017).

Our focus on excellence requires a strong collaboration with our suppliers, and a handful of them are considered "key strategic innovation partners". Collaborations with leading universities are also in place to foster the development of new ideas.

Technological breakthroughs are further enhanced through design. In 2010, the Ferrari Design Center was established as a best-in-class in-house design department to improve our control over the design process and to ensure long-term continuity of the Ferrari style. A guiding principle of the Ferrari style 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. Our designers, modelers and engineers work together to create car bodies that incorporate the most innovative aerodynamic solutions within the slick and powerful lines typical of Ferrari cars.

We continue to regularly launch new cars with enhanced technological innovations and design improvements. Our plan is to launch 15 new models between 2019-2022 with the purpose of maintaining the product portfolio's leading position and to respond quickly to market demand and technological breakthroughs.

The R&D investments and expenses to fuel the growth of our Group are represented in the charts below.

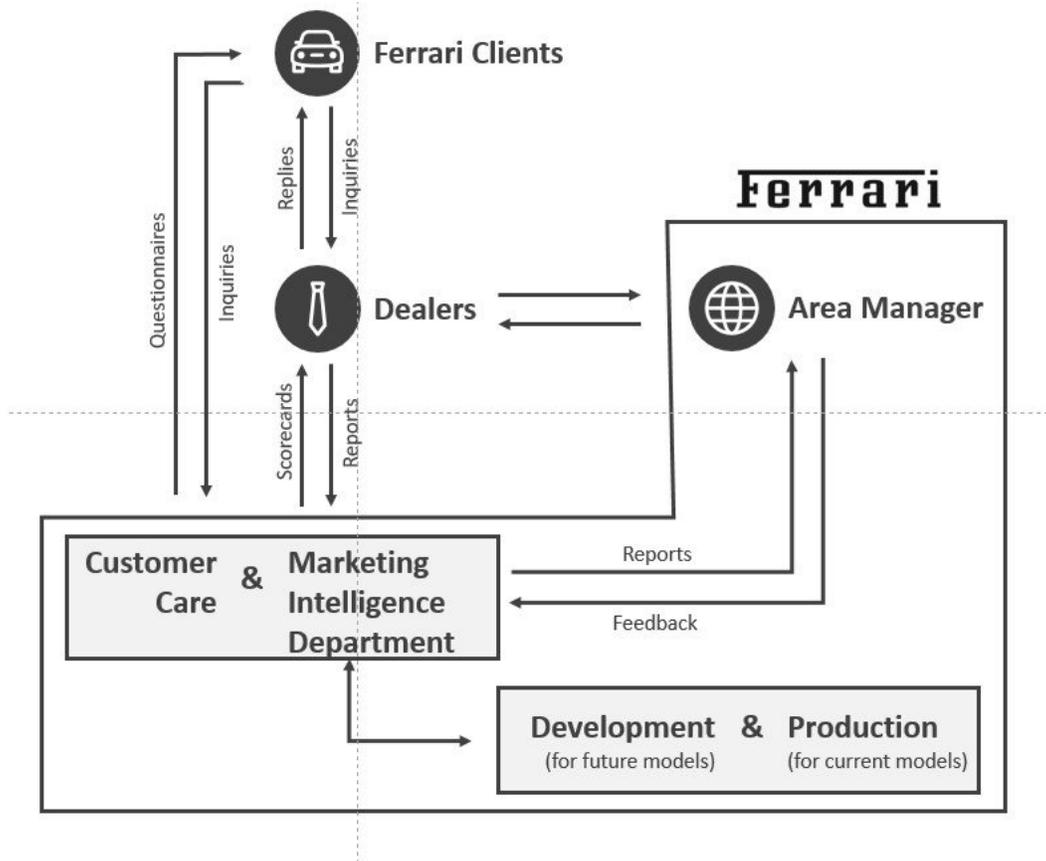


Customer Satisfaction

We are devoted to the highest level of customer satisfaction. We have a structured process to assess the overall customer satisfaction on product, service provided, events organized by us and the overall customer experience with the car. Specific KPIs are constantly monitored and analyzed by the marketing intelligence department. The KPIs are measured through bespoke surveys for each car launch and collected for every new model, from range vehicles to special and limited editions. A similar approach is adopted for evaluating the quality of service and satisfaction of our events.

The results of the product and service satisfaction analyses are used to outline any necessary action plans for current models and, additionally, to identify potential features to be added to the next generation of vehicles. Recent surveys show that customer satisfaction for Ferrari products and services has constantly stayed at a very high level.

The below chart shows the flow between us and our clients.



We have developed an integrated system between our customer care, dealers, marketing department, and area managers, to track all contact with clients and to share and manage inquiries and the results of customer satisfaction analysis.

Privacy and data protection

Customer personal data and information are some of Ferrari’s cornerstones and a key component of our competitive advantage.

We care about processing personal data in a safe and transparent manner as it is a fundamental part of our accountability to our customers. We strive for safeguarding our network against security risks and incidents, preventing cyberattacks in order to guarantee the security and confidentiality of our Customers’ information.

We act in accordance with the current legislative framework that governs the processing of personal data at a global scale, including but not limited to the General Data Protection Regulation “GDPR” (EU Regulation 2016/679), which came into force on 25 May 2018.

Data protection law requires, among others, the application of increased transparency obligations, the introduction of common records of processing activities, the appointment of a Data Protection Officer “DPO” and - where advisable - privacy impact assessments before processing personal data.

Within this context, we have adopted a progressive approach to ensure compliance with data protection law requirements, such as the implementation of ICT and security systems (eg. system collecting consents and privacy notices, back-end systems managing direct personal data) as well as the guarantee of an effective and prompt response to requests from data subjects.

Regular theoretical and practical training sessions, aimed at raising the awareness on the data privacy regulations and requirements, are organized and addressed to those employees involved in the processing of personal data.

Vehicle Safety

Vehicle safety is among our top priorities and Ferrari cars are always designed and manufactured with the safety of our customers and other road users in mind. Given the nature of our cars, the electronic equipment is developed with an integrated approach, ensuring the best balance between safety, control and best-in-class performance, to always maintain the Ferrari driving emotions.

All of our range models are subject to a series of tests to obtain approval from the relevant authorities. Moreover, we start assessing all our new models at an early stage of planning and design to identify areas of improvement.

To guarantee the highest level of passenger safety, we develop both passive and active safety systems.

Passive safety requirements are the initial guidelines assigned to the engineers in order to define the design of every component, from car framework to all the retain components (airbags, seat belts, etc.). Moreover, specific devices are installed in racing cars to obtain FIA (Federation International de l'Automobile) approval.

With the aim of solving issues beforehand and reducing the environmental impact of these activities, all tests are reproduced in a state-of-the-art virtual environment before conducting them with real cars.

Regarding Active safety, we believe that the future developments of vehicle safety will be linked to advanced driver assistance systems (ADAS) and human-machine interface (HMI), capable of preventing or mitigating crash occurrences. We are currently assessing the implementation of the most recent trends and developments in terms of simplifying and easing the interaction between the car and the driver to avoid any distraction. For this reason, we have also developed a specific methodology in a simulator that allows us to measure in-depth the level of distraction caused by the use of on-board instrumentation and guarantee a safe utilization of HMIs solutions. Moreover, in 2018 we have introduced our first advanced assistance systems (ADAS) on the GTC4Lusso.

Responsible Supply Chain

Our focus on excellence, in terms of luxury, quality, aesthetics and performance, requires us to implement a responsible and efficient supply chain management in order to select suppliers and partners that are able to meet our high standards. Notwithstanding the low volume of cars manufactured, our production process requires a great variety of inputs entailing a complex supply chain management to ensure continuity of production. We source a variety of components (among which transmissions, brakes, driving-safety systems and others), raw materials (such as aluminum or special steel), supplies, utilities, logistics and other services from numerous suppliers.

Ferrari encourages the adoption and sharing of sustainable practices among our business partners, suppliers and dealers. All suppliers must respect the Ferrari Code of Conduct, which includes the set of values recognized, adhered to and promoted by our Company. The Code of Conduct was updated to include specific guidelines relating to the respect of human rights and conflicts of interest. Our Group made its best effort to ensure that the Code of Conduct is regarded as a best practice of business conduct and followed by third parties, including long lasting relationship business partners such as suppliers, dealers, advisors and agents. The selection of suppliers is based not only on the quality and competitiveness of their products and services, but also their adherence to social, ethical and environmental principles.

Conflict Minerals

Ferrari supports the goal of preventing the exploitation of minerals violating human rights. As part of Ferrari's commitment to respect and promote human rights and the sustainability of its operations, Ferrari selects suppliers based not only on the quality and competitiveness of their products and services, but also on their adherence to social, ethical and environmental principles, as outlined in Ferrari's Code of Conduct.

Many geopolitical experts believe that conflicts may increasingly arise over access to raw materials. For this reason, Ferrari places a high priority on responsible sourcing and the integrity of its suppliers.

The cars we produce contain various metals, which may include tantalum, tin, tungsten and/or gold (collectively, "3TG" or "Conflict Minerals").

Ferrari has developed strategies addressing Section 1502 of the Dodd-Frank Act, as well as subsequent rules promulgated by the U.S. Securities and Exchange Commission (collectively, the “**Conflict Mineral Rules**”), requiring companies to determine whether 3TG in their supply chain originated from the Democratic Republic of the Congo and its adjoining countries (collectively, the “**Covered Countries**”), and whether the procurement of those minerals supported the armed conflict in this region. Due to the complexity of our supply chain, we are dependent upon suppliers to provide the information necessary to correctly identify the smelters and refiners that produce the 3TG contained in our products and take appropriate action to determine that these smelters and refiners source responsibly.

We strive to ensure that legitimate business activities and the livelihoods of individuals in Covered Countries are not harmed by our efforts. To this end, we promote responsible sourcing in Covered Countries.

In accordance with the Organization for Economic Co-operation and Development (OECD) Guidance, we have established an internal management system in relation to the supply of Conflict Minerals, with the objective, *inter alia*, (1) to minimize the trade in Conflict Minerals that directly or indirectly finance or benefit armed groups anywhere in the world; and (2) to enable minerals from conflict and high risk regions to enter Ferrari’s global supply chain, thereby supporting the economies and the local communities that depend on the export of such minerals. We have communicated our position on responsible sourcing to our suppliers. In addition, we have established a control and transparency system over our 3TG supply chain. Such system includes surveying our suppliers about the 3TG in their supply chain.

Among other things, we:

- expect our suppliers to assure that the 3TG in their products do not directly or indirectly finance or benefit armed groups in the Covered Countries; and
- require all our 3TG suppliers to conduct the necessary due diligence and provide us with adequate information on the country of origin and source of the materials used in the products they supply to us.

In 2017 more than 90% of direct suppliers by purchased value submitted responses to Ferrari’s survey.

Our People

The high attention and care for our products is the foundation upon which Ferrari’s success is built and this is feasible thanks to the efforts of the people working in Ferrari. One of the many strengths is the ability to attract, retain and develop talents. Since 1997, we have developed the “Formula Uomo” initiative, with the intention of developing a high quality working life for our employees.

Over the years, the project has become a pillar of our culture, based on redesigning the working environment, enforcing a safety-first culture, enabling individual development, enhancing teamwork and building a community now comprising 48 different nationalities.

Working Environment

We know that the best individual and team performance is only achieved if employees feel they are in the right environment. We also believe that the quality of our products cannot be separated from the lives of the people working in Ferrari.

That is why the working environment and wellbeing of the company’s employees are among our most important priorities.

Our complex in Maranello, a state-of-the-art work environment, was designed to reinforce the synergistic relationship between work and results. Our manufacturing facilities are specifically designed with the needs of employees firmly in mind and combines carefully designed lighting systems, green areas (there are numerous trees along the roads and plants within the factory), a new restaurant and special measures aimed at reducing the environmental impact and noise through the use of advanced technologies.

Over the past few years, a significant investment has been made to increase the green areas. These can be found both inside and outside of the various factory buildings.

To promote an active lifestyle among our employees, we have launched the “Formula Benessere” program, aimed at providing preventative healthcare to employees and their children. A gym is available for all the employees at Maranello and employees at the Modena plant have free membership in one of the city gyms. Initially provided to the F1 racing team as part of their training program for the Grand Prix activities, the initiative was subsequently rolled out to all employees.

As part of the “Formula Benessere” benefits, preventative healthcare is provided to all employees and their children. Medical specialists are available for consultation in areas such as ophthalmic, cardiology, osteopathy and dermatology, among others. A free annual check-up focusing on general health and fitness is provided to senior managers and to the children of all employees.

Our attention to the promotion of health and safety among our employees goes beyond what is required by law and special workshops are organized for employees to raise awareness on the importance of these topics.

Having a healthy working environment is the aim of a series of initiatives within the “Formula Uomo” program. As an example, the Machining Department building is designed to maximize the amount of natural light and, similar to many other facilities, benefits from several internal and external green areas. Its design is aimed at providing the workshops with maximum acoustic comfort thanks to noise reduction solutions (source and reverberation).

We have also invested in our own on-site foundry, where we manufacture aluminum alloys as well as parts of engines and bodyworks. Since 2013, the foundry has included a cooling system that makes it air-conditioned and climate controlled.

To foster a sense of belonging among employees and their families and to provide them with support during the summer vacation, we have launched the program “Formula Estate Junior”, a free day camp for children of employees aged 3 to 13, with various programs including sports, outdoor activities, excursions and workshops. The program has a duration of 11 weeks (with a shorter 3-day version taking place during Easter holidays) and allows children to enjoy an exciting experience with a didactic purpose: each edition of the “Formula Estate Junior” camp has an educational theme developed by around 100 professional educators and is organized in collaboration with the local community.

Education is also the focus of a series of different initiatives that provide scholarships to talented junior high, high school and university students. In 2018, we reimbursed 603 employees for the cost of their children’s textbooks (reimbursement is offered to all employees’ children until high school and, in certain cases, we reimburse the cost of school textbooks for employees in continued education). In 2018, we provided 42 scholarships and, going forward, we aim to offer specific scholarships to help children of employees to study abroad.

We offer additional benefits to our employees, including personalized loans at competitive rates in the internal bank branch, special rates for the employees’ housing needs, vehicle purchase and insurance policies as well as discounts at the Ferrari Stores and at the Ferrari company outlet. To foster the sense of belonging, the Company organizes multiple events. In 2018 more than 2,000 among employees and their guests attended the Ferrari Challenge championship event Finali Mondiali at the Monza Circuit. Approximately 3,600 people among employees and their family members attended the 2018 edition of Natale Bimbi.

All these benefits are provided to all of our employees.

Training and Talent Development

Along with the need to hire, develop, and retain talents, we are aware that we must manage human capital as a critical resource to achieve the best possible results.

The success, prestige and appeal of our brand depends on the ability to attract talents and retain them. In particular, top drivers, racing management, engineering talent and all the employees that make Ferrari unique have to be rewarded, based on their ability, determination, and expectations. This is why we provide career progression opportunities tailored to each individual’s strength and ambition, and our company’s requirements, underpinned by substantial investments in training. A total of over 51,500 hours of training have been delivered right across the company’s employees in 2018.

Human capital development ensures that our company has the appropriate skill set to execute the business strategy and improve employee attraction, retention, as well as motivation, and, as a result, enhance productivity and the quest for innovation. Training requests, for employees who receive a regular performance and career development review, are identified during this review process in order to address the needs of both our company and employees.

In 2018, a Training Plan with three specific objectives was implemented:

- To protect and pass on the strategic and specific know-how of Ferrari
 - o Among all training initiatives, in Ferrari we are very proud of our “Scuola dei mestieri”, started in 2009. It is a unique in-house technical training project which increases the professionalism of junior talents and motivates senior employees, recognizing their competencies by asking them to become Maestri and pass on Ferrari’s unique heritage to the next generation. The initiative combines different didactic methodologies, including on the job sessions and in-classroom training, both focused on the consolidation of competencies and skills with a particular focus on innovation.

While the Maestri transfer their know-how to other employees, we have also internally developed the “Department Team Leaders”, who are expert workers in our R&D and Manufacturing processes. In the last few years, we have decided to invest strongly in the team leaders’ professional and soft skills. We are creating a cross-functional group with the objective to become the point of reference for the rest of the team. Department Team Leaders (now around 116 employees) are also responsible for the Pit Stop and Pole Position programs among their shift colleagues.

In 2018, we have increased again the number of participations and training hours provided within this initiative. The three main areas of focus have been: product innovation (mainly with regard to hybridization, HMI and new components, in a cross functional training), process innovation (as in the case of low bake painting and additive manufacturing) as well as support and induction of new colleagues. This has been implemented in order to be ready to meet the 15 new car launches between 2019-2022, as outlined in our recently presented strategic plan.

- To shape and prepare the managerial class of the future for the business, innovation, management and human capital development challenges.
 - o In 2018, in partnership with Bologna Business School, we launched the first edition of the Ferrari Corporate Executive MBA, which saw the participation of 28 Ferrari managers from different business functions. The objective of the master is to improve the management skills of the attendees, to let them gain experience on the most recent innovation trends and to convey the Ferrari leadership model. This master’s degree offers a unique, tailor-made program to form a critical mass within the management class that will be able to grasp the challenges of the future, while at the same time preserving the tradition of Ferrari. During the course of studies, innovation talks, leadership scrums and site visits to production plants are carried out. This master’s degree will help to develop a group of managers with a shared approach to leadership, while respecting and valuing individual differences. A group on which Ferrari can rely on to tackle future challenges.

- To foster and support the inclusion, growth and development of our people.
 - o In line with business and company requirements and coherently with the needs expressed in the Performance & Leadership Management system, training activities were provided in the managerial, technical and linguistic fields, using various training tools such as: online courses, classroom courses, coaching programs and teambuilding activities.

More specifically, an online training campaign is launched every 4 months and includes all the corporate mandatory trainings dedicated to new employees. These kind of campaigns are repeated periodically to provide a training update to all employees. Among the mandatory courses, a session is dedicated to our Code of Conduct that covers also anti-corruption and human rights topics.

In 2018, a similar mandatory online campaign was launched on Cyber Security Training Basic Rules and Data Classification and Protection.

The combination of all these activities contributed to a strong increase of 45% in total training hours compared to last year. This was done to build our skills in order to meet the challenges of the future: 15 car new launches between 2019- 2022.

AVERAGE HOURS OF TRAINING

	2018	2017
Total	13.40	10.51

Talent Recruitment and Employee Retention

The excellence, that our products embody, is what attracts the best talents worldwide.

At Ferrari, recruitment and selection is about sourcing the right qualities and skills that will represent the backbone of future success. Our recruitment process provides a platform to engage with future employees, to assess competencies through a structured selection process and to prepare for post-recruitment integration and development.

The mission of the recruitment team is to identify, evaluate and onboard the individuals which are aligned with our technical requirements and values. We organize regular meetings with several universities to present our company and values to students who might be interested in becoming part of Ferrari. We also undertook an exchange program with top universities around the world. In 2018, our graduate project “Ferrari F1 Engineering Academy” received more than 250 applications and at the end of the program, six people became part of the Scuderia Ferrari F1 racing team.

To ease employees into the new job, Ferrari provides a two-day induction program. The first day is dedicated to introducing the company culture and mission, as well as guiding new joiners through the corporate offices and production plants. The following day is focused on health and safety training.

To promote a responsible behavior during the assembling phase of cars and engines, we launched many years ago the “Pit Stop” and “Fiorano Race” initiatives, where colleagues on the same shift are assigned to “teams”, with key performance indicators in place for occupational health and safety, absenteeism and quality. The teams are then ranked based on these data, with the best performers being rewarded. Furthermore, we organize the “Pole Position Evo” program to evaluate individual performances.

We reward our employees, excluding senior management, through a productivity bonus called “Premio di Competitività” based on yearly shipments and adj. EBITDA results, as well as a product quality index adjusted on individual absenteeism rate. In 2018, we paid around Euro 5,200 each.

A portion of our employees receive a regular performance review, based on performance and leadership behaviors, which ends with a final evaluation from their assessors at the end of the year. This evaluation also constitutes part of the variable remuneration calculation. Workers instead are subjected to a different kind of review, which is based on regular assessments aimed at developing their internal career path.

In 2018, we increased the number of employees who received a performance evaluation through our specific online tool: around 1,000 employees were evaluated on our system. This online tool allows us to track and share, with the employees and management, their results of the assessment, strengths and improvement areas as well as their professional aspirations and their final evaluation.

EMPLOYEES WHO RECEIVED A REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEW BY EMPLOYEE CATEGORY

Employee category	2018	2017 ⁽¹⁾
Senior Managers	88%	86%
Managers and Professionals	72%	69%
White Collars	44%	35%
Workers	0%	0%

⁽¹⁾The 2017 data by employee category has been restated to align the subsidiaries' categories to the headquarters' definition.

Thanks to our career development program, Ferrari encourages the professional growth of its employees and tries to fill key positions with talented internal candidates before tapping into the external market. The analysis of the key positions covered by our employees carried out in 2017 has been updated: results are used to develop specific succession plans, with a timeframe of 2-4 years, to ensure the competitiveness of Ferrari over time and to take advantage of our employees' talent.

Occupational Health and Safety

We are particularly focused on the safety of our people.

Ferrari S.p.A., which operates the Maranello and Modena plants, is dedicated to the prevention of accidents at work, with safety in the workplace always a priority. Periodic meetings are held with management to review safety issues, in addition to formal meetings also being held with employee representatives. Periodic internal health and safety audits are performed to ensure compliance with the Ferrari health and safety management system, current laws and best practices. Ferrari S.p.A. has obtained the OHSAS 18001 certification. We are currently working to certify our occupational health & safety management system in accordance with the new ISO 45001:2018 requirements: we expect to obtain the certification in the first half of 2019, two years in advance of the mandatory migration from the OHSAS 18001 standard (March 2021).

HOURS OF HEALTH AND SAFETY TRAINING PER YEAR AND NUMBER OF PARTECIPANTS⁽²⁾

	2018	2017	2016
Training hours	21,358	15,386	14,319
Number of participants	2,439	1,656	703

⁽²⁾The figures provided are referred to all the employees and external staff of Ferrari S.p.A.

There has been a huge investment in safety at work: improvements in the existing structures and specific training have allowed the company to achieve significant results. As shown in the table above, in 2018 the hours of training significantly increased compared to previous years, mainly due to the mandatory periodic training update for employees started this year. In 2018 we introduced a dynamic health protocol that is constantly updated and a specific health and safety section was added to the training program of the Department Team Leaders.

The table below shows the trend in accidents over last three years. In 2018, the injury rate was 1.6, with 9 occurrences (5 in 2017), and the lost day rate, which measures the days of absence for every thousand hours worked, was 0.11. Each work-related injury is analyzed to determine the cause and appropriate measures to avoid recurrence have been implemented.

INJURY AND LOST DAY RATE⁽³⁾

	2018	2017	2016
Injury rate⁽⁴⁾	1.6	0.9	1.2
Lost day rate⁽⁵⁾	0.11	0.05	0.05

⁽³⁾The figures provided are referred to all the employees and external staff of Ferrari S.p.A., with the exception of Senior Manager; this category of employees didn't incur any injuries in 2018.

⁽⁴⁾The injury rate is the ratio of the number of injuries reported (resulting in more than three days of absence) to the number of hours worked (including overtime), multiplied by 1,000,000, excluding commuting accidents.

⁽⁵⁾The lost day rate is the ratio of the number of days of absence due to accidents to the number of hours worked (including overtime), multiplied by 1,000 excluding commuting accidents. The days of absence are related to calendar days and are considered from the date of release of medical certificate.

During the course of 2018, no accidents with fatal consequences have been recorded for employees and external workers in the Maranello and Modena plants.

Our employees in numbers

As of December 31, 2018, the number of our Group⁽⁶⁾ employees was 3,851, an increase of 14% compared to December 31, 2017 (3,380). We expect to continue to grow over the next few years in order to meet the target to deliver 15 new car launches between 2019-2022, as outlined in our recently presented strategic plan.

Number of employees	December 31, 2018	December 31, 2017	December 31, 2016
Total	3,851	3,380	3,248
of which women	13.0%	12.3%	11.5%

⁽⁶⁾In this chapter, "Our Group" refers to all the legal entities indicated as consolidated line by line by Ferrari N.V. in 2018 Annual Report.

We also rely on external collaborators such as contractors, self-employed persons, workers hired through external agencies and interns.

PERCENTAGE OF EMPLOYEES PER EMPLOYEE CATEGORY BY GENDER

Employee category	December 31, 2018			December 31, 2017 ⁽⁷⁾		
	Male	Female	Total	Male	Female	Total
Senior Managers	90.0%	10.0%	110	91.3%	8.7%	104
Middle Managers and Professionals	85.9%	14.1%	545	87.5%	12.5%	513
White Collars	78.3%	21.7%	1,146	79.1%	20.9%	1,006
Workers	92.0%	8.0%	2,050	92.5%	7.5%	1,757
Total	87.0%	13.0%	3,851	87.7%	12.3%	3,380

⁽⁷⁾The 2017 data by employee category has been restated to align the subsidiaries' categories to the headquarters' definition.

As indicated in the table above, in the last year the percentage of females in the “Senior Managers” category has increased from 8.7% to 10%, females in “Middle Managers and Professionals” positions also increased by around one and a half percentage point. The proportion of women in the other categories has remained relatively constant.

PERCENTAGE OF EMPLOYEES BY AGE GROUP

	December 31, 2018				December 31, 2017			
	<30	30-50	>50	Total	<30	30-50	>50	Total
Total	13.7%	70.4%	15.9%	3,851	9.8%	73.7%	16.5%	3,380

The majority of the workforce is between the age of 30 and 50 (70.4%). The percentage of workers under 30 has increased of approximately 4 percentage points, from 9.8% to 13.7%.

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER

GROUP		
EMPLOYEE HIRED		
	2018	2017
Number of employees	639	296
Turnover %	16.6%	8.8%
EMPLOYEE TURNOVER		
	2018	2017
Number of employees	168	150
Turnover %	4.4%	4.4%

ABSENTEE RATE IN ITALY⁽⁸⁾

	2018	2017
Employees	1.60%	1.60%

⁽⁸⁾The absenteeism rate is calculated as a ratio of hours lost for sickness divided the number of hours to be worked. The perimeter considered relates only to Ferrari S.p.A. employees.

The absenteeism rate for 2018 was 1.60% and has been stable over the past few years.

Our Environmental Responsibility

Our most significant environmental efforts are deployed through efficiencies in the manufacturing processes and a program for the reduction of polluting emissions.

The monitoring and management of the environmental performance of our productive plants is assigned to a team that reports to our Chief Technology Officer. Their effort is aimed at minimizing the impact of our activities on the environment, particularly in relation to the energy consumption of production facilities. A different team is in charge of overseeing regulatory developments while monitoring the emissions of Ferrari cars.

We assemble all of our cars and manufacture all the engines used in our cars or sold to Maserati at our production facility in Maranello⁽⁹⁾ (Italy). The Carrozzeria Scaglietti plant, located in Modena (Italy), is where we manufacture aluminum bodyworks and chassis. The two plants cover a cumulative area of approximately 698,000 m². We also own the Mugello racing circuit in Scarperia, near Florence (Italy), which covers an area of 1,700,000 m² (of which 1,200,000 m² of green or tree-covered areas).

We directly operate 18 retail stores and maintain offices for our foreign subsidiaries and other smaller facilities in Italy, such as the Museo Enzo Ferrari (MEF) in Modena and the Ferrari museum in Maranello. The environmental impact of these additional facilities is deemed negligible and is excluded in this chapter's data.

Part of the environmental impact of our activities are related to the product lifecycle. Ferrari cars are perceived as collectibles and therefore the number of cars demolished each year is very scarce. In addition, the products are generally not considered means of transportation.

⁽⁹⁾Maranello production facility is composed by the main offices and production buildings, the "Nuova Gestione Sportiva" building and the adjacent Fiorano track (of approximately 3,000 meters).

Plants and Circuits

Environmental Management Systems

We have invested heavily to minimize our environmental impact since 2001, when the company was given the ISO 14001 certification for our plants in Maranello and Modena. In 2016, we obtained the renewal of the certification of our environmental management system according to the new standard ISO 14001:2015. In addition, in 2007, we obtained and renewed the Integrated Environmental Authorization. As mentioned in our Environmental Policy, our effort is to minimize the negative impacts of our activities on natural resources and the global environment.

In April 2015, Mugello was the first racing circuit in the world to get the "Achievement of Excellence" certificate, which is the top accreditation level within the environmental sustainability program proposed by FIA. The Mugello circuit obtained the certification for the environmental management system with ISO 14001 and the EMAS (Eco-Management and Audit Scheme).

Energy efficiency and promotion of alternative energy sources

Renewable energy is a priority for us. In 2008, we installed our first solar panels (subsequently increased capacity in 2011 and 2015) and from 2009 we started using electricity along with hot and cold water generated by the trigeneration plant⁽¹⁰⁾. In 2018, the trigeneration plant produced 87% of the electricity needed for the Maranello plant, while the remaining 13% was generated from renewable sources⁽¹¹⁾.

Our culture embraces energy consumption reduction, constantly implementing actions such as the replacement of traditional illumination systems to LED technology and the use of pumps with inverter technology in the industrial water distribution system. As of today, all our new buildings in Maranello are Class A-ranked and the Formula 1 team headquarters comply with the new net zero energy building protocol (NetZeb), meaning that the total amount of energy used by the building is approximately equal to the amount of renewable energy it generates. In 2018, we completed the construction of two new buildings: "Nuova Gestione Sportiva" and "New Design Department".

Our energy consumption mainly relates to the manufacturing of cars and engines. Over the years, our Group has strived to lower its energy consumption and to minimize its environmental impact, adopting innovative solutions and resorting to a trigeneration plant and to the use of renewable energy sources for its manufacturing facilities.

⁽¹⁰⁾Even if the trigeneration plant was bought by Ferrari in September 2016, data referring to energy consumption and emissions consolidate trigeneration plant data for the whole 2016 for comparative reasons.

⁽¹¹⁾Thanks to a photovoltaic system and purchases of Guarantee of Origin certificates.

ENERGY CONSUMPTION WITHIN THE ORGANIZATION

Unit of measurement: GJ	2018	2017 ⁽¹²⁾
Non-renewable fuel consumption	1,567,315	1,551,629
Natural Gas (used for trigenerator)	1,126,067	1,116,343
Natural Gas (for other uses)	392,995	384,323
Gasoline (for production process)	46,848	49,666
Diesel (for motor room and other uses)	1,405	1,297
Total electricity bought for consumption	92,190	98,219
From renewable sources	86,355	92,027
From non-renewable sources	5,835	6,192
Electricity self-produced for consumption⁽¹³⁾	3,142	3,117
Electricity sold	(7,752)	(11,910)
Total	1,654,895	1,641,055

⁽¹²⁾The 2017 data have been re-calculated using the same conversion factors used for 2018 data.

⁽¹³⁾From photovoltaic.

The total energy consumption within the Group for 2018 is 1,654,895 GJ, in line with 2017 (1,641,055) and 2016 (1,643,012 GJ)⁽¹⁴⁾, notwithstanding a production increase.

⁽¹⁴⁾The 2016 and 2017 data have been restated using the same conversion factors used for 2018.

Air Emissions

The emissions of CO_{2eq} deriving from the Maranello and Modena plants and from the Mugello racing circuit (Scope 1 and Scope 2 market-based) are equal to 91,773 tCO_{2eq} in 2018, in line with 92,609 tCO_{2eq} in 2017 and 93,086 tCO_{2eq} in 2016⁽¹⁵⁾.

DIRECT AND ENERGY INDIRECT GHG EMISSIONS

Unit of measurement: tCO _{2eq}	2018	2017	2016
Scope 1⁽¹⁶⁾	91,001	91,789	92,319
Scope 2 (market-based method)⁽¹⁷⁾	772	820	767
Scope 2 (location-based method)⁽¹⁸⁾	9,219	9,822	9,105

GHG Protocol (WRI, WBCSD) definitions

⁽¹⁵⁾Regarding scope 2 emissions, measured in tons of CO₂, the percentage of methane and nitrous oxide has a negligible effect on the total greenhouse gas emissions (CO₂ equivalent) as indicated into the ISPRA Report "Atmospheric emission factors of CO₂ and other greenhouse gases in the electricity sector".

⁽¹⁶⁾Direct greenhouse gas emissions, measured in tons of CO₂ equivalent, were calculated using emission factors indicated in "Emission Factors from Cross-Sector Tools; March 2017" and "Global Warming Potential Values Guidance; May 2015", published by The Greenhouse Gas Protocol. Gases included in the calculation of the Scope 1 GHG emissions: CO₂, CH₄, N₂O, HFCs and other refrigerant gases.

⁽¹⁷⁾Market-based indirect greenhouse gas emissions, measured in tons of CO₂, were calculated using the Residual Mix emission factors indicated in "2017 European Residual Mixes, V.1.3", published by AIB. The Group purchases Guarantee of Origin (GO) certificates in order to reduce the impact of CO₂ emissions in the atmosphere. The 2016 and 2017 data have been re-calculated using the same emission factors used for 2018 data.

⁽¹⁸⁾Location-based indirect greenhouse gas emissions, measured in tons of CO₂, were calculated using the emission factor indicated in "Confronti internazionali; 2016", published by Terna. The 2016 and 2017 data have been re-calculated using the same emission factors used for 2018 data.

Since 2014, our Group has been purchasing Guarantee of Origin certificates in order to increase the percentage of energy consumed by the Group derived from renewable sources, thus reducing the corresponding CO₂ emissions, as determined by the market-based method of calculation. This resulted in 2018 in a reduction of 8,447 tons of CO_{2eq}.

Other significant air emissions are related mainly to volatile organic compounds (VOCs) released during vehicle manufacturing. In addition, NO_x, SO_x and dusts emissions are constantly monitored.

OTHER SIGNIFICANT AIR EMISSIONS⁽¹⁹⁾

<i>Unit of measurement: Kg</i>	2018	2017
NO_x	59,613	69,610
SO_x	1,378	995
Volatile Organic Compounds (VOCs)	50,913	55,980
Dusts	4,100	2,432
Total other significant air emissions	116,004	129,017

⁽¹⁹⁾ Only air emissions of the plants of Maranello and Modena have been considered.

Furthermore, a water-based painting process was introduced in 2004 with the aim of reducing VOC emissions. To further underscore our ongoing commitment to pursuit energy efficiencies, in 2018 we introduced a low-bake paint technology.

Waste management

We acknowledge that rational use of raw materials, together with careful waste management, helps reduce the environmental impact of the manufacturing process. In addition, innovative solutions and advanced technical processes minimize waste and negative environmental impact. The reuse of production scraps in our manufacturing process⁽²⁰⁾ also has the objective of reducing waste.

To achieve this target, a series of initiatives in the different phases of the manufacturing process have been implemented. As an example, aluminum scraps are melted in the foundry to avoid waste: this is particularly important considering that aluminum is the first raw material (by weight) used in our manufacturing process. Other projects aimed at reducing waste are undergoing a feasibility analysis, in particular, according to the concept of the circular economy, in some cases our production scraps can be used by other business partners in their manufacturing process (e.g. leather scraps, processed sand used in the foundry, aluminum that cannot be smelted).

⁽²⁰⁾ Only waste generated in the plants of Maranello and Modena have been considered: waste of Mugello racing circuit have an impact of less than 2% of the total waste produced by our Group.

WASTE BY TYPE AND DISPOSAL METHOD

NON HAZARDOUS WASTE		
<i>Unit of measurement: tons</i>	2018	2017
Total	8,204.7	8,839

HAZARDOUS WASTE		
<i>Unit of measurement: tons</i>	2018	2017
Total	2,799.7	3,430.2

Total waste for 2018 was equal to 11,004.2 tons, down 10.5% from 2017. Total waste recovery increased by 1.5% from 43.3% in 2017 to 44.8% in 2018. This reduction was achieved, among others, by two initiatives started in 2018: the first is that we started to recover sand from the foundry by selling it as a by-product to a third party player that transforms it in a new product following a circular economy principle. The second activity is the use of a more long-lasting cooling lubricant. Combined, these two activities amounted to a 4.6% reduction of the total waste. None of our waste is disposed in landfills.

Logistics

We produce all of our vehicles and spare parts in our Maranello and Modena plants, in central Italy, however, our network of third party dealers is comprised of 190 point of sales around the world. A meticulous work is constantly carried out to optimize logistical operations with the aim of reducing the impact on the environment and associated air emissions.

Water management

We are well aware of the importance of a responsible management of water and, even if our plants are not located in areas exposed to high or extremely high overall water risks⁽²¹⁾, nor our production process can be considered water intensive, we

have developed a series of initiatives to reduce water consumption in our manufacturing processes, such as cooling systems with water recirculation (e.g. cooling towers).

All the water sourced by us comes from municipal water supplies or other utilities and wells: as of today, no water bodies are directly affected by the withdrawal of water.

WATER WITHDRAWAL BY SOURCE

<i>Unit of measurement: m³</i>	2018	2017
Surface water	0	0
Wells	501,665	524,428
Municipal water or other water utilities	166,900	227,138
Total	668,565	751,566

We treat our wastewater in accordance with all applicable laws and regulations. All the wastewater of our plants is always monitored and channeled not directly into water bodies but in the public sewage system. The water used in some of the industrial processes (such as washing solutions or paint washing), before its discharge in the public sewer system, is treated by an industrial water treatment plant where it undergoes the necessary chemical, physical, and biological treatment.

WATER DISCHARGE BY DESTINATION

<i>Unit of measurement: m³</i>	2018	2017
Effluents / Water bodies	0	0
Public sewer system	383,861	378,895
Total	383,861	378,895

⁽²¹⁾Source: WRI Aqueduct 2014 (World Resources Institute, 2014).

Biodiversity

Ferrari plants and Mugello racing circuit, as of December 2018, are not located in any protected or highly biodiverse areas and, to our best knowledge, they do not have significant environmental impacts on such areas. Moreover, our plants and circuit are not adjacent⁽²²⁾ to any protected or highly biodiverse areas. This analysis is conducted annually and is based on the World Database on Protected Areas⁽²³⁾.

⁽²²⁾For this analysis, a distance of 3 km or less has been considered as "adjacent".

⁽²³⁾The database considered for the analysis is managed by the United Nations Environment World Conservation Monitoring Centre (UNEP-WCMC) with support from IUCN and its World Commission on Protected Areas.

Vehicles Environmental Impact

Part of the environmental impact of our activities is related to our product lifecycle. Ferrari cars are perceived as collectibles and therefore the number of cars demolished each year is very scarce. In addition, the cars are generally not considered means of transportation.

Vehicles Emissions

We are subject to a variety of laws and regulations that, among others, are related to car emissions and fuel consumption. Ferrari vehicles must comply with extensive regional, national and local laws and regulations, as well as industry self-regulations (including those that regulate vehicle safety). However, we currently benefit from certain regulatory -exemptions because we qualify as a Small Volume Manufacturer or similar designation in most of the jurisdictions where we sell our cars (for more details refer to the "Regulatory Matters" paragraph).

In 2012, we achieved a 27% reduction in CO₂ emissions (compared to 2007) for our European fleet through improvements in energy efficiency by increasing the energy produced for the same level of input and therefore reducing the cars' energy requirements.

Following the achievement of this result, we continued focusing on researching technologies that further reduced emissions and, in early 2013, introduced LaFerrari, the first of our cars to use hybrid technology.

Through innovations in areas such as turbochargers, engine downsizing, transmission, electric steering and hybrid technologies, we continue to target further reductions in CO₂ emissions and have set a target to reduce by 2020 CO₂ emission by 15%⁽²⁴⁾ (compared to 2014) on our entire fleet.

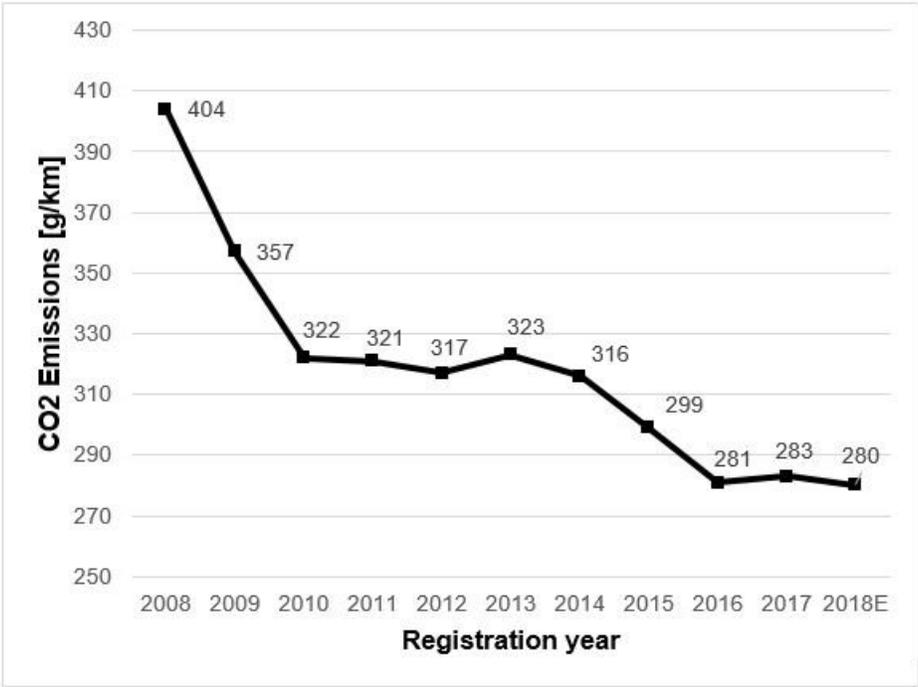
Consistent with our mission to develop cutting edge sports and GT cars, product development efforts continually focus on improving core components, such as the powertrain, car dynamics, and the use of materials such as special aluminum alloys and carbon fiber.

The expertise acquired in these fields has recently guided our efforts to combine improved performance with reductions in CO₂ emissions.

We are undertaking an important program to develop hybrid technology and we are researching how to improve the performance and driving experience of our cars without losing fuel efficiency advantages. We are now working hard on the integration of hybrid technology more broadly into our car portfolio.

⁽²⁴⁾The target considered the expectations until 2020 of Group’s homologated shipments and the CO₂ emissions values according to requirements set by the European Union.

AVERAGE SPECIFIC CO₂ EMISSIONS (FERRARI EU FLEET⁽²⁵⁾)



⁽²⁵⁾For the purpose of this graph, 100% of the Ferrari fleet in EU has been taken into account to determine the average specific emissions of CO₂, despite the phase-in criteria granted in the years 2010-2014. 2018: provisional fleet average emissions of CO₂.

Vehicles’ end of life

We are not directly involved in product take back programs due to the nature of our business: the number of Ferrari cars demolished each year is very scarce as Ferrari cars are perceived as collectibles, which the Group also supports through its “Ferrari Classiche” services, and the active preowned market.

Ferrari contributes towards the community

Community engagement and involvement with the local territory are of fundamental importance for the Group. All Ferrari cars are manufactured in our production facilities in Maranello and Modena, in the heart of the Italian “Motor Valley”: we are aware of our responsibility towards the community and our efforts are directed to support the development of the local community mainly through collaborations with local universities and thanks to the industry network in the Emilia-Romagna region. To keep alive the spirit of Ferrari and the story of its founder Enzo Ferrari, two different museums have been established.

Ferrari & Education

We believe that promoting the education of young talents is an essential step to reinforce the connection with local communities. Shaping brilliant engineers with a specific academic background that focuses on new technologies within the automotive industry, and in particular innovative solutions for state-of-the-art performance in luxury cars, is also a prerequisite for the Group to seize future opportunities.

Ferrari is partner of the Motorvehicle University of Emilia-Romagna (MUNER), an association which was strongly advocated by the Emilia-Romagna region. It was created thanks to a synergistic connection among the universities of Modena and Reggio Emilia, Bologna, Ferrara and Parma along with car companies in the region that represent the excellence of Italian brands, which of course includes Ferrari.

Ferrari Museum Maranello & Museo Enzo Ferrari (MEF)

The Ferrari Museum Maranello invites visitors to experience the Prancing Horse dream first-hand, offering visitors a journey through the Group’s history, values and automotive world.

The Museo Enzo Ferrari is built around the house in which Enzo Ferrari was born in 1898. The MEF tells the story of Enzo Ferrari as a young boy discovering the irresistible allure of the world of motor racing, his career as a driver in 1920s, as the driving force behind the Scuderia Ferrari in the 1930s, and then as Ferrari, the Constructor, from 1947 onwards.

Scuderia Ferrari Club

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.

Scuderia Ferrari Club is a not-for-profit consortium company founded in 2006 by Ferrari S.p.A. to coordinate the activities of the Scuderia’s many Tifosi which had formed clubs around the world. Today, the company has over 202 officially-recognized Clubs in 22 nations. An incredible mix of different nationalities, cultures and lifestyles all united by one enduring passion: Ferrari.

Methodology and scope

Through our Non-Financial Statement, we aim to provide our stakeholders with non-financial information, illustrate our sustainability strategy and our corporate social responsibility initiatives in 2018 (from January 1st, 2018 to December 31st, 2018) to ensure transparent and structured communication with our stakeholders.

This Statement was prepared in accordance with the Dutch Civil Code, and with the Dutch Decree on Non-Financial Information (*Besluit bekendmaking niet-financiële informatie*), which is a transposition of Directive 2014/95/EU ‘Disclosure of non-financial and diversity information’ into Dutch law. The table below shows the internal references to the chapter(s) or paragraph(s) of this Annual Report where the relevant aspects of the Dutch Decree are discussed in particular.

DUTCH DECREE ASPECTS	INTERNAL REFERENCE - CHAPTER / PARAGRAPH
Business model	Overview of Our Business
Policies and due diligence	Corporate Governance; Integrity of Business Conduct; Anti-Bribery and Corruption; Whistleblowing; Our People; Our Environmental Responsibility
Principal risks and their management	Risk Factors; Sustainability Risks; Risk, Risk Management and Control Systems
Thematic aspects	
<i>Environmental matters</i>	Our Environmental Responsibility / Plants and circuits; Our Environmental Responsibility / Vehicles environmental impact
<i>Social matters</i>	Overview of our Business; Integrity of business conduct; Product Responsibility / Research innovation technology; Product Responsibility / Customer Satisfaction; Product Responsibility / Vehicle safety; Product Responsibility / Responsible supply chain; Ferrari contributes towards the community
<i>Employee matters</i>	Our People/Working environment; Our People/Training and talent development; Our People/Talent recruitment and Employee Retention; Our People/Occupational Health and Safety; Our People/Our employees in numbers
<i>Respect for human rights</i>	Integrity of Business Conduct; Product Responsibility /Responsible supply chain; Product Responsibility /Conflict Minerals
<i>Fight against corruption and bribery</i>	Integrity of Business Conduct; Anti-Bribery and Corruption; Whistleblowing
<i>Supply Chain</i>	Integrity of Business Conduct; Product Responsibility /Responsible Supply Chain
<i>Conflict minerals</i>	Integrity of Business Conduct; Product Responsibility/Conflict Minerals

This Statement is an extract of our Sustainability Report, that is prepared in compliance with the “GRI Sustainability Reporting Standards” (2016) issued by the Global Reporting Initiative (GRI). This has been shared with the Executive Officers of the Group and with the Governance and Sustainability Committee of the Board of Directors.

With regard to the financial data, the scope of reporting corresponds to that of Ferrari N.V.’s Consolidated Financial Statements.

Regarding the qualitative and quantitative data on social and environmental aspects, the scope of reporting corresponds to Ferrari N.V. and our subsidiaries consolidated on a line-by-line basis (as indicated in “*Note 3 - Scope of consolidation*”). Any exceptions, with regard to the scope of this data, are clearly indicated throughout the Statement.

Directly measurable quantities have been included, while limiting, as far as possible, the use of estimates. Any estimated data is indicated accordingly, additionally certain totals in the tables included in this document may not add due to rounding.

During the reporting period, we did not face any significant change concerning the organization’s size, structure, ownership or supply chain.

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 and manage 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) as the foundation of its enterprise risk management (ERM) and is currently in the process of reviewing its ERM model to be in line with the last COSO publication ("Enterprise Risk Management - Integrating Strategy and Performance"). The Senior Management Team ("SMT") 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 SMT reviews the risk management framework and the Company's key global risks on a regular basis. For those risks deemed to be significant, comprehensive risk response plans are developed and reviewed on a regular basis to ensure the actions 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), has been defined 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.	Moderate
Operational risks (O)	Risks impacting the internal processes, people, systems and/or external resources of the organization and affect Ferrari's ability to execute its business plan.	Moderate
Compliance risks (C)	Risks of non-compliance with laws, regulations, local standards, code of conduct, internal policies and procedures.	Zero tolerance
Reputational risks (RR)	Risks which affect Ferrari's Brand image, credibility and/or integrity	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, likelihood and entity's preparedness, that properly combined, determine an overall risk exposure to prioritize risks and focus the efforts on the most important ones. Ferrari expects that the risk responses which have been implemented or that will be deployed when activated by ad-hoc triggers, will mitigate the risks up to the level defined within the risk appetite. 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.

Brand Image (R/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, technology, 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	Selective licensees of the Ferrari brand
Success of the Formula 1 team	Monitor and maximize residual values of Ferrari cars
	Selective franchising partners
	Dealer score card
	Ferrari Academy

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	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
Global economic developments	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, 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, our reputation for quality and the driving experience for our customers.

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	Support residual values with the financing of pre-owned cars
Shipments	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)

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 are 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 in the Emilia-Romagna region of Italy, 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 activities and production facilities may be seriously damaged, or we may have to stop or delay the production and shipment of our cars.

Our business depends on a significant number of suppliers that 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 to each other	Designing of business continuity plan
Single source suppliers for components	Identifying alternative suppliers
Dependence on limited number of suppliers for raw materials	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”

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 individual areas of our business and our business as a whole. In particular, our management team benefits from the leadership of our CEO and 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	Preparing current successful employees for future key positions
Requirement to attract and retain the best drivers	Improving talent development program for key resources
Management potential	Succession plan
Labor unions	Retention plan
	Training

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, United States and China, for example, significant governmental regulation is driven by environmental, fuel economy, vehicle safety and noise emission concerns and regulatory enforcement has become more active in recent years. 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 adversely affect our revenue and operating results.

Our compliance controls, policies, and procedures may not protect us in every instance 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:
	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
Requirement to be compliant with changes in Formula 1 regulations and ability to adapt on a timely	Monitoring, reviewing, reporting and adapting to relevant changes in rules and regulations
	Strengthening IT infrastructure for standard operational procedures and guidance
HSE (Health, Safety and Environment)	Implement and update global HSE system
Tax	Risk-based reviews of operations by HSE professionals
Human Resources	Increasing internal compliance awareness and effective communication between central compliance team and managers working in the subsidiaries
Legal	Communicating and implementing business conduct standards internally
Anti-Bribery & Corruption	Maintaining a global whistle blower procedure
Code of Conduct	Developing key procedures and policies for all relevant financial and business areas
Export - Import	

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 U.S. Dollars in the United States and other markets where the U.S. Dollar is the reference currency. In 2018, the value of commercial activity exposed to changes in the Euro/U.S. Dollar exchange rate accounted for about 57 percent of the total currency risk from commercial activity. As a general rule Ferrari enters in derivative financial instruments to hedge between 50 and 90 percent of certain exposures subject to foreign currency exchange risk for up to twelve months.

Several subsidiaries are located in countries that are outside the Eurozone exposing Ferrari to translational exchange risk, in particular the United States, China, Japan, Australia and Singapore. The Group monitors its principal exposure to translational 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. Approximately 37 percent of the Group's total debt bears floating rates of interest. Ferrari enters into interest rate caps as requested by certain of its securitization agreements which bear floating rates of interest. Considering the current economic environment, Ferrari has not entered into any other interest rate derivatives, however, the exposure is continually monitored.

Ferrari's most important financial asset is cash. It is allocated on bank and deposit accounts with primary financial institutions. It is a group policy to continuously monitor counterparty risk and limit concentration of financial asset to 20% of the total with a single financial counterpart. Ferrari owns a financial services portfolio secured on the titles of cars or other guarantees, spread over more than 3,300 clients that are mainly in the US. 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 31 to the Consolidated Financial Statements.

Key aspects	Response plans:
Exposure to foreign exchange movements from non-Euro related sales	Foreign exchange hedging instruments in line with the Company's risk management policy
Exposure to interest rate movements on financial assets and liabilities	Monitoring interest rate movements for hedging purposes
Credit risk of default or insolvency	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 also listed on 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 abovementioned 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 that 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). These controls 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.

Remuneration of Directors

Introduction

The description below summarizes the guidelines and the principles followed by Ferrari in order to define and implement the remuneration policy applicable to the executive directors and non-executive directors of the Company, and members of the SMT. In addition, the following section provides the remuneration paid to these individuals for the year ended December 31, 2018. The form and amount of compensation received by the directors of Ferrari for the year ended December 31, 2018 was determined in accordance with the remuneration policy. Ferrari aims to provide its stakeholders with a high level of disclosure in order to strengthen the trust they and the market place in Ferrari, and provide them with the tools to assess the Company’s remuneration principles and exercise shareholders’ rights in an informed manner. The Company may from time to time amend the remuneration policy, subject to our Shareholders’ approval when necessary.

The remuneration policy is approved by our shareholders and is published on our corporate website <http://corporate.ferrari.com/it/remuneration-policy.shareholders>.

Remuneration principles

The main goal of Ferrari’s remuneration policy is to develop a system which consistently supports the business strategy and value creation for all shareholders, establishing a compensation structure that allows us to attract and retain the most highly qualified executive talent and motivate such executives to achieve business and financial goals that create long-term value for shareholders in a manner consistent with our core business and leadership values, as outlined below.

The main principles of Ferrari’s remuneration policy are outlined in the chart below.



Overview of remuneration elements

The structure of the remuneration applicable to our executive directors, non-executive directors and SMT members under the Ferrari remuneration policy consists of some or all of the following elements: fixed remuneration, short-term incentives, long-term incentives and non-monetary benefits. The purpose and features of the different elements of our remuneration structure are outlined in the table below:

Component	Purpose	Terms and Conditions	Amounts
Remuneration Structure	<ul style="list-style-type: none"> - Attract, retain and motivate highly qualified executives to achieve challenging results - Competitively position our compensation package compared to the compensation of comparable companies, mainly represented by the Peer Group as defined in “<i>Long Term Incentives</i>” below, and companies that compete for similar talent - Reinforce our performance driven culture and meritocracy 	<p>Ferrari’s remuneration structure is organized as follows:</p> <ul style="list-style-type: none"> - Fixed remuneration - Short-term incentives - Long-term incentives - Non-monetary benefits 	<ul style="list-style-type: none"> - Offer a highly competitive compensation package compared to the Reference Market - Reference Market: Roles with the same managerial complexity and responsibilities within comparable companies, including those represented by the Peer Group
Fixed Remuneration	Reward skills, contribution and experience required for the position held	<ul style="list-style-type: none"> - CEO: Fixed remuneration is set in relation to the delegated powers assigned over the term and positions held in line with the Reference Market - SMT Members: annual remuneration is based on the role assigned, in line with Reference Market offering for roles of similar responsibility and complexity 	<ul style="list-style-type: none"> - CEO: €500,000 annually - Non-Executive Directors: \$75,000 annually - SMT Members: the fixed remuneration is related to the position held and the responsibilities attributed, as well as the experience and strategic nature of the resource
Short-Term Incentive Plan	<ul style="list-style-type: none"> - Achieve the annual financial, operational and other targets and additional business priorities - Motivate and guide executives’ activities over the short-term period 	<p>2018 Short-term incentives targets:</p> <ul style="list-style-type: none"> - Based on achievement of annually predetermined performance objectives - Annual financial, operational and other identified objectives 	<ul style="list-style-type: none"> - CEO: The CEO compensation package for 2018 did not include short-term incentives - SMT Members: variable incentive percentage of fixed remuneration based on the position held

Long-Term Incentive Plan

- Align the behavior of executives critical to the business with shareholders' interests
- Motivate executives to achieve long-term strategic objectives
- Enhance retention of key resources

- Equity awards to promote creation of value for the shareholders
- PSUs and RSUs: vesting in installments
- PSUs: 100% linked to Total Shareholder Return compared to Peer Group (defined below)

- CEO: Target pay-opportunity is 900% and maximum pay-opportunity is 1200% of base salary, in accordance with the long-term shareholder value creation and pay for performance principles of Ferrari's remuneration policy

- SMT Members: variable incentive percentage of fixed remuneration based on the position held

Non-monetary Benefits

- Retain executives through a total reward approach
- Enhance executive and employee security and productivity

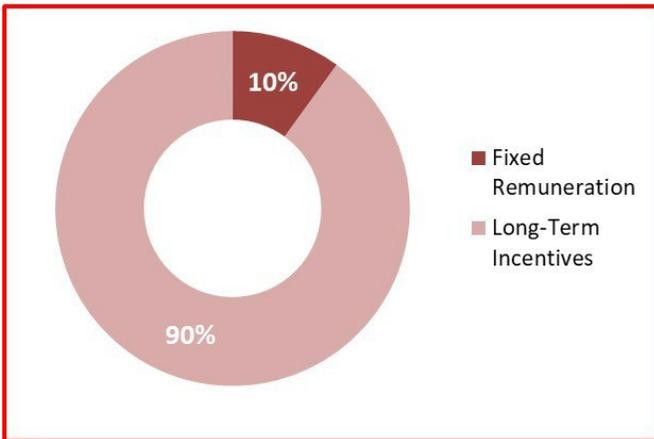
Represent an integral part of the remuneration package with welfare and retirement-related benefits

Customary fringe benefits such as personal use of aircraft, company cars and drivers, personal/home security, medical insurance, accident insurance, tax preparation and financial counseling

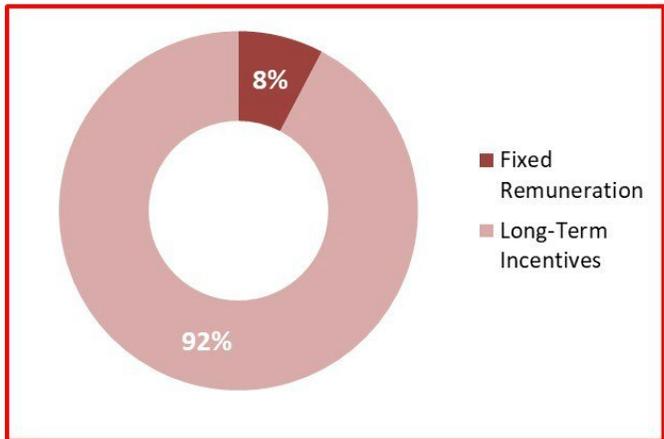
CEO pay-mix

In light of the foregoing considerations, our CEO's compensation package is structured as follows:

Target Amounts



Maximum Amounts



As shown in the charts above, the CEO compensation package for 2018 did not include short-term incentives.

Our remuneration policy is aligned with Dutch law and the Dutch Corporate Governance Code.

2018 Remuneration of Executive Directors and SMT Members

The Board of Directors determines the compensation for our executive directors following the recommendation of the Compensation Committee and with reference to the remuneration policy. The compensation structure for executive directors and SMT members 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 and SMT members 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 competitors, as well as monitor compensation levels and trends in the market.

On the basis of the remuneration policy objectives, compensation of executive directors and SMT members consists, inter alia, of the following elements discussed below. Only the long-term incentives element of variable compensation was applicable to Executive Directors in 2018.

Fixed component

The primary objective of the base salary (the fixed part of the annual cash compensation) for executive directors and SMT members 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 and SMT members 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' and SMT members' variable remuneration are linked to predetermined, assessable targets in order to create long-term value for the shareholders.

Short-term incentives

The primary objective of our performance-based short-term variable cash-based incentives is to incentivize the executive directors and SMT members to focus on the business priorities for the current or next year. The 2018 short-term incentive plan was designed to motivate its beneficiaries to achieve challenging targets, by recognizing individual contributions to the Group's results on an annual basis. The variable remuneration is linked to the achievement of short-term (i.e. annual) financial and other identified objectives.

To determine the executive directors' annual performance bonus, the non-executive directors, upon proposal of the Compensation Committee:

- approves the executive directors' targets and maximum allowable bonuses;
- selects the appropriate metrics and their weighting;
- sets the stretch objectives;
- considers any unusual items in a performance year to determine the appropriate measurement of achievement; and
- approves the final bonus determination.

In addition, upon proposal of the Compensation Committee, the non-executive directors have authority to grant special 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

We believe that the equity incentive plan discussed below increases the alignment between the Company's performance and shareholder interests, by linking the compensation opportunity of the Chief Executive Officer of the Company to increasing shareholder value.

Equity Incentive Plan 2016-2020

Following the approval of the equity incentive plan 2016-2020 by the Board of Directors, upon the recommendation of the Compensation Committee, in March 2017, the Shareholders approved in April 2017 an award of 450 thousand performance share units ("PSUs") to the former Chief Executive Officer, Mr. Marchionne under the Company's equity incentive plan. In September 2018, Mr. Camilleri was appointed as Executive Director and the new Chief Executive Officer of Ferrari, becoming eligible (subject to the Shareholders' approval at the next Annual General Meeting, which is currently expected to be held on April 12, 2019) for the current long-term incentive plan, which is comprised of a performance-based component represented by PSUs, equal to two thirds of the total share units granted, and a service-based component represented by restricted share units ("RSUs") covering the remaining one third of share units granted. The original grant of PSUs to Mr. Marchionne, which each represent the right to receive one common share of the Company, cover a five-year performance period from 2016 to 2020. Mr. Camilleri has been granted approximately 11 thousand PSUs and approximately 6 thousand RSUs equal to a pro-rata amount (starting from the date of appointment as CEO) of the above-mentioned plan and covering a three-year performance period from 2016 to 2018 (subject to the Shareholders' approval at the next Annual General Meeting of Shareholders).

Subject to the achievement of a market performance condition related to Total Shareholder Return ("TSR"), the original PSUs granted to Mr. Marchionne vest in three equal tranches in 2019, 2020 and 2021, while the PSUs granted to Mr. Camilleri vest in 2019. 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. The target amount of PSUs vest as follows based on the Company's TSR ranking compared to an industry specific peer group of eight companies, including the Company, ("Peer Group"):

Ferrari TSR Ranking	% of Target Awards that Vest
1	150%
2	120%
3	100%
4	75%
5	50%
>5	0%

The defined Peer Group is as follows:

Ferrari	Brunello Cucinelli	Burberry	Ferragamo
Hermes	LVMH	Moncler	Richemont

The performance period for the PSUs commenced on January 1, 2016. The fair value of the awards used for accounting purposes was measured at the grant date using a Monte Carlo Simulation model. The range of the fair value of the PSUs that were granted to Mr. Marchionne in 2017 is €68.18 to €72.06 per share and the range of the provisional fair value of the PSUs that were granted to Mr. Camilleri in 2018 is €80.32 to €111.92.

The key assumptions utilized to calculate the grant-date fair values for these awards are summarized below:

Key Assumptions	PSU Awards Granted to Mr. Marchionne in 2017	PSU Awards Granted to Mr. Camilleri in 2018
Grant date share price	€66.85	€113.70
Expected volatility	17.4%	16.7%
Dividend yield	1.2%	0.9%
Risk-free rate	0%	0%

The expected volatility was based on the observed volatility of the Peer Group. The risk-free rate was based on the iBoxx sovereign Eurozone yield.

The RSUs granted to Mr. Camilleri will vest in 2019, subject to continued employment with the Company. The range of the provisional fair value of the RSUs granted is €110.76 to €112.99.

New Equity Incentive Plan 2019-2021

On February 26, 2019, the Board of Directors approved a new equity incentive plan. This new plan is consistent with the Company's business plan presented at Capital Markets Day in September 2018. Under the new equity incentive plan 2019-2021, a combination of PSUs and RSUs, which each represent the right to receive one Ferrari common share, will be awarded to the Chairman and the Chief Executive Officer of the Company (subject to the Shareholders' approval at the next Annual General Meeting, which is currently expected to be held on April 12, 2019), as well as to members of the SMT and other key members of the Group.

Other benefits

Executive directors may also be entitled to customary fringe benefits such as personal use of aircraft, company cars and drivers, 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.

CEO severance

We offer customary perquisites to our CEO. If the Company terminates his services for reasons other than for cause (as defined) or if he terminates his services for good reason (as defined), the Company will pay the CEO an amount equal to his annual base salary, in the amount received for the last fiscal year prior to termination of his services (the "Severance"). If within twenty-four months following a change of control (as defined), the CEO's services are terminated by the Company (other than for cause), or are terminated by the CEO for good reason, the CEO is entitled to receive the Severance and accelerated vesting of awards under his long-term incentive plan.

Internal pay ratios

In line with the Dutch Corporate Governance Code, internal pay ratio is an important input for determining the Remuneration Policy for the Board of Directors. The ratio between the CEO's annual fixed remuneration and the average fixed remuneration for an employee was 16 to 1 for the 2018 financial year.

The methodology applied to calculate the above ratio only takes the fixed remuneration component and not the variable components of compensation for two reasons. First, the overall compensation package (including fixed and variable components) depends on the results achieved. Therefore, poor performance would imply low or null variable remuneration, thereby reducing the CEO's pay ratio, with less efficient performance resulting in a lower ratio, which may wrongly signal a virtuous development. Secondly, we exclude variable compensation to ensure comparability of the ratio over time, and avoid the ratio being skewed in different periods by the vesting features of the plan. The development of this ratio will be monitored and disclosed going forward.

Recoupment of incentive compensation (claw back policy)

The long-term incentive plans include a claw back clause, which allows the Company to claim the refund of part or all of the variable component of remuneration awarded or paid on the basis of information or data that subsequently prove manifestly incorrect, if the Board of Directors determines that circumstances that would have constituted "cause" (as defined) existed while the remuneration remained unvested or due to the beneficiaries' fraud or negligence (each, a "Recovery Event").

In particular, if a Recovery Event occurs within 2 years after the payment of cash or delivery of any shares in respect of the PSUs or RSUs, a participant will be required to repay the net amount received, as determined by the Board of Directors in its discretion.

Stock ownership

In 2018 the Board of Directors determined stock ownership guidelines applicable to Ferrari's directors and certain employees, recognizing the critical role that stock ownership has in aligning the interests, in particular, of Ferrari's Chief Executive Officer, SMT members and senior leaders and key employees with those of the shareholders. As of the end of the 2018 financial year, covered employees should own Ferrari common shares in the following minimum amounts (as multiple of net base salary):

Incumbent	Share Ownership Guideline
Chief Executive Officer	6 times net base salary
Other SMT Members	2 times net base salary
Other senior leaders and key employees	1 times net base salary

The above listed covered employees are required to achieve the applicable ownership threshold within 5 years, through acquisitions of Ferrari common shares as a result of the vesting of PSUs or RSUs until the required ownership level has been met, excluding any shares sold to pay taxes in connection with the granting of those shares.

Scenario analysis

On an annual basis, the non-executive directors, upon proposal of the Compensation Committee, examined the relationship between the performance criteria chosen and the possible outcomes for the variable remuneration of our CEO (scenario analysis). To date, the non-executive directors believe the remuneration policy has proven effective in terms of establishing a correlation between Ferrari's strategic goals and the chosen performance criteria, as the main key performance criteria of our CEO's long-term incentive plan (i.e. the Total Shareholder Return), which represents a significant part of the CEO compensation package, supports both Ferrari's business strategy and value creation for our shareholders.

Remuneration policy for Non-Executive Directors

Remuneration of non-executive directors is approved by the Company's shareholders and periodically reviewed by the Compensation Committee.

Remuneration of non-executive directors is fixed and not dependent on the Company's financial results. Non-executive directors are not eligible for variable compensation and do not participate in any incentive plans.

The current annual remuneration for the non-executive directors (which was approved at the Annual General Meeting of Shareholders' of the Company, held on April 13, 2018) is:

- \$75,000 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 senior non-executive director.

All remuneration of the non-executive directors is paid in cash.

Implementation of Remuneration Policy in 2018

Directors' Compensation

The following table summarizes the remuneration received by the members of the Board of Directors for the year ended December 31, 2018 from Ferrari and its subsidiaries.

Name	Office held	In office from/to	Annual fee (€)	Other compensation (€)	Total ⁽⁵⁾
John Elkann	Chairman and Non-Executive Director	01/01/18 - 12/31/18 ⁽¹⁾	79,554	13,025 ⁽²⁾	92,579
Louis C. Camilleri	Chief Executive Officer and Executive Director	01/01/18 - 12/31/18 ⁽³⁾	270,412	—	270,412
Piero Ferrari	Vice Chairman and Non-Executive Director	01/01/18 - 12/31/18	68,149	12,397 ⁽²⁾	80,546
Sergio Duca	Non-Executive Director	01/01/18 - 12/31/18 ⁽⁴⁾	94,890	—	94,890
Delphine Arnault	Non-Executive Director	01/01/18 - 12/31/18	63,889	—	63,889
Giuseppina Capaldo	Non-Executive Director	01/01/18 - 12/31/18	73,781	—	73,781
Eddy Cue	Non-Executive Director	01/01/18 - 12/31/18	68,149	—	68,149
Lapo Elkann	Non-Executive Director	01/01/18 - 12/31/18	63,889	—	63,889
Amedeo Felisa	Non-Executive Director	01/01/18 - 12/31/18	63,889	—	63,889
Maria Patrizia Grieco	Non-Executive Director	01/01/18 - 12/31/18	72,408	—	72,408
Adam Keswick	Non-Executive Director	01/01/18 - 12/31/18	63,889	—	63,889
Elena Zambon	Non-Executive Director	01/01/18 - 12/31/18	72,030	—	72,030

(1) From 01/01/2018 to 07/21/2018: Vice Chairman and Non-Executive Director. From 07/21/2018 to 12/31/2018: Chairman and Non-Executive Director.

(2) Relate to car benefits provided to Mr. Elkann and Mr. Ferrari in accordance with the remuneration policy.

(3) From 01/01/2018 to 07/21/2018: Senior Non-Executive Director. From 09/07/2018 to 12/31/2018: Chief Executive Officer and Executive Director.

(4) From 07/21/2018 to 12/31/2018: Senior Non-Executive Director.

(5) Certain amounts have been translated from U.S. Dollars to Euro.

Mr. Marchionne was Chairman of the Company, Chief Executive Officer and executive Director from January 1, 2018 to July 21, 2018. He did not receive any compensation for such positions in 2018. For information on Mr. Marchionne's awards under the Ferrari long-term incentive plan, see "*—Share-Based Compensation of Executive Directors*" below.

Share-Based Compensation of Executive Directors

The following table gives an overview of the awards granted to the Chief Executive Officer in 2018 under the equity incentive plan.

Name	Grant Date	Vesting Date	Fair Value on Grant Date	Awards Granted	Awards Vested
Louis C. Camilleri	September 12, 2018	2019	€80.32 - €112.99	17,108	—

The above awards relate to approximately 11 thousand PSUs and approximately 6 thousand RSUs awarded to the CEO (subject to the Shareholders' approval at the next Annual General Meeting, which is currently expected to be held on April 12, 2019) under the equity incentive plan, which are equal to a pro-rata amount of the plan originally approved by the Shareholders on April 14, 2017. The PSU awards vest in 2019, subject to the achievement of a market performance condition related to Total Shareholder Return. The RSU awards vest ratably in 2019, subject to the beneficiary being continuously and actively employed by the Company. At December 31, 2018 none of the PSU or RSU awards had vested.

The former Chairman and Chief Executive Officer of the Company, Mr. Marchionne, was the beneficiary of PSU awards under the Company's equity incentive plan. Under the terms and conditions of the applicable award agreement, such PSUs remain outstanding following Mr. Marchionne's death in July 2018 for the benefit of his heirs, and are eligible to be earned based on the actual performance of the Company and in accordance with the other terms and conditions of the award agreement. The table here below provides an overview of the above mentioned share plan:

Name	Grant Date	Vesting Date	Fair Value on Grant Date	Awards Granted	Awards Vested
Sergio Marchionne	April 14, 2017	2019 / 2020 / 2021	€68.18 - €72.06	450,000	—

The total cost recognized in 2018 for share-based compensation of Executive Directors amounted to approximately €16.0 million, of which €1.1 million related to Mr. Camilleri and €14.9 million related to Mr. Marchionne (including an acceleration of the costs relating to the grants made to the former Chairman and Chief Executive Officer under the equity incentive plan).

Compensation of the members of the SMT

The compensation paid to or accrued during the year ended December 31, 2018 by Ferrari and its subsidiaries to the members of the SMT (excluding the CEO) amounted to €16.7 million in aggregate, including €3.8 million for short-term incentives and €2.8 million for share-based compensation in relation to PSUs and RSUs granted under the equity incentive plan for the performance period covering 2016, 2017 and 2018. The PSU and RSU awards vest in three equal tranches in 2019, 2020 and 2021, subject to continued employment and, for the PSU awards, the achievement of a market performance condition related to Total Shareholder Return, according to the following scheme:

Ferrari TSR Ranking	% of Target Awards that Vest
1	150%
2	120%
3	100%

At December 31, 2018 none of the PSU or RSU awards had vested.

Director and Officer Overlaps

There are overlaps among the directors and officers of FCA and our directors and officers. These individuals owe duties both to us and to the other companies that they serve as officers and/or directors. This may raise certain conflicts of interest as, for example, these individuals review opportunities that may be appropriate or suitable for both Ferrari and such other companies, or business transactions are pursued in which both Ferrari and such other companies have an interest, such as Ferrari's arrangement to supply engines for Maserati cars. For example, Mr. John Elkann our Chairman, is also the Chairman of FCA and the Chairman and Chief Executive Officer of Exor. At February 15, 2019, Exor held approximately 23.7 percent of our outstanding common shares and approximately 33.6 percent of the voting power in the Company, while it holds approximately 29.0 percent of the outstanding common shares and 42.1 percent of the voting power in FCA, based on SEC filings. See "*Risk Factors—Risks related to our Common Shares—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, 2018, 2017 and 2016

	Note	For the years ended December 31,		
		2018	2017	2016
		(€ thousand)		
Net revenues	4	3,420,321	3,416,890	3,105,084
Cost of sales	5	1,622,905	1,650,860	1,579,690
Selling, general and administrative costs	6	327,341	329,065	295,242
Research and development costs	7	643,038	657,119	613,635
Other expenses, net	8	3,195	6,867	24,501
Result from investments	9	2,665	2,437	3,066
EBIT		826,507	775,416	595,082
Net financial expenses	10	23,563	29,260	27,729
Profit before taxes		802,944	746,156	567,353
Income tax expense	11	16,317	208,760	167,635
Net profit		786,627	537,396	399,718
Net profit attributable to:				
<i>Owners of the parent</i>		784,678	535,393	398,762
<i>Non-controlling interests</i>	3	1,949	2,003	956
Basic earnings per common share (in €)	13	4.16	2.83	2.11
Diluted earnings per common share (in €)	13	4.14	2.82	2.11

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, 2018, 2017 and 2016

	Note	For the years ended December 31,		
		2018	2017	2016
		(€ thousand)		
Net profit		786,627	537,396	399,718
Items that will not be reclassified to the consolidated income statement in subsequent periods:				
Gains/(Losses) on remeasurement of defined benefit plans	21	385	(730)	(1,448)
Related tax impact	21	(88)	203	(18)
Total items that will not be reclassified to the consolidated income statement in subsequent periods		297	(527)	(1,466)
Items that may be reclassified to the consolidated income statement in subsequent periods:				
(Losses)/Gains on cash flow hedging instruments	21	(13,034)	34,971	51,086
Exchange differences on translating foreign operations	21	5,986	(15,346)	4,118
Related tax impact	21	3,608	(9,757)	(16,943)
Total items that may be reclassified to the consolidated income statement in subsequent periods		(3,440)	9,868	38,261
Total other comprehensive (loss)/income, net of tax		(3,143)	9,341	36,795
Total comprehensive income		783,484	546,737	436,513
Total comprehensive income attributable to:				
<i>Owners of the parent</i>		781,585	545,071	435,691
<i>Non-controlling interests</i>		1,899	1,666	822

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at December 31, 2018 and 2017

	Note	At December 31,	
		2018	2017
(€ thousand)			
Assets			
Goodwill	14	785,182	785,182
Intangible assets	15	645,797	440,456
Property, plant and equipment	16	850,550	710,260
Investments and other financial assets	17	32,134	30,038
Deferred tax assets	11	60,744	94,091
Total non-current assets		2,374,407	2,060,027
Inventories	18	391,064	393,765
Trade receivables	19	211,399	239,410
Receivables from financing activities	19	878,496	732,947
Current tax receivables	19	128,234	6,125
Other current assets	19	64,295	45,441
Current financial assets	20	10,174	15,683
Cash and cash equivalents		793,664	647,706
Total current assets		2,477,326	2,081,077
Total assets		4,851,733	4,141,104
Equity and liabilities			
Equity attributable to owners of the parent		1,348,722	778,678
Non-controlling interests	3	5,117	5,258
Total equity	21	1,353,839	783,936
Employee benefits	23	86,575	84,159
Provisions	24	182,539	197,392
Deferred tax liabilities	11	39,142	10,977
Debt	25	1,927,167	1,806,181
Other liabilities	26	589,743	620,350
Other financial liabilities	20	11,342	1,444
Trade payables	27	653,751	607,505
Current tax payables		7,635	29,160
Total equity and liabilities		4,851,733	4,141,104

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, 2018, 2017 and 2016

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Cash and cash equivalents at beginning of the year	647,706	457,784	182,753
Cash flows from operating activities:			
Profit before taxes	802,944	746,156	567,353
Amortization and depreciation	288,748	260,606	247,717
Provision accruals	15,573	13,473	82,418
Result from investments	(2,665)	(2,437)	(3,066)
Net finance costs	23,563	29,260	27,729
Other non-cash expenses/(income)	33,012	43,453	(38,465)
Net gains on disposal of property, plant and equipment and intangible assets	(283)	(2,585)	(2,652)
Change in inventories	(4,638)	(88,483)	(33,187)
Change in trade receivables	26,890	(1,745)	(88,847)
Change in trade payables	40,317	29,333	106,163
Change in receivables from financing activities	(107,353)	(44,123)	404,568
Change in other operating assets and liabilities	(83,013)	(72,803)	7,149
Finance income received	2,657	4,402	2,684
Finance costs paid	(13,966)	(36,222)	(22,239)
Income tax paid	(87,745)	(215,486)	(252,026)
Total	934,041	662,799	1,005,299
Cash flows used in investing activities:			
Investments in property, plant and equipment	(300,794)	(188,904)	(175,647)
Investments in intangible assets	(337,542)	(202,506)	(166,340)
Proceeds from the sale of property, plant and equipment and intangible assets	1,392	3,663	2,931
Proceeds from exercising the Delta Topco option	—	8,307	—
Proceeds from the sale of a majority stake in FFS GmbH	—	—	18,595
Total	(636,944)	(379,440)	(320,461)
Cash flows used in financing activities:			
Proceeds from securitizations, net of repayments	94,709	141,115	462,700
Net change in other bank borrowings	(3,584)	4,385	(211,832)
Net change in other debt	(7,988)	(8,280)	15,847
Proceeds from bonds	—	694,172	490,729
Repayment of Term Loan	—	(795,254)	(700,846)
Repayment of Bridge Loan	—	—	(500,000)
Net change in deposits in FCA Group cash management pools and financial liabilities with FCA Group	—	—	135,094
Dividends paid to owners of the parent	(133,095)	—	—
Cash distribution of reserves	—	(119,985)	(86,905)
Share repurchases	(100,093)	—	—
Dividends paid to non-controlling interest	(2,040)	(1,218)	(17,207)
Change in equity	—	—	1,384
Total	(152,091)	(85,065)	(411,036)
Translation exchange differences	952	(8,372)	1,229
Total change in cash and cash equivalents	145,958	189,922	275,031
Cash and cash equivalents at end of the year	793,664	647,706	457,784

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, 2018, 2017 and 2016

	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, 2016	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 ⁽¹⁾	(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
Net profit	—	535,393	—	—	—	535,393	2,003	537,396
Other comprehensive income/(loss)	—	—	25,214	(15,009)	(527)	9,678	(337)	9,341
Cash distribution of reserves	—	(119,985)	—	—	—	(119,985)	—	(119,985)
Dividends to non-controlling interests	—	—	—	—	—	—	(1,218)	(1,218)
Share-based compensation	—	28,597	—	—	—	28,597	—	28,597
At December 31, 2017	2,504	746,341	6,434	31,814	(8,415)	778,678	5,258	783,936
Net profit	—	784,678	—	—	—	784,678	1,949	786,627
Other comprehensive (loss)/income	—	—	(9,426)	6,036	297	(3,093)	(50)	(3,143)
Dividends to owners of the parent	—	(133,939)	—	—	—	(133,939)	—	(133,939)
Dividends to non-controlling interests	—	—	—	—	—	—	(2,040)	(2,040)
Share repurchases	—	(100,093)	—	—	—	(100,093)	—	(100,093)
Share-based compensation	—	22,491	—	—	—	22,491	—	22,491
At December 31, 2018	2,504	1,319,478	(2,992)	37,850	(8,118)	1,348,722	5,117	1,353,839

(1) Reflects the effects of the Separation.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Ferrari N.V.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
at December 31, 2018 and 2017

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 167 authorized dealers operating 190 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 18 Ferrari-owned stores and 17 franchised stores (including 5 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 promotional activities and an important source of innovation supporting the technological advancement of Ferrari sports and street cars.

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 February 26, 2019.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), as well as IFRS as adopted by the European Union. There is no effect on these consolidated financial statements resulting from differences between IFRS as issued by the IASB and IFRS as adopted by the European Union. 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 the Euro, which is also the functional currency of the Company, and unless otherwise stated information is presented in thousands of Euro.

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 and financial services activities. Receivables from financing activities are included in current assets as the investments will be realized in their normal operating cycle. The funding for financial services activities is obtained through securitization programs and funding from certain of the Group's operating companies. 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 25.

The consolidated statement of cash flows is presented using the indirect method.

New standards and amendments effective from January 1, 2018

The following new standards and amendments that are applicable from January 1, 2018 were adopted by the Group for the preparation of these Consolidated Financial Statements.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 applies to all revenues arising from contracts with customers (unless those contracts are in the scope of other standards) and replaces *IAS 18 - Revenue*, *IAS 11 - Construction Contracts* and related interpretations. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. The new standard establishes a five step model to recognize revenue in accordance with this core principle. The Group adopted IFRS 15 and related amendments using the modified retrospective approach with the cumulative effect of initial adoption (if any) recognized at the date of initial application of January 1, 2018. The Group analyzed each of its revenue streams by applying the five-step model and concluded that its accounting for revenue under IFRS 15 did not result in the recognition of a cumulative adjustment to opening retained earnings under the modified retrospective approach, nor did it have a material effect on the Group's financial position or results of operations. The Group's updated accounting policy for revenue recognition is provided further below.

IFRS 9 - Financial Instruments

The Group adopted *IFRS 9 - Financial Instruments*, which includes a logical approach for:

- the 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 Group analyzed each of its classes of financial assets, financial liabilities and derivative instruments and concluded that its accounting for financial instruments under IFRS 9 does not result in material changes compared to its accounting for financial instruments under IAS 39, therefore, there was no impact on the Group's consolidated financial statements upon initial adoption of the standard and related amendments. The Group's updated accounting policy for financial instruments is provided further below.

Amendments to IFRS 2 - Share-Based Payment

The Group adopted *Amendments to IFRS 2 - Share-Based Payment*. The amendments 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 January 1, 2018 with early application permitted. The Group has applied the amendments to share-based payment transactions under the Group's equity incentive plan that contains a net settlement feature for withholding tax obligations, resulting in such transactions being classified in their entirety as equity-settled. There were no other effects from the adoption of these amendments.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration

The Group adopted *IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration*. The interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The interpretation is effective on or after January 1, 2018. There was no effect from the adoption of this interpretation.

Annual Improvements to IFRSs 2014-2016 Cycle

The Group adopted *Annual Improvements to IFRSs 2014-2016 Cycle*. The improvements have amended two standards with effective date of January 1, 2018: i) *IFRS 1 - First-time Adoption of International Financial Reporting Standards* and ii) *IAS 28 - Investments in Associates and Joint Ventures*. The amendments clarify, correct or remove redundant wording in the related IFRS Standards. 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 2019 or subsequent years are listed below:

IFRS 16 - Leases

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 lease 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.

The Group will apply IFRS 16 from its mandatory adoption date of January 1, 2019. The Group intends to apply the simplified transition approach and not restate comparative amounts for the year prior to adoption. Upon adoption, right-of-use assets are measured at the amount of the related lease liabilities, adjusted for any prepaid or accrued lease expenses. The Group elected to use the exemptions permitted by the standard on lease contracts for which the lease terms ends within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value.

The main contracts of the Group within the scope of IFRS 16 relate to Ferrari stores and industrial equipment. As of January 1, 2019, after considering the exemptions mentioned above, the Group has non-cancellable operating lease commitments of approximately €72 million. Of these commitments, the Group expects to recognize right-of-use assets (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and related lease liabilities of €61 million. The Group expect no significant impact from the application of the new standard on net profit and cash flow from operating activities. Lease liabilities are measured at the present value of the fixed or in substance fixed lease payments over the lease term that have not been paid at the date of adoption. The lease term includes both the non-cancellable periods for which the Group has the right to use the underlying assets and also any renewal periods if the Group is reasonably certain to exercise the related renewal option. The discount rate was determined taking into consideration country risk, currency, lease term and the Group’s credit spread. Lease liabilities do not include any non-lease components that may be included in the related contracts.

The Group does not expect to recognize any deferred tax assets or liabilities in respect of temporary differences arising on initial recognition of right-of-use assets and lease liabilities as the recognition does not affect accounting profit or taxable profit. No significant impact is expected on the financial statements for i) the Group’s lease agreements previously classified as finance leases under IAS 17 and ii) the Group’s activities as lessor.

Other amendments and interpretations not yet effective

In May 2017 the IASB issued *IFRS 17 - Insurance Contracts* which establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued as well as guidance relating to reinsurance contracts held and investment contracts with discretionary participation features issued. IFRS 17 is effective on or after January 1, 2021 with early adoption allowed if *IFRS 15 - Revenue from Contracts with Customers* and *IFRS 9 - Financial Instruments* are also applied. The Group does not expect any impact from the adoption of this standard.

In June 2017 the IASB issued *IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments* which provides requirements regarding how to reflect uncertainties in accounting for income taxes. The interpretation is effective on or after January 1, 2019. The Group does not expect any material impact from the adoption of this interpretation.

In October 2017 the IASB issued *Amendments to IFRS 9 - Financial Instruments* that allow, under certain conditions, for a prepayable financial asset with negative compensation payments to be measured at amortized cost or at fair value through other comprehensive income. The amendments also contain a clarification relating to the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The amendments are effective on or after January 1, 2019. The Group does not expect any impact from the adoption of these amendments.

In October 2017 the IASB issued amendments to *IAS 28 - Long Term Interests in Associates and Joint Ventures* to clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is effective on or after January 1, 2019. The Group does not expect a material impact from the adoption of these amendments.

In December 2017 the IASB issued *Annual Improvements to IFRSs 2015 - 2017 Cycle*, which has amendments to the following four Standards: IFRS 3 - Business Combinations, in relation to obtaining control of a business which was previously accounted for as an interest in a joint operation, IFRS 11- Joint Arrangements, in relation to obtaining joint control of a business which was previously accounted for as a joint operation, IAS 12 - Income Taxes, clarifying the treatment of taxes in relation to dividend payments and IAS 23 - Borrowing Costs, clarifying the treatment of borrowings which were previously capitalized when the related asset is ready for its intended use or sale. The amendments are effective on or after January 1, 2019. The Group does not expect any material impact from the adoption of these amendments.

In February 2018 the IASB issued amendments to *IAS 19 - Employee Benefits*. When there is a change to a defined benefit plan (an amendment, curtailment or settlement) the amendments require that a company use the updated assumptions from the remeasurement of a net defined benefit liability or asset to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. These amendments are effective on or after January 1, 2019. The Group does not expect a material impact from the adoption of these amendments.

In October 2018 the IASB issued narrow scope amendments to *IFRS 3 - Business Combinations* to improve the definition of a business. The amendments aim to help companies determine whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the definition of a business, supplementary guidance is provided. These amendments are effective on or after January 1, 2020. The Group does not expect any material impact from the adoption of these amendments.

In October 2018 the IASB issued amendments to *IAS 1 - Presentation of Financial Statements* and *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of 'material', as well as how materiality should be applied by including in the definition guidance that is included elsewhere in IFRS standards. In addition, the explanations accompanying the definition have been improved and the amendments ensure that the definition of material is consistent across all IFRS standards. These amendments are effective on or after January 1, 2020. The Group does not expect any material impact from the adoption of these amendments.

Review of the Conceptual Framework for Financial Reporting

In March 2018 the IASB revised the *Conceptual Framework for Financial Reporting*, effective immediately for the IASB and the IFRS Interpretations Committee when setting future standards, and effective for annual reporting periods on or

after January 1, 2020 for companies that use the *Conceptual Framework* to develop accounting policies when no IFRS Standard applies to a particular transaction, with early application permitted. Key changes include (i) increasing the prominence of stewardship in the objective of financial reporting; (ii) reinstating prudence as a component of neutrality, defined as the exercise of caution when making judgements under conditions of uncertainty; (iii) defining a reporting entity; (iv) revising the definitions of an asset and a liability; (v) removing the probability threshold for recognition, and adding guidance on derecognition; (vi) adding guidance on the information provided by different measurement bases, and explaining factors to consider when selecting a measurement basis; and (vii) stating that profit or loss is the primary performance indicator and income and expenses in other comprehensive income should be recycled where the relevance or faithful representation of the financial statements would be enhanced. The Group does not expect a material impact from the adoption of the revised *Conceptual Framework for Financial Reporting*.

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.

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:

	2018		2017		2016	
	Average	At December 31,	Average	At December 31,	Average	At December 31,
U.S. Dollar	1.1810	1.1450	1.1297	1.1993	1.1069	1.0541
Pound Sterling	0.8847	0.8945	0.8767	0.8872	0.8194	0.8562
Swiss Franc	1.1550	1.1269	1.1117	1.1702	1.0901	1.0739
Japanese Yen	130.3959	125.8500	126.7112	135.0100	120.2169	123.4000
Chinese Yuan	7.8081	7.8751	7.6290	7.8044	7.3519	7.3202
Australian Dollar	1.5797	1.6220	1.4732	1.5346	1.4883	1.4596
Canadian Dollar	1.5294	1.5605	1.4647	1.5039	1.4659	1.4188
Singapore Dollar	1.5926	1.5591	1.5588	1.6024	1.5275	1.5234
Hong Kong Dollar	9.2559	8.9675	8.8045	9.3720	8.5924	8.1751

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 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'.

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

Current financial assets include trade receivables, receivables from financing activities, derivative financial instruments, other current financial assets and cash and cash equivalents.

Investments and other financial assets include investments accounted for using the equity method as well as other securities and non-current financial assets.

Financial liabilities include debt (which primarily includes bonds, securitizations and borrowings from banks), trade payables and other financial liabilities, which mainly include derivative financial instruments.

Measurement

Financial assets, other than investments accounted for using the equity method, and financial liabilities are measured in accordance with IFRS 9.

Except for investments accounted for using the equity method, the Group initially measures financial assets at fair value plus, in the case of financial assets not measured at fair value through profit or loss, transaction costs.

Equity instruments held by the Group are recognized at fair value through profit or loss. When market prices are not directly available, the fair value is measured using appropriate valuation techniques (e.g. discounted cash flow analysis based on market information available at the balance sheet date). As permitted by IFRS 9, equity investments for which there is no quoted market price in an active market and there is insufficient financial information in order to determine fair value may be measured at cost as an estimate of fair value.

Trade receivables and receivables from financing activities are originated in the ordinary course of business and held within a business model with the objective to hold the receivables in order to collect contractual cash flows that meet the 'solely payments of principal and interest' criterion under IFRS 9, therefore they are measured at amortized cost using the effective interest rate method. Receivables with maturities greater than one year are discounted to present value. Assessments are made regularly as to whether there is any objective evidence that a financial asset or group of financial assets may be impaired. Under IFRS 9, a forward-looking expected credit loss model must be applied when assessing impairment. In making impairment assessments, the Group applies the standard simplified approach to estimate the lifetime expected credit losses and considers its historical credit loss experience, adjusted for forward-looking factors specific to the nature of the Group's receivables and economic environment. If any such evidence exists, an impairment loss is recognized within financial expenses.

Financial liabilities, with the exception of derivative financial instruments, are measured at amortized cost using the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are used for economic hedging purposes only in order to reduce currency risks. 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/expenses. 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 does not use fair value hedges or hedges of a net investment.

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

Transfers of financial assets

The Group sells certain of its receivables from financing activities under securitization programs. Securitization transactions involve the sale 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 receivables sold as part of securitization programs are still consolidated until collection from the customer.

The Group may also sell certain of its trade receivables through factoring transactions without recourse. 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 within cost of sales in the consolidated income statement.

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.

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.);
- 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 rereasurement 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 rereasurement 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. Rereasurement components on other long-term employee benefits are recognized in the consolidated income statement in the period in which they arise.

Share-based compensation

The Group has implemented an equity incentive plan that provides for the granting of share-based compensation to the Chief Executive Officer, all other members of the Senior Management Team ("SMT") and key leaders. The equity incentive plan is accounted for in accordance with *IFRS 2 - Share-based Payment*, which requires the Company to recognize share-based compensation expense based on fair value of awards granted. Compensation expense for the equity-settled awards containing market performance conditions is measured at the grant date fair value of the award using the Monte Carlo simulation model, which requires the input of subjective assumptions, including the expected volatility of the Company's common stock, the dividend yield, interest rates and a correlation coefficient between the common stock and the relevant market index. The fair value of the awards which are conditional only on a recipient's continued service to the Company is measured using the share price at the grant date adjusted for the present value of future distributions which employees will not receive during the vesting period.

Share-based compensation expense relating to the equity incentive plan is recognized over the service period within selling, general and administrative costs or cost of sales in the consolidated income statement depending on the function of the employee, 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 and recall campaigns 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. 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 at the time when they are probable and reasonably estimable.

See "Use of estimates" below for further details.

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 customers in advance of having delivered the related cars or provided the related services.

Revenue recognition

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured at the transaction price which is based on the amount of consideration that the Group expects to receive in exchange for transferring the promised goods or services to the customer and excludes any sales incentives as well as taxes collected from customers that are remitted to government authorities. The transaction price will include estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. The Group enters into contracts that may include both products and services, which are generally capable of being distinct and accounted for as separate performance obligations.

The Group generates revenue from the sale of cars, spare parts and engines as well as from sponsorship, commercial and brand activities. The Group accounts for a contract with a customer when there is a legally enforceable contract between the Group and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. Payments from customers are typically due within 30 and 40 days of invoicing.

The Group does not recognize any assets associated with the incremental costs of obtaining a contract with a customer that are expected to be recovered. The majority of revenue is recognized at a point-in-time or over a period of one year or less, and the Group applies the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise be recognized is one year or less.

Cars, spare parts and engines

The sales of cars, spare parts and engines have multiple performance obligations that include products, services, or a combination of products and services as contracts may include maintenance programs and extended warranties that are separately priced or not separately priced. Contracts may also include variable consideration for discounts such as sales incentives and performance based bonuses and product returns. The cost of incentives is estimated at the inception of a contract at the expected amount that will ultimately be paid and is recognized as a reduction to revenue at the time of the sale. Revenues recognized are limited to the amount of consideration the Group expects to receive. The Group allocates the transaction price to the performance obligations based on the stand alone selling prices (SSP) for each obligation. When the SSP does not exist, the Group estimates the SSP based on the adjusted market approach.

Revenues for the sale of cars, spare parts and engines are recognized at a point in time when control of the cars, spare parts or engines is transferred to the customer based on shipping terms, which generally corresponds to the date when the cars,

spare parts and engines are released to the carrier responsible for transportation to dealers or Maserati. Revenues relating to the maintenance program or extended warranty are recognized over time as the maintenance program or extended warranty is provided. Revenues from the supply of engines and related services to other Formula 1 racing teams are recognized over time on a time and materials basis when the services are provided.

Management has exercised judgment in determining performance obligations, variable consideration, allocation of transaction price and the timing of revenue recognition.

Sponsorship, commercial and brand activities

Revenues from sponsorship agreements are generally recognized ratably over the contract term as the customer benefits from the service throughout the service period. For sponsorship agreements that contain variable consideration based on performance of the racing team, the related revenues are estimated and recognized over the relevant period to the extent that it is highly probable that a significant reversal in the amount of the cumulative revenue recognized will not occur, which is typically when it is considered highly probable that the related conditions associated with the variable consideration will be achieved.

Revenues from commercial activities primarily relate to the revenues 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 ratably over the contract term.

Revenues from brand licensing agreements where the customer has a right to access the Group's brands or the contract includes minimum guaranteed payments are recognized on a straight-line basis over the contract term. Licensing revenues in excess of the minimum guaranteed payments are recognized when the related conditions are satisfied. Revenues from sales-based licensing agreements are recognized when the sales occur.

Management has exercised judgment in determining variable consideration.

Other revenues

Interest income generated by our financial service activities from the provision of client and dealer financing is reported within revenues using the effective interest rate method and not within net financial income/expenses.

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 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. Any remeasurements to deferred tax assets and liabilities as a result of changes in substantially enacted tax rates are recognized in the income statement.

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, 2018, 2017 and 2016.

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.

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, 2018 and 2017 was as follows:

Name	Country	Nature of business	At December 31, 2018		At December 31, 2017	
			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.	Italy	Manufacturing	100%	—%	100%	—%
Indirectly held through Ferrari S.p.A.						
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%	—%	100%	—%
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%	—%
Mugello Circuit S.p.A.	Italy	Racetrack management	100%	—%	100%	—%
Ferrari Financial Services Inc.	USA	Financial services	100%	—%	100%	—%
Indirectly held through other Group entities						
Ferrari Auto Securitization Transaction, LLC ⁽¹⁾	USA	Financial services	100%	—%	100%	—%
Ferrari Auto Securitization Transaction - Lease, LLC ⁽¹⁾	USA	Financial services	100%	—%	100%	—%
Ferrari Auto Securitization Transaction - Select, LLC ⁽¹⁾	USA	Financial services	100%	—%	100%	—%
Ferrari Financial Services Titling Trust ⁽¹⁾	USA	Financial services	100%	—%	100%	—%
410, Park Display Inc. ⁽²⁾	USA	Retail	100%	—%	100%	—%

(1) Shareholding held by Ferrari Financial Services Inc.

(2) Shareholding held by Ferrari North America Inc.

Ferrari Financial Services S.p.A., which at December 31, 2017 was a fully-owned indirect subsidiary, was merged into Ferrari S.p.A. effective May 31, 2018. As a consequence, Ferrari Financial Services Inc., previously a wholly-owned subsidiary of Ferrari Financial Services S.p.A., became a direct wholly-owned subsidiary of Ferrari S.p.A. effective May 31, 2018.

Non-controlling interests

The non-controlling interests at December 31, 2018 and 2017 and the net profit attributable to non-controlling interests for the years ended December 31, 2018, 2017 and 2016 relate to Ferrari International Cars Trading (Shanghai) Co. L.t.d. ("FICTS"), in which the Group holds an 80 percent interest.

	At December 31,	
	2018	2017
	(€ thousand)	
Equity attributable to non-controlling interests	5,117	5,258

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Net profit attributable to non-controlling interests	1,949	2,003	956

The non-controlling interests in FICTS 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. The Group 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, 2018 amounted to €77,790 thousand (€66,456 thousand at December 31, 2017).

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 related funding. Such cash amounted to €26,497 thousand at December 31, 2018 (€28,230 thousand at December 31, 2017).

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 the 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 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.

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

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.

As the Group is composed of one operating segment, goodwill is tested at the 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. The recoverable amount of the CGU is the higher of its fair value less costs of disposal and its value in use.

For the period covered by these Consolidated Financial Statements, the Group has not recognized any impairment charges for goodwill.

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.

Product warranties 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 and the cost of parts and services to be incurred in the specified activities, and are recognized at the time when they are probable and reasonably estimable. 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.

Share-based compensation

The Group accounts for its equity incentive plan in accordance with IFRS 2 - *Share-based Payment*, which requires the recognition of share-based compensation expense based on the fair value of the awards granted. Share-based compensation for equity-settled awards containing market performance conditions is measured at the grant date of the awards using the Monte Carlo simulation model, which requires the input of subjective assumptions, including the expected volatility of our common stock, the dividend yield, interest rates and the correlation coefficient between our common stock and the relevant market index. The probability that the Group will achieve a certain level of Total Shareholder Return performance compared to the defined peer group is also considered. As a result, at the grant date management is required to make key assumptions and estimates regarding conditions that will occur in the future, which inherently involves uncertainty. Therefore, the amount of share-based compensation recognized has been effected by the significant assumptions and estimates used.

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, seatbelts, 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.

4. NET REVENUES

Net revenues are as follows:

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Cars and spare parts	2,535,245	2,455,955	2,180,045
Engines	284,546	373,313	337,924
Sponsorship, commercial and brand	505,701	494,082	488,514
Other	94,829	93,540	98,601
Total net revenues	3,420,321	3,416,890	3,105,084

Other net revenues primarily include interest income generated by financial services activities and net revenues from the management of the Mugello racetrack.

5. COST OF SALES

Cost of sales in 2018, 2017 and 2016 amounted to €1,622,905 thousand, €1,650,860 thousand and €1,579,690 thousand, respectively, mainly comprising expenses incurred in the manufacturing and distribution of cars and spare parts, including the engines sold to Maserati and engines rented to other Formula 1 racing teams, of which the cost of materials, components and labor are the most significant elements. The remaining costs primarily relate to 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.

Interest and other financial expenses from financial services companies included within cost of sales in 2018, 2017 and 2016 amounted to €33,828 thousand, €30,945 thousand and €21,307 thousand, respectively.

Cost of sales in 2016 included €36,994 thousand related to the charges for Takata airbag inflator recalls and cost of sales in 2018 included €1,451 thousand related to a partial release of the provision for charges to Takata airbag inflator recalls. See Note 24 "Provisions" for additional details.

6. SELLING, GENERAL AND ADMINISTRATIVE COSTS

Selling costs in 2018, 2017 and 2016 amounted to €167,819 thousand, €173,484 thousand and €146,430 thousand, respectively, and mainly consist of costs for marketing and events, sales personnel, and retail stores. 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, as well as sponsorship and indirect marketing costs incurred through the Formula 1 racing team, Scuderia Ferrari.

General and administrative costs in 2018, 2017 and 2016 amounted to €159,522 thousand, €155,581 thousand and €148,812 thousand, respectively, and mainly consist of administration expenses and other general expenses that are not directly attributable to sales, manufacturing or research and development activities.

7. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are as follows:

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Research and development costs expensed during the year	527,847	556,617	509,580
Amortization of capitalized development costs	115,191	100,502	104,055
Total research and development costs	643,038	657,119	613,635

The main component of research and development costs expensed during the period relate to research and development to support the innovation of our product range and components, and in particular, in relation to hybrid technology and Formula 1 activities. Research and development costs also include amortization of capitalized development costs.

8. OTHER EXPENSES, NET

Other expenses, net are as follows:

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Other expenses	18,257	11,830	30,249
Other income	(15,062)	(4,963)	(5,748)
Other expenses, net	3,195	6,867	24,501

Other expenses primarily include indirect taxes, provisions and other miscellaneous expenses. In 2016 provisions recorded within other expenses were higher due to disputes with a distributor.

Other income primarily include rental income, gains on the disposal of property plant and equipment and other miscellaneous income. In 2018 other income was higher due to a favorable ruling on a prior year's legal dispute.

9. RESULT FROM INVESTMENTS

Result from investments of €2,665 thousand and €2,437 thousand in 2018 and 2017, respectively, related to the Group's proportionate share of Ferrari Financial Services GmbH ("FFS GmbH")'s net profit for the relevant year. Result from investments of €3,066 thousand in 2016 related to gains resulting from the sale of a majority stake in FFS GmbH to FCA Bank on November 7, 2016, as well as the Group's proportionate share of FFS GmbH's net profit for the period from November 7, 2016 to December 31, 2016.

10. NET FINANCIAL EXPENSES

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 line item, as well as interest income from financial services activities, recognized under net revenues, and interest expenses and other financial charges from financial services activities, recognized under cost of sales.

	For the years ended December 31,		
	2018	2017	2016
Financial income:	(€ thousand)		
<i>Interest income from bank deposits</i>	1,445	1,153	843
<i>Other interest income and financial income</i>	677	5,284	1,841
Interest income and other financial income	2,122	6,437	2,684
Finance income from financial services companies	52,702	50,254	58,236
Total financial income	54,824	56,691	60,920
Total financial income relating to:			
Industrial companies (A)	2,122	6,437	2,684
Financial services companies (reported in net revenues)	52,702	50,254	58,236
Financial expenses:			
<i>Capitalized borrowing costs</i>	2,884	1,578	1,519
<i>Other interest cost and financial expenses</i>	(1,046)	(3,775)	(4,090)
Interest expenses and other financial expenses	1,838	(2,197)	(2,571)
Interest expenses from banks	(21,486)	(23,057)	(27,042)
Interest on bonds	(12,386)	(9,231)	(6,937)
Write-downs of financial receivables	(3,326)	(3,530)	(3,864)
Net interest expenses on employee benefits provisions	—	—	(389)
Other financial expenses	(8,494)	(12,008)	(5,831)
Total financial expenses	(43,854)	(50,023)	(46,634)
Net expenses from derivative financial instruments and foreign currency exchange rate differences	(15,659)	(16,619)	(5,086)
Total financial expenses and net expenses from derivative financial instruments and foreign currency exchange rate differences	(59,513)	(66,642)	(51,720)
Total financial expenses and net expenses from derivative financial instruments and foreign currency exchange rate differences relating to:			
Industrial companies (B)	(25,685)	(35,697)	(30,413)
Financial services companies (reported in cost of sales)	(33,828)	(30,945)	(21,307)
Net financial expenses relating to industrial companies (A+B)	(23,563)	(29,260)	(27,729)

11. INCOME TAXES

Income tax expense is as follows:

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Current tax expense	95,076	201,274	189,492
Deferred tax expense/(income)	66,325	8,718	(18,290)
Taxes relating to prior periods	(145,084)	(1,232)	(3,567)
Total income tax expense	16,317	208,760	167,635

The Group's entities participate in a group Italian tax consolidation under Ferrari N.V..

In September 2018, the Group signed an agreement with the Italian Revenue Agency in relation to the Patent Box tax regime, which provides tax benefits for companies that generate income through the use, both direct and indirect, of copyrights, patents, trademarks, designs and know-how. The agreement relates to the five-year period from 2015 to 2019. The Group applied the Patent Box tax regime for the calculation of income taxes starting in the third quarter of 2018. The Patent Box tax benefit relating to the years 2015 to 2017 was recorded within taxes relating to prior periods in 2018 and amounted to €141 million, of which €139 million was from direct use and €2 million was from indirect use of copyrights, patents, trademarks, designs and know-how. The estimated Patent Box tax benefit relating to the year 2018 amounted to €61 million and is recorded within current tax expense for 2018.

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,		
	2018	2017	2016
	(€ thousand)		
Theoretical income tax expense, net of IRAP	192,706	179,077	156,022
Tax effect on:			
Permanent and other differences	(58,877)	(7,061)	(10,219)
Effect of changes in tax rate and tax regulations	—	4,862	1,280
Differences between foreign tax rates and the theoretical Italian tax rate and tax holidays	1,216	2,344	853
Taxes relating to prior years	(145,084)	(1,232)	(3,567)
Withholding tax on earnings	1,514	2,420	2,017
Total income tax (benefit)/expense, net of IRAP	(8,525)	180,410	146,386
<i>Effective tax rate, net of IRAP</i>	<i>(1.1)%</i>	<i>24.2%</i>	<i>25.8%</i>
IRAP (current and deferred)	24,842	28,350	21,249
Total income tax expense	16,317	208,760	167,635

Theoretical income taxes have been calculated at the corporate income tax rate in Italy for the respective years, which was 24.0 percent for the years ended December 31, 2018 and 2017, and 27.5 percent for the year ended December 31, 2016 (a change in Italian tax law approved a reduction in the corporate income tax rate from 27.5 percent to 24 percent, effective from 2017).

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, 2018, 2017 and 2016.

The decrease in the effective tax rate net of IRAP from 24.2 percent in 2017 to (1.1) percent in 2018 was primarily attributable to the positive impact of the Patent Box, as described above, including the benefit relating to the years 2015 to 2017 which was recognized in 2018. The Patent Box benefit relating to the years 2015 to 2017 is included within “taxes relating to prior years” and the Patent Box benefit relating to 2018 is included within “permanent and other differences” in the tax rate reconciliation above.

The decrease in the effective tax rate net of IRAP from 25.8 percent in 2016 to 24.2 percent in 2017 was primarily attributable to the combined effects of a reduction in the Italian corporate income tax rate from 27.5 percent to 24 percent (effective from 2017), deductions related to eligible research and development costs and depreciation of fixed assets in accordance with tax regulations in Italy, partially offset by a decrease in net deferred tax assets due to the Tax Cuts and Jobs Act that was enacted into law in the U.S on December 22, 2017. The Tax Act includes various changes to the tax law, including a reduction in the corporate income tax rate from 35 percent to 21 percent effective January 1, 2018. The Group recognized the effects of the changes in the tax rate and laws resulting from the Tax Act in 2017, which resulted in a €4,646 thousand decrease in net deferred tax assets, recorded through the income statement, related to adjusting deferred tax assets and liabilities to reflect the new corporate tax rate. The accounting for the effects of the rate change on deferred tax balances is complete and no provisional amounts were recorded for this item.

The analysis of deferred tax assets and deferred tax liabilities at December 31, 2018 and 2017, is as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Deferred tax assets:		
To be recovered after 12 months	27,297	63,286
To be recovered within 12 months	33,447	30,805
	60,744	94,091
Deferred tax liabilities:		
To be realized after 12 months	(14,497)	(9,885)
To be realized within 12 months	(24,645)	(1,092)
	(39,142)	(10,977)
Net deferred tax assets	21,602	83,114

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, 2017	Recognized in consolidated income statement	Charged to equity	Translation differences and other changes	At December 31, 2018
			(€ thousand)		
Deferred tax assets arising on:					
Provisions	102,243	5,249	—	655	108,147
Deferred income	46,198	3,131	—	2,249	51,578
Employee benefits	2,562	—	(88)	—	2,474
Cash flow hedge reserve	(2,432)	—	3,608	—	1,176
Foreign currency exchange rate differences	740	119	—	—	859
Inventory obsolescence	37,615	521	—	139	38,275
Allowances for doubtful accounts	3,999	303	—	(1)	4,301
Depreciation	16,570	399	—	272	17,241
Other	12,383	1,876	—	(3,112)	11,147
Total deferred tax assets	219,878	11,598	3,520	202	235,198
Deferred tax liabilities arising on:					
Depreciation	(8,930)	(24)	—	(349)	(9,303)
Capitalization of development costs	(114,775)	(56,932)	—	—	(171,707)
Employee benefits	(1,868)	(161)	—	1,359	(670)
Exchange rate differences	(647)	501	—	(3)	(149)
Cash flow hedge reserve	(1)	—	—	—	(1)
Lease accounting	(10,652)	(5,180)	—	—	(15,832)
Withholding tax on undistributed earnings	—	(16,371)	—	—	(16,371)
Other	—	244	—	193	437
Total deferred tax liabilities	(136,873)	(77,923)	—	1,200	(213,596)
Deferred tax assets arising on tax loss carry-forward	109	—	—	(109)	—
Total net deferred tax assets	83,114	(66,325)	3,520	1,293	21,602

	At December 31, 2016	Recognized in consolidated income statement	Charged to equity	Translation differences and other changes	At December 31, 2017
	(€ thousand)				
Deferred tax assets arising on:					
Provisions	111,321	(6,959)	—	(2,119)	102,243
Deferred income	43,549	2,649	—	—	46,198
Employee benefits	2,370	(11)	203	—	2,562
Cash flow hedge reserve	7,325	—	(9,757)	—	(2,432)
Foreign currency exchange rate differences	3,028	(2,288)	—	—	740
Inventory obsolescence	24,569	13,515	—	(469)	37,615
Allowances for doubtful accounts	4,107	(94)	—	(14)	3,999
Depreciation	19,853	(3,283)	—	—	16,570
Other	13,833	2,007	—	(3,457)	12,383
Total deferred tax assets	229,955	5,536	(9,554)	(6,059)	219,878
Deferred tax liabilities arising on:					
Depreciation	(17,592)	7,408	—	1,254	(8,930)
Capitalization of development costs	(90,480)	(24,295)	—	—	(114,775)
Employee benefits	(1,745)	(123)	—	—	(1,868)
Exchange rate differences	(3,547)	2,900	—	—	(647)
Cash flow hedge reserve	(1)	—	—	—	(1)
Lease accounting	(11,004)	352	—	—	(10,652)
Withholding tax on undistributed earnings	(1,150)	1,150	—	—	—
Total deferred tax liabilities	(125,519)	(12,608)	—	1,254	(136,873)
Deferred tax assets arising on tax loss carry-forward	1,810	(1,646)	—	(55)	109
Total net deferred tax assets	106,246	(8,718)	(9,554)	(4,860)	83,114

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 business 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. For additional information, at December 31, 2018, the aggregate amount of temporary differences related to remaining distributable earnings of the Group's subsidiaries where deferred tax liabilities have not been recognized amounted to €92,437 thousand.

12. OTHER INFORMATION BY NATURE

Personnel costs in 2018, 2017 and 2016 amounted to €323,936 thousand, €313,471 thousand and €294,047 thousand, respectively. These amounts include costs that were capitalized mainly in connection with product development activities.

In 2018, 2017 and 2016 the Group had an average number of employees of 3,651, 3,336 and 3,115, respectively.

13. EARNINGS PER SHARE

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, 2018, 2017 and 2016:

		For the years ended December 31,		
		2018	2017	2016
Profit attributable to owners of the Company	€ thousand	784,678	535,393	398,762
Weighted average number of common shares	thousand	188,606	188,951	188,923
Basic earnings per common share	€	4.16	2.83	2.11

Diluted earnings per share

The weighted average number of common shares for diluted earnings per share was increased to take into consideration the theoretical effect of (i) the potential common shares that would be issued under the equity incentive plan (see Note 22 for additional details of the equity incentive plan) for the years ended December 31, 2018 and 2017, and (ii) the potential common shares that would have been issued for the Non-Executive Directors' compensation agreement for the years ended December 31, 2017 and 2016.

The following table provides the amounts used in the calculation of diluted earnings per share for the years ended December 31, 2018, 2017 and 2016:

		For the years ended December 31,		
		2018	2017	2016
Profit attributable to owners of the Company	€ thousand	784,678	535,393	398,762
Weighted average number of common shares for diluted earnings per common share	thousand	189,394	189,759	188,946
Diluted earnings per common share	€	4.14	2.82	2.11

14. GOODWILL

At December 31, 2018 and 2017 goodwill amounted to €785,182 thousand.

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 of disposal 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 2019 through 2023 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 in 2018 (2.0 percent in 2017 and 2016).
- 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 in 2018 (7.0 percent in 2017 and 2016). 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, 2017	938,492	474,641	144,192	53,842	1,611,167
Additions	142,795	42,320	12,416	4,975	202,506
Reclassification	—	—	12,289	(12,289)	—
Translation differences and other movements	—	—	(1,011)	(1,443)	(2,454)
Balance at December 31, 2017	1,081,287	516,961	167,886	45,085	1,811,219
Additions	242,753	75,109	14,052	5,628	337,542
Reclassification	—	—	508	(508)	—
Translation differences and other movements	—	—	1,168	143	1,311
Balance at December 31, 2018	1,324,040	592,070	183,614	50,348	2,150,072
Accumulated amortization at January 1, 2017	774,151	315,824	130,801	35,997	1,256,773
Amortization	72,978	27,524	14,312	2,308	117,122
Translation differences and other movements	—	—	(3,307)	175	(3,132)
Balance at December 31, 2017	847,129	343,348	141,806	38,480	1,370,763
Amortization	83,427	31,764	14,914	2,259	132,364
Translation differences and other movements	—	—	1,196	(48)	1,148
Balance at December 31, 2018	930,556	375,112	157,916	40,691	1,504,275
Carrying amount at:					
January 1, 2017	164,341	158,817	13,391	17,845	354,394
December 31, 2017	234,158	173,613	26,080	6,605	440,456
December 31, 2018	393,484	216,958	25,698	9,657	645,797

Additions of €337,542 thousand in 2018 (€202,506 thousand in 2017) primarily relate to externally acquired and internally generated costs for the development of new and existing models.

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, 2017	22,681	337,503	1,786,156	132,622	88,473	2,367,435
Additions	892	4,691	131,981	11,855	39,485	188,904
Divestitures	—	(77)	(31,877)	(3,101)	(368)	(35,423)
Reclassification	—	355	73,160	(2,685)	(70,830)	—
Translation differences and other movements	(36)	(723)	42	(1,700)	—	(2,417)
Balance at December 31, 2017	23,537	341,749	1,959,462	136,991	56,760	2,518,499
Additions	25	14,710	81,936	9,679	194,444	300,794
Divestitures	—	(641)	(16,684)	(2,740)	(238)	(20,303)
Reclassification	—	17,225	16,853	1,137	(35,215)	—
Translation differences and other movements	12	330	(3,130)	(593)	(560)	(3,941)
Balance at December 31, 2018	23,574	373,373	2,038,437	144,474	215,191	2,795,049
Accumulated amortization at January 1, 2017	—	132,822	1,460,995	104,335	—	1,698,152
Depreciation	—	9,860	124,629	8,995	—	143,484
Divestitures	—	(69)	(29,761)	(2,469)	—	(32,299)
Translation differences and other movements	—	(353)	(94)	(651)	—	(1,098)
Balance at December 31, 2017	—	142,260	1,555,769	110,210	—	1,808,239
Depreciation	—	10,407	136,793	9,184	—	156,384
Divestitures	—	(627)	(15,976)	(2,621)	—	(19,224)
Translation differences and other movements	—	2,864	(1,050)	(2,714)	—	(900)
Balance at December 31, 2018	—	154,904	1,675,536	114,059	—	1,944,499
Carrying amount at:						
January 1, 2017	22,681	204,681	325,161	28,287	88,473	669,283
December 31, 2017	23,537	199,489	403,693	26,781	56,760	710,260
December 31, 2018	23,574	218,469	362,901	30,415	215,191	850,550

Additions of €300,794 thousand in 2018 were mainly comprised of additions of €81,936 thousand to plant, machinery and equipment and additions of €194,444 thousand related to advances and assets under construction. Additions of €188,904 thousand in 2017 were mainly comprised of additions of €131,981 thousand to plant, machinery and equipment and additions of €39,485 thousand related to advances and assets under construction. Additions mainly relate to car production and engine assembly lines (including those for models to be launched in future years), industrial tools used for the production of cars, and our personalization programs.

At December 31, 2018, the Group had contractual commitments for the purchase of property, plant and equipment amounting to €146,281 thousand (€37,844 thousand at December 31, 2017).

17. INVESTMENTS AND OTHER FINANCIAL ASSETS

	At December 31,	
	2018	2017
	(€ thousand)	
Investments accounted for using the equity method	25,972	23,340
Other securities and financial assets	6,162	6,698
Total investments and other financial assets	32,134	30,038

Investments accounted for using the equity method

Investments accounted for using the equity method relates to the Group's investment in FFS GmbH.

Changes in the investments accounted for using the equity method were as follows:

	(€ thousand)
Balance at January 1, 2017	20,948
Proportionate share of net profit for the year ended December 31, 2017	2,437
Proportionate share of remeasurement of defined benefit plans	(45)
Balance at December 31, 2017	23,340
Proportionate share of net profit for the year ended December 31, 2018	2,665
Proportionate share of remeasurement of defined benefit plans	(33)
Balance at December 31, 2018	25,972

Summarized financial information relating to FFS GmbH at and for the years ended December 31, 2018 and 2017 were as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Assets		
Non-current assets	1,402	2,690
Receivables from financing activities	591,482	493,985
Other current assets	12,630	10,012
Cash and cash equivalents	5,957	8,109
Total assets	611,471	514,796
Equity and liabilities		
Equity	49,969	44,705
Debt	546,595	457,787
Other liabilities	14,907	12,304
Total equity and liabilities	611,471	514,796

	For the year ended December 31,	
	2018	2017
	(€ thousand)	
Net revenues	29,446	26,505
Cost of sales	12,183	11,525
Selling, general and administrative costs	8,720	8,173
Other expenses, net	239	245
Profit before taxes	8,304	6,562
Income tax expense	2,974	1,689
Net profit	5,330	4,873

Other securities and financial assets

Other securities and financial assets primarily include Series C Liberty Formula One shares (the “Liberty Media Shares”) of Liberty Media Corporation (the group responsible for the promotion of the Formula 1 World Championship), which are measured at fair value and amounted to €5,142 thousand at December 31, 2018 (€5,705 thousand at December 31, 2017).

18. INVENTORIES

	At December 31,	
	2018	2017
	(€ thousand)	
Raw materials	74,053	67,547
Semi-finished goods	84,576	87,678
Finished goods	232,435	238,540
Total inventories	391,064	393,765

Finished goods includes cars and spare parts, and certain amounts in the comparative period were reclassified in the breakdown above in order to provide a more representative presentation of the Group’s inventories.

The accrual to the provision for slow moving and obsolete inventories recognized within cost of sales during 2018 was €11,062 thousand (€10,140 thousand in 2017 and €2,120 thousand in 2016).

Changes in the provision for slow moving and obsolete inventories were as follows:

	2018	2017
	(€ thousand)	
At January 1,	66,989	60,548
Provision	11,062	10,140
Use and other changes	(4,625)	(3,699)
At December 31,	73,426	66,989

19. CURRENT RECEIVABLES AND OTHER CURRENT ASSETS

	At December 31,	
	2018	2017
	(€ thousand)	
Trade receivables	211,399	239,410
Receivables from financing activities	878,496	732,947
Current tax receivables	128,234	6,125
Other current assets	64,295	45,441
Total	1,282,424	1,023,923

Trade receivables

The following table sets forth a breakdown of trade receivables by nature:

	At December 31,	
	2018	2017
	(€ thousand)	
Trade receivables due from:		
Dealers	64,739	48,166
FCA Group companies	47,882	75,245
Sponsorship and commercial activities	43,500	30,058
Brand activities	26,247	33,283
Other	29,031	52,658
Total	211,399	239,410

Trade receivables due from dealers relate to receivables for the sale of cars across the dealer network and are generally settled within 30 to 40 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 29.

Trade receivables due from sponsorship and commercial activities mainly relate to amounts receivable from sponsorship agreements and commercial activities relating to the Group's participation in the Formula 1 World Championship. 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,	
	2018	2017
	(€ thousand)	
Trade receivables denominated in:		
Euro	128,396	172,492
U.S. Dollar	68,410	53,618
Pound Sterling	3,440	2,915
Chinese Yuan	1,777	2,947
Japanese Yen	1,571	3,151
Other	7,805	4,287
Total	211,399	239,410

Trade receivables are shown net of an allowance for doubtful accounts determined on the basis of insolvency risk and historical experience, adjusted for forward-looking factors specific to the receivables and economic environment. 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 of trade receivables during the year were as follows:

	2018	2017
	(€ thousand)	
At January 1,	21,993	19,174
Provision	2,737	3,231
Use and other changes	(384)	(412)
At December 31,	24,346	21,993

Receivables from financing activities

Receivables from financing activities are as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Client financing	851,209	704,014
Dealer financing	27,287	28,933
Total receivables from financing activities	878,496	732,947

Receivables from financing activities are shown net of an allowance for doubtful accounts determined on the basis of insolvency risks, adjusted for forward-looking factors specific to the receivables and economic environment. 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:

	2018	2017
	(€ thousand)	
At January 1,	6,948	11,556
Provision	2,687	3,530
Use and other changes	(3,178)	(8,138)
At December 31,	6,457	6,948

Client financing

Client financing relates to financing provided by the Group to Ferrari clients to finance their car acquisition. During 2018 the average contractual duration at inception of such contracts was approximately 67 months and the weighted average interest rate was approximately 5.7 percent (approximately 5.1 percent in 2017). Receivables for client financing are generally secured on the titles of cars or other personal guarantees.

Client financing relates entirely to financial services activities in the United States and is denominated in U.S. Dollars.

Dealer financing

The Group provides dealer financing in the United States. Receivables for dealer financing are typically generated by sales of cars managed under dealer network financing programs as a component of the portfolio of financial services activities. In 2018 these receivables were interest bearing at a rate between 4.1 percent and 7.0 percent (between 3.3 percent and 6.0 percent in 2017), with the exception of an initial limited, non-interest bearing period. The contractual terms governing the relationships with the dealer network may vary, 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.

Current tax receivables

The increase in current tax receivables primarily related to the Patent Box benefit.

Other current assets

Other current assets are as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Prepayments	35,758	27,980
Italian and foreign VAT credits	20,466	11,988
Due from personnel	803	959
Security deposits	806	1,014
Other receivables	6,462	3,500
Total other current assets	64,295	45,441

At December 31, 2018, the Group had provided guarantees through third parties amounting to €133,175 thousand (€132,014 thousand at December 31, 2017), principally to banks and relevant tax authorities in relation to (i) a U.S. Dollar denominated credit facility of FFS Inc, (ii) the validity of value added tax (“VAT”) and duties for which the Group requested reimbursement from the relevant tax authorities, (iii) 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, 2018					
Due within one year	Due between one and five years	Due beyond five years	Overdue	Total	
(€ thousand)					
Trade receivables	174,627	—	—	36,772	211,399
Receivables from financing activities	172,049	600,615	52,032	53,800	878,496
<i>Client financing</i>	<i>144,762</i>	<i>600,615</i>	<i>52,032</i>	<i>53,800</i>	<i>851,209</i>
<i>Dealer financing</i>	<i>27,287</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>27,287</i>
Current tax receivables	127,573	661	—	—	128,234
Other current receivables	28,036	494	7	—	28,537
Total	502,285	601,770	52,039	90,572	1,246,666

At December 31, 2017					
Due within one year	Due between one and five years	Due beyond five years	Overdue	Total	
(€ thousand)					
Trade receivables	207,074	—	—	32,336	239,410
Receivables from financing activities	144,621	529,489	46,894	11,943	732,947
<i>Client financing</i>	<i>134,972</i>	<i>513,079</i>	<i>44,020</i>	<i>11,943</i>	<i>704,014</i>
<i>Dealer financing</i>	<i>9,649</i>	<i>16,410</i>	<i>2,874</i>	<i>—</i>	<i>28,933</i>
Current tax receivables	5,667	458	—	—	6,125
Other current receivables	16,767	682	7	5	17,461
Total	374,129	530,629	46,901	44,284	995,943

Receivables from financing activities at December 31, 2018 and 2017 relate entirely to the financial services portfolio in the United States and are generally secured on the titles of cars or other guarantees.

20. CURRENT FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	At December 31,	
	2018	2017
	(€ thousand)	
Financial derivatives	6,788	11,686
Other financial assets	3,386	3,997
Current financial assets	10,174	15,683

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, 2018 and 2017.

	At December 31,			
	2018		2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
	(€ thousand)			
Cash flow hedge:				
Foreign currency forwards	3,240	(10,853)	8,848	(1,136)
Interest rate caps	555	—	—	—
Total cash flow hedges	3,795	(10,853)	8,848	(1,136)
Other foreign exchange derivatives	1,023	(489)	1,729	(308)
Interest rate caps	1,970	—	1,109	—
Total	6,788	(11,342)	11,686	(1,444)

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 required as part of certain of the funding from securitization programs.

The following tables provide an analysis by foreign currency of outstanding derivative financial instruments based on their fair value and notional amounts:

	At December 31, 2018		At December 31, 2017	
	Fair Value	Notional Amount	Fair Value	Notional Amount
	(€ thousand)			
Currencies:				
U.S. Dollar	(1,324)	487,336	2,637	114,317
Pound Sterling	613	138,609	510	110,032
Japanese Yen	(2,901)	113,596	4,402	81,890
Swiss Franc	(1,182)	64,229	1,999	43,552
Chinese Yuan	(82)	45,434	(97)	18,095
Other ⁽¹⁾	322	116,476	791	95,738
Total amount	(4,554)	965,680	10,242	463,624

(1) Other mainly includes the Australian Dollar, the Hong Kong Dollar and the Canadian Dollar.

At December 31, 2018 and 2017, all derivative financial instruments had a maturity of twelve months or less.

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. Dollars.

The policy of the Group for managing foreign currency risk normally requires hedging of a portion of projected future cash flows from trading activities and orders acquired (or contracts in progress) in foreign currencies which will occur within the following 12 months. 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,		
	2018	2017	2016
	<i>(€ thousand)</i>		
Net revenues/(costs)	3,777	19,724	(69,368)
Income tax (expense)/benefit	(1,054)	(5,503)	19,354
Total recognized in the consolidated income statement	2,723	14,221	(50,014)

The ineffectiveness of cash flow hedges was not material for the years 2018, 2017 and 2016.

21. EQUITY

Share capital

At December 31, 2018 and 2017, 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 per share. At December 31, 2018, the Company had 6,002,843 common shares and 4,744 special voting shares held in treasury, while at December 31, 2017, the Company had 4,969,625 common shares and 4,099 special voting shares held in treasury.

The following table provides a reconciliation of the opening and closing number of outstanding common shares and outstanding special voting shares:

	Common Shares	Special Voting Shares	Total
Outstanding shares at January 1, 2018	188,953,874	56,493,519	245,447,393
Shares repurchased under share repurchase program ⁽¹⁾	(1,033,218)	—	(1,033,218)
Other changes ⁽²⁾	—	(645)	(645)
Outstanding shares at December 31, 2018	187,920,656	56,492,874	244,413,530

(1) Includes shares repurchased between January 1, 2018 and December 31, 2018 based on the transaction trade date.

(2) Relates to the deregistration of special voting shares from the loyalty register.

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 N.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:

- a share premium reserve of €5,768,544 thousand at December 31, 2018 (€5,768,544 thousand at December 31, 2017), which primarily originated from the issuance of common shares pursuant to the restructuring activities undertaken as part of the Separation.
- a legal reserve of €29 thousand at December 31, 2018 and €8 thousand at December 31, 2017, determined in accordance with Dutch law.
- a treasury reserve of €100,143 thousand at December 31, 2018 and €50 thousand at December 31, 2017.
- a share-based compensation reserve of €52,198 thousand at December 31, 2018 and €29,707 thousand at December 31, 2017.

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 13, 2018, a dividend distribution of €0.71 per common share was approved, corresponding to a total distribution of €133,939 thousand (of which €133,095 thousand was paid in 2018). The distribution was made from the retained earnings reserve.

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 14, 2017, a cash distribution of €0.635 per common share was approved, corresponding to a total distribution of €119,985 thousand. The distribution was made from the share premium reserve which is a distributable reserve under Dutch law.

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 15, 2016, a cash distribution of €0.46 per common share was approved, 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.

On February 9, 2018, the Company announced its intention to launch a share repurchase program. The program is intended to optimize the capital structure of the Company. Shares repurchased may be used to meet the Company's obligations arising from the equity incentive plan approved in 2017. As of December 31, 2018 the Company had repurchased 1,033,218 common shares for a total consideration of €100,093 thousand under the program.

Other comprehensive income

The following table presents other comprehensive income:

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Items that will not be reclassified to the consolidated income statement in subsequent periods:			
Gains/(Losses) on remeasurement of defined benefit plans ⁽¹⁾	385	(730)	(1,448)
Total items that will not be reclassified to the consolidated income statement in subsequent periods	385	(730)	(1,448)
Items that may be reclassified to the consolidated income statement in subsequent periods:			
(Losses)/Gains on cash flow hedging instruments arising during the period	(9,257)	54,695	(18,282)
(Gains)/Losses on cash flow hedging instruments reclassified to the consolidated income statement	(3,777)	(19,724)	69,368
(Losses)/Gains on cash flow hedging instruments	(13,034)	34,971	51,086
Exchange differences on translating foreign operations arising during the period	5,986	(15,346)	4,118
Total items that may be reclassified to the consolidated income statement in subsequent periods	(7,048)	19,625	55,204
Total other comprehensive income	(6,663)	18,895	53,756
Related tax impact	3,520	(9,554)	(16,961)
Total other comprehensive income, net of tax	(3,143)	9,341	36,795

(1) For the year ended December 31, 2018 includes €33 thousand (€45 thousand for the year ended December 31, 2017) related to the Group's proportionate share of the loss on remeasurement of defined benefit plans of FFS GmbH, for which the Group holds a 49.9 percent interest.

Gains and losses on the remeasurement of defined benefit plans include actuarial gains and losses arising during the period and are offset against the related net defined benefit liabilities.

The tax effects relating to other comprehensive income/(loss) are summarized in the following table:

	For the years ended December 31,								
	2018			2017			2016		
	Pre-tax balance	Related tax impact	Net balance	Pre-tax balance	Related tax impact	Net balance	Pre-tax balance	Related tax impact	Net balance
	(€ thousand)								
(Losses)/Gains on remeasurement of defined benefit plans	385	(88)	297	(730)	203	(527)	(1,448)	(18)	(1,466)
Gains on cash flow hedging instruments	(13,034)	3,608	(9,426)	34,971	(9,757)	25,214	51,086	(16,943)	34,143
Exchange gains on translating foreign operations	5,986	—	5,986	(15,346)	—	(15,346)	4,118	—	4,118
Total other comprehensive income/(loss)	(6,663)	3,520	(3,143)	18,895	(9,554)	9,341	53,756	(16,961)	36,795

Transactions with non-controlling interests

With the exception of dividends paid to non-controlling interests, there were no transactions with non-controlling interests for the years ended December 31, 2018, 2017 or 2016.

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.

22. SHARE-BASED COMPENSATION

Following the approval of the equity incentive plan by the Board of Directors in March 2017, the Shareholders approved in April 2017 an award to the former Chief Executive Officer under the Company's equity incentive plan, which is applicable to members of the Senior Management Team ("SMT") and key leaders of the Group. The grants of the PSUs and the RSUs, each representing the right to receive one common share of the Company, cover a five-year performance period from 2016 to 2020, consistent with the Company's strategic horizon. In 2018 additional PSU and RSU awards were granted, subject to the Shareholders' approval at the Annual General Meeting of Shareholders (which is currently expected to be held on April 12, 2019), to the new Chief Executive Officer and certain key employees of the Group under the equity incentive plan.

At December 31, 2018, none of the PSUs or RSUs were vested, and 33 thousand PSUs and 16 thousand RSUs were forfeited. Under the equity incentive plan, the total number of PSUs and RSUs outstanding at December 31, 2018 were 675 thousand and 113 thousand, respectively.

For the years ended December 31, 2018 and 2017, the Company recognized €22,491 thousand and €28,179 thousand, respectively, as share-based compensation expense and an increase to other reserves in equity for the PSU awards and RSU awards. At December 31, 2018, unrecognized compensation expense amounted to €5,572 thousand and will be recognized over the remaining vesting period through 2020.

Performance Share Units

The Company awarded members of the SMT and key leaders a total target of approximately 237 thousand PSUs and 450 thousand PSUs to its Chief Executive Officer in 2017, and an additional total of approximately 21 thousand PSUs were awarded in 2018. The PSUs vest in three equal tranches in 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. The target amount

of PSUs vests as follows based on the Company's TSR ranking compared to an industry specific peer group of eight, including the Company, ("Peer Group"):

Ferrari TSR Ranking	% of Target Awards that Vest	
	CEO	SMT and Key Leaders
1	150%	150%
2	120%	120%
3	100%	100%
4	75%	—
5	50%	—
>5	0%	—

The defined Peer Group is as follows:

Ferrari	Brunello Cucinelli	Burberry	Ferragamo
Hermes	LVMH	Moncler	Richemont

The total number of shares that will eventually be issued upon vesting of the PSUs may vary from the original award, depending on the level of TSR performance achieved compared to the Peer Group.

The performance period for the PSUs commenced on January 1, 2016. The fair value of the awards used for accounting purposes was measured at the grant date using a Monte Carlo Simulation model. The range of the fair value of the PSUs that were awarded in 2017 is €59.36 to €72.06 per share and the range of the fair value of the PSUs that were awarded in 2018 is €61.30 and €111.92.

The key assumptions utilized to calculate the grant-date fair values for these awards are summarized below:

Key assumptions	PSU Awards Granted in 2017	PSU Awards Granted in 2018
Grant date share price	€66.85	€113.70
Expected volatility	17.4%	16.7%
Dividend yield	1.2%	0.9%
Risk-free rate	0%	0%

The expected volatility was based on the observed volatility of the Peer Group. The risk-free rate was based on the iBoxx sovereign Eurozone yield.

Retention Restricted Share Units

The Company awarded members of the SMT and key leaders a total of approximately 119 thousand RSUs in 2017, and an additional 10 thousand RSUs were awarded in 2018, including to the Chief Executive Officer. The RSU awards granted are conditional on a recipient's continued service to the Company, as described below. The RSUs, each of which represents the right to receive one common share of the Company, will vest in three equal tranches in 2019, 2020 and 2021, subject to continued employment with the Company at the time of vesting.

The performance period for the RSUs commenced on January 1, 2016. The fair value of the awards was measured using the share price at the grant date adjusted for the present value of future distributions which employees will not receive during the vesting period. The range of the fair value of the RSUs awarded in 2017 is €63.00 to €64.64 per share and the range of the fair value of the RSUs awarded in 2018 is €110.76 to €112.99.

23. EMPLOYEE BENEFITS

The Group's provisions for employee benefits are as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Present value of defined benefit obligations:		
Italian employee severance indemnity (TFR)	21,195	22,641
Pension plans	485	604
Total present value of defined benefit obligations	21,680	23,245
Other provisions for employees	64,895	60,914
Total provisions for employee benefits	86,575	84,159

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, 2018, 2017 and 2016 was €11,930 thousand, €11,987 thousand and €9,719 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.

The expected benefit payments for the defined benefit obligations are as follows:

	Expected benefit payments	
	TFR	Pension plans
	(€ thousand)	
2019	1,167	47
2020	1,413	48
2021	1,754	48
2022	1,649	3,787
2023	1,746	4
Beyond 2023	6,750	685
Total	14,479	4,619

The following table summarizes the changes in the defined benefit obligations:

	TFR liability	Pension plans	Total
	(€ thousand)		
Amounts at December 31, 2016	23,783	828	24,611
Included in the consolidated income statement	—	142	142
Included in other comprehensive income/loss ^(*)	820	(135)	685
Other	(1,962)	(231)	(2,193)
<i>Benefits paid</i>	<i>(1,964)</i>	<i>(164)</i>	<i>(2,128)</i>
<i>Other changes</i>	<i>2</i>	<i>(67)</i>	<i>(65)</i>
Amounts at December 31, 2017	22,641	604	23,245
Included in the consolidated income statement	—	55	55
Included in other comprehensive income/loss ^(*)	(390)	(28)	(418)
Other	(1,056)	(146)	(1,202)
<i>Benefits paid</i>	<i>(1,620)</i>	<i>(169)</i>	<i>(1,789)</i>
<i>Other changes</i>	<i>564</i>	<i>23</i>	<i>587</i>
Amounts at December 31, 2018	21,195	485	21,680

^(*) Relates to actuarial losses/(gains) from financial assumptions.

Amounts recognized in the consolidated income statement are as follows:

	For the years ended December 31,								
	2018			2017			2016		
	TFR	Pension plans	Total	TFR	Pension plans	Total	TFR	Pension plans	Total
	(€ thousand)								
Current service cost	—	55	55	—	141	141	31	(41)	(10)
Interest expense	—	—	—	—	1	1	360	4	364
Total recognized in the consolidated income statement	—	55	55	—	142	142	391	(37)	354

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 2018 is equal to 1.7 percent (1.5 percent in 2017 and 1.3 percent in 2016). 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 used for the measurement of the pension plan obligation (excluding TFR) and the interest expense/ (income) of net period cost, are based on the rate of 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 2018 was equal to approximately 0.8 percent (0.7 percent 2017 and 1.3 percent in 2016). The average duration of the obligations is approximately 9 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,			
	2018		2017	
	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	(1,647)	1,891	(1,771)	2,036

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, 2018, other provisions for employees comprised long term bonus benefits amounting to €61,885 thousand (€58,090 thousand at December 31, 2017), jubilee benefits granted to certain employees by the Group in the event of achieving 30 years of service amounting to €2,955 thousand (€2,745 thousand at December 31, 2017), and other provisions for employees benefits amounting to €55 thousand (€79 thousand at December 31, 2017).

24. PROVISIONS

Changes in provisions were as follows:

	At December 31, 2017	Additional provisions	Utilization	Translation differences and other	At December 31, 2018
	(€ thousand)				
Warranty and recall campaigns provision	123,136	12,301	(23,561)	(747)	111,129
Legal proceedings and disputes	50,375	4,774	(17,589)	(406)	37,154
Other risks	23,881	11,420	(2,295)	1,250	34,256
Total provisions	197,392	28,495	(43,445)	97	182,539

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, in 2016 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. At December 31, 2018, the provision amounted to €24,513 thousand (€34,567 thousand at December 31, 2017), reflecting the current best estimate for future costs related to the entire recall campaign to be carried out by the Group. The decrease in the provision relates to ongoing recall activities as well as a partial release.

Legal proceedings and disputes

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 2019 or beyond, 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 of the provision for legal proceedings and disputes mainly relates to a pronouncement on a prior year's legal dispute. Accruals to the provision for legal proceedings and disputes are recognized within other expenses, net.

Other risks

The provision for other risks are related to disputes and matters which are not subject to legal proceedings, including disputes with suppliers, distributors, employees and other parties.

The following table sets forth additional provisions to other risks recognized for the years ended December 31, 2018, 2017 and 2016.

	For the years ended December 31,		
	2018	2017	2016
	(€ thousand)		
Recorded in the consolidated income statement within:			
Cost of sales	11,420	8,065	4,499
Selling, general and administrative costs	—	274	2,604
Other expenses, net	—	—	14,559
	11,420	8,339	21,662

25. DEBT

	Balance at December 31, 2017	Proceeds from borrowings	Repayments of borrowings	Interest accrued and other	Translation differences	Balance at December 31, 2018
	(€ thousand)					
Bonds	1,193,517	—	—	4,592	—	1,198,109
Securitized	556,276	183,727	(89,018)	337	31,259	682,581
Borrowings from banks	38,059	—	(3,584)	113	1,396	35,984
Other debt	18,329	21,121	(29,109)	—	152	10,493
Total debt	1,806,181	204,848	(121,711)	5,042	32,807	1,927,167

The breakdown of debt by nature and by maturity is as follows:

	At December 31,						
	2018				2017		
	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)						
Bonds	7,616	1,190,493	—	1,198,109	6,159	694,402	492,956
Securitized	300,051	382,530	—	682,581	254,891	301,385	—
Borrowings from banks	34,249	1,735	—	35,984	32,811	5,248	—
Other debt	10,493	—	—	10,493	18,329	—	—
Total debt	352,409	1,574,758	—	1,927,167	312,190	1,001,035	492,956

Bonds

2023 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 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, 2018 of €500,197 thousand includes accrued interest of €5,938 thousand (€498,894 thousand including accrued interest of €5,938 thousand at December 31, 2017).

2021 Bond

On November 16, 2017, the Company issued 0.25 percent coupon notes due January 2021, having a principal of €700 million. The bond was issued at a discount for an issue price of 99.557 percent, resulting in net proceeds of €694,172 thousand after the debt discount and issuance costs. The net proceeds were primarily used to repay the Term Loan. The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amount outstanding at December 31, 2018 of €697,912 thousand includes accrued interest of €1,678 thousand (€694,623 thousand including accrued interest of €221 thousand at December 31, 2017).

The notes for both the 2023 Bond and the 2021 Bond 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, 2018 and 2017, Ferrari was in compliance with the covenants of the notes.

Securitizations

Starting in 2016, FFS Inc has pursued a strategy of self-financing, further reducing dependency on intercompany funding and increasing the portion of self-liquidating debt with various securitization transactions. As of December 31, 2018, FFS Inc had the following revolving securitization programs:

- revolving securitization program for funding, which was increased up to \$450 million in December 2018, by pledging retail 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 65 basis points. As of December 31, 2018 total proceeds net of repayments from the sales of financial receivables under the program were \$424 million (\$325 million at December 31, 2017). The securitization agreement requires the maintenance of an interest rate cap.
- revolving securitization program for funding, which was increased up to \$250 million in October 2018, 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 65 basis points. As of December 31, 2018 total proceeds net of repayments from the sales of financial receivables under the program were \$223 million (\$222 million at December 31, 2017). The securitization agreement requires the maintenance of an interest rate cap.
- revolving securitization program for funding of up to \$135 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 120 basis points. As of December 31, 2018 total proceeds net of repayments from the sales of financial receivables under the program were \$134 million (\$120 million at December 31, 2017). The securitization agreement does not require an interest rate cap.

The funding limits of the revolving securitization programs have been increased since inception as the related receivables portfolios have finished.

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 €26,497 thousand at December 31, 2018 (€28,230 thousand at December 31, 2017).

Borrowings from banks

Borrowings from banks at December 31, 2018 mainly relate to financial liabilities of FFS Inc to support the financial services operations, and in particular (i) €30,694 thousand (€29,189 thousand at December 31, 2017) relating to a U.S. Dollar denominated credit facility for up to \$50 million (drawn down for \$35 million at December 31, 2018) and bearing interest at LIBOR plus a range of between 65 and 75 basis points; (ii) other borrowings from banks of €5,290 thousand (€8,870 thousand at December 31, 2017) relating to various short and medium term credit facilities.

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”). At inception, the Facility comprised 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 debt that originated from restructuring activities undertaken as part of the Separation. In March 2016, the Bridge Loan was fully repaid, primarily using the proceeds from the 2023 Bond. In 2016 and 2017 the Company made scheduled payments and voluntary prepayments, funded in part with the proceeds of the 2021 Bond, to fully repay the Term Loan.

At December 31, 2018 and 2017 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 RCF has a maturity of five years from inception of the Facility.

Other debt

Other debt primarily relates to funding for operating activities of the Group.

26. OTHER LIABILITIES

An analysis of other liabilities is as follows:

	At December 31,	
	2018	2017
	(€ thousand)	
Deferred income	271,817	274,186
Advances and security deposits	145,394	167,293
Accrued expenses	81,408	77,024
Payables to personnel	25,434	38,488
Social security payables	18,209	20,553
Other	47,481	42,806
Total other liabilities	589,743	620,350

Deferred income primarily includes amounts received under maintenance and power warranty programs of €204,987 thousand at December 31, 2018 and €192,705 thousand at December 31, 2017, which are deferred and recognized as revenues over the length of the related program term. Of the total liability related to maintenance and power warranty programs as of December 31, 2018, the Group expects to recognize in net revenues approximately €52 million in 2019, €44 million in 2020, €34 million in 2021 and €75 million afterwards. 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, 2018 and at December 31, 2017 primarily include advances received from customers, primarily for the purchase of our hypercars and limited edition cars. Upon shipment of such cars, the advances are recognized as revenue. Of the total contract liability related to advances as of December 31, 2018, the Group expects to recognize the entire amount within net revenues in 2019.

Changes in the Group's contract liabilities for maintenance and power warranties, and advances from customers, were as follows:

	At January 1, 2018	Additional amounts arising during the period	Amounts recognized within revenue	Other changes	At December 31, 2018
	(€ thousand)				
Maintenance and power warranty programs	192,705	82,731	(70,449)	—	204,987
Advances from customers	162,347	272,070	(293,884)	(681)	139,852

An analysis of other liabilities (excluding accrued expenses and deferred income) by due date is as follows:

	At December 31,							
	2018				2017			
	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)	223,138	6,960	6,420	236,518	264,380	4,760	—	269,140

27. TRADE PAYABLES

Trade payables of €653,751 thousand at December 31, 2018 (€607,505 thousand at December 31, 2017) are entirely due within one year. The carrying amount of trade payables is considered to be equivalent to their fair value.

28. 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.

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, 2018 and 2017:

	Note	At December 31, 2018			Total
		Level 1	Level 2	Level 3	
(€ thousand)					
Cash and cash equivalents		793,664	—	—	793,664
Investments and other financial assets - Liberty Media Shares	17	5,142	—	—	5,142
Current financial assets	20	—	6,788	—	6,788
Total assets		798,806	6,788	—	805,594
Other financial liabilities	20	—	11,342	—	11,342
Total liabilities		—	11,342	—	11,342

	Note	At December 31, 2017			Total
		Level 1	Level 2	Level 3	
(€ thousand)					
Cash and cash equivalents		647,706	—	—	647,706
Investments and other financial assets - Liberty Media Shares	17	5,705	—	—	5,705
Current financial assets	20	—	11,686	—	11,686
Total assets		653,411	11,686	—	665,097
Other financial liabilities	20	—	1,444	—	1,444
Total liabilities		—	1,444	—	1,444

There were no transfers between fair value hierarchy levels between 2017 and 2018.

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.

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:

	Note	At December 31,			
		2018		2017	
		Carrying amount	Fair value	Carrying amount	Fair value
(€ thousand)					
Receivables from financing activities		878,496	878,496	732,947	732,947
<i>Client financing</i>		851,209	851,209	704,014	704,014
<i>Dealer financing</i>	19	27,287	27,287	28,933	28,933
Total		878,496	878,496	732,947	732,947
Debt	25	1,927,167	1,921,937	1,806,181	1,819,337

29. 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 the Exor Group, unconsolidated subsidiaries of the Group, associates and joint ventures. In addition, members of the Ferrari Board of Directors, Audit Committee and executives with strategic responsibilities and their families are also considered related parties.

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, which have had an effect on revenues, cost of sales, and trade receivables and payables 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. The FCA Group is currently in the process of selling Magneti Marelli and the transaction is expected to be completed in the first half of 2019;
- 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;
- in 2016, 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.

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 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;
- sponsorship agreement relating to Formula 1 activities with Ferretti S.p.A.;
- sale of cars to certain members of the Board of Directors of Ferrari N.V. and Exor.

In accordance with IAS 24, transactions with related parties also include compensation to Directors, the Audit Committee and managers with strategic responsibilities.

Related party transactions recognized in the consolidated income statement are summarized in the table below:

	For the years ended December 31,								
	2018			2017			2016		
	Net revenues	Costs ⁽¹⁾	Net financial expenses	Net revenues	Costs ⁽¹⁾	Net financial expenses	Net revenues	Costs ⁽¹⁾	Net financial expenses
	(€ thousand)								
FCA Group companies									
Maserati	217,922	3,982	—	315,407	4,698	—	241,478	1,933	—
FCA US LLC	—	28,486	—	6	44,882	—	—	37,612	—
Magneti Marelli ⁽²⁾	1,589	40,343	—	1,866	36,670	—	1,735	29,663	—
Other FCA Group companies	12,106	7,193	1,370	6,754	7,007	1,191	5,472	9,163	471
Total FCA Group companies	231,617	80,004	1,370	324,033	93,257	1,191	248,685	78,371	471
Exor Group companies (excluding the FCA Group)	311	179	—	283	492	—	192	173	—
Other related parties									
COXA S.p.A.	13	5,819	—	48	6,141	—	121	7,096	—
HPE S.r.l.	—	6,832	—	—	7,525	—	—	6,447	—
Other related parties	1,694	—	—	2,111	—	—	1,950	24	—
Total other related parties	1,707	12,651	—	2,159	13,666	—	2,071	13,567	—
Total transactions with related parties	233,635	92,834	1,370	326,475	107,415	1,191	250,948	92,111	471
Total for the Group	3,420,321	1,953,441	23,563	3,416,890	1,986,792	29,260	3,105,084	1,899,433	27,729

(1) Costs include cost of sales, selling, general and administrative costs and other expenses/(income), net.

(2) The FCA Group is currently in the process of selling Magneti Marelli and the transaction is expected to be completed in the first half of 2019.

Assets and liabilities originating from related party transactions are summarized in the table below:

	At December 31,							
	2018				2017			
	Trade receivables	Trade payables	Other current assets	Other liabilities	Trade receivables	Trade payables	Other current assets	Other liabilities
	(€ thousand)							
FCA Group companies								
Maserati	39,077	6,099	—	30,594	71,560	3,028	—	37,496
FCA US LLC	135	6,332	—	—	129	6,848	—	—
Magneti Marelli ⁽¹⁾	2,774	9,427	—	—	899	8,103	—	—
Other FCA Group companies	5,896	4,689	1,481	44	2,657	4,646	2,097	27
Total FCA Group companies	47,882	26,547	1,481	30,638	75,245	22,625	2,097	37,523
Exor Group companies (excluding the FCA Group)	377	13	—	4	345	202	—	—
Other related parties								
COXA S.p.A.	9	812	—	—	3	1,142	—	—
HPE S.r.l.	—	1,187	—	—	—	1,150	—	—
Other related parties	199	—	5	—	268	—	—	—
Total other related parties	208	1,999	5	—	271	2,292	—	—
Total transactions with related parties	48,467	28,559	1,486	30,642	75,861	25,119	2,097	37,523
Total for the Group	211,399	653,751	64,295	589,743	239,410	607,505	45,441	620,350

(1) The FCA Group is currently in the process of selling Magneti Marelli and the transaction is expected to be completed in the first half of 2019.

There were financial assets or financial liabilities originating from related party transactions at December 31, 2018 or December 31, 2017.

Emoluments to Directors, Statutory Auditors and Key Management

The fees of the Directors and Statutory Auditors 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,		
	2018	2017	2016
	(€ thousand)		
Directors of Ferrari N.V.	17,043	17,767	8,617
Statutory auditors	118	112	105
Total emoluments	17,161	17,879	8,722

The aggregate compensation to Directors of Ferrari N.V. for year ended December 31, 2018 was €17,043 thousand (€17,767 thousand in 2017 and €8,617 thousand in 2016), inclusive of the following:

- €1,080 thousand for salary (€1,277 thousand in 2017 and €2,827 thousand in 2016); and
- €15,963 thousand for share-based compensation awarded under the Company's equity incentive plan, including an acceleration of the costs relating to the equity incentive plan of the former Chairman and Chief Executive Officer (Mr. Sergio Marchionne) (€16,490 thousand in 2017). See Note 22 "Share-based compensation" for information related to the equity incentive plan.

The aggregate compensation to Directors of Ferrari N.V. for year ended December 31, 2016, also included:

- €5,500 thousand for compensation costs related to the retirement of the former CEO (Mr. Amedeo Felisa) of the Group; and
- €290 thousand as the Group's contribution to defined benefit obligations and long-term bonus plans.

Non-Executive Directors' compensation for the years ended December 31, 2017 and 2016 included €418 thousand and €1,110 thousand, respectively, that was settled in common shares of the Company and recognized as an increase to equity in the relevant year. There was no equity-settled compensation for Non-Executive Directors for the year ended December 31, 2018.

The aggregate compensation for members of the Senior Management Team (excluding the CEO) in 2018 was €16,674 thousand (€16,015 thousand in 2017 and €12,290 thousand in 2016), inclusive of the following:

- €13,915 thousand for salary and short-term incentives (€10,964 thousand in 2017 and €11,059 thousand in 2016);
- €2,759 thousand for share-based compensation awarded under the Company's equity incentive plan (€4,737 thousand in 2017).
- The aggregate compensation for members of the Senior Management Team (excluding the CEO) for the year ended December 31, 2017 and 2016 includes also long-term benefits (€314 thousand in 2017 and €1,231 thousand in 2016).

30. 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.

Future minimum purchase obligations under these arrangements at December 31, 2018 were as follows:

	At December 31, 2018				Total
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years	
	(€ thousand)				
Minimum purchase obligations	153,303	43,110	6,707	1,060	204,180

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, 2018				Total
	Due within one year	Due between one and three years	Due between three and five years	Due beyond five years	
	(€ thousand)				
Future minimum lease payments under operating lease agreements	19,062	22,411	11,994	18,708	72,175

During 2018, the Group's operating lease expenses amounted to €15,358 thousand (€16,964 thousand in 2017 and €14,820 thousand in 2016).

31. QUALITATIVE AND QUANTITATIVE INFORMATION ON FINANCIAL RISKS

The Group is exposed to the following financial risks connected with its operations:

- financial market risk (principally relating to foreign currency exchange rates, and to a lesser extent, interest rates), as the Group operates internationally in different currencies;
- 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;
- credit risk, arising both from its normal commercial relations with final clients and dealers, and its financing activities.

These risks could significantly affect the Group's financial position, results of operations and cash flows, 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.

Financial market risks

Due to the nature of the Group's business, the Group is exposed to a variety of market risks, including foreign currency exchange rate risk and to a lesser extent, interest rate risk.

The Group's exposure to foreign currency exchange rate risk arises from the geographic distribution of the Group's shipments, as the Group generally sells its models in the currencies of the various markets in which the Group operates, while the Group's industrial activities are all based in Italy, and primarily denominated in Euro.

The Group's exposure to interest rate risk arises from the need to fund certain activities and the necessity to deploy surplus funds. 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 risks could significantly affect the Group's financial position, results of operations and cash flows, 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 the Group's operating and financing activities, and if required, through the use of derivative financial instruments.

The Group has in place various risk management policies, which primarily relate to foreign exchange, interest rate and liquidity risks. The Group's risk management policies permit derivatives to be used for managing exposures to foreign exchange rates and interest rates. Counterparties to these agreements are major financial institutions. Derivatives cannot be entered into for speculative purposes.

In particular, the Group 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 have not been fully exposed to fluctuations in foreign currency exchange rates.

However, despite these risk management policies and hedging transactions, sudden adverse movements in foreign currency exchange rates could have a significant effect on the Group's earnings and cash flows.

The Group also enters into interest rate caps as requested by certain of its securitization agreements.

Information on the fair value of derivative financial instruments held is provided in Note 20.

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 2018, the total trade flows exposed to foreign currency exchange rate risk amounted to the equivalent of 49 percent of the Group's turnover (51 percent in 2017).
- 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 other markets where the U.S. Dollar is the reference currency. In 2018, the value of commercial activity exposed to fluctuations in the Euro/U.S. Dollar exchange rate accounted for approximately 57 percent (62 percent in 2017) of the total currency risk from commercial activity. In 2018, the commercial activity exposed to the Euro/Pound Sterling exchange rate exceeded 10 percent (as in 2017) of the total currency risk from commercial activity. Other significant exposures included the exchange rate between the Euro and the following currencies: Japanese Yen, Chinese Renminbi, Swiss Franc, Canadian Dollar and Australian Dollar. None of these exposures, taken individually, exceeded 10 percent of the Group's total foreign currency exchange rate exposure for commercial activity in 2018. It is the Group's policy to use derivative financial instruments to hedge up to 90 percent of certain exposures to foreign currency exchange risk for up to twelve months.
- Several subsidiaries are located in countries that are outside the Eurozone, in particular the United States, the United Kingdom, Switzerland, Mainland 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.

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, 2018, except for those arising on financial instruments measured at fair value, amounted to net losses of €13,293 thousand (net losses of €18,059 thousand and net gains of €8,335 thousand for the years ended December 31, 2017 and 2016, respectively).

The impact of foreign currency exchange rate differences arising from financial services activities recognized under cost of sales, except for those arising on financial instruments measured at fair value, amounted to net gains of €58,808 thousand in 2016. Following the deconsolidation of FFS GmbH in November 2016, all of the Group's financial services activities are

conducted in the functional currency of the related financial services companies, therefore, such impact in 2018 and 2017 was nil.

Except as noted above, there have been no substantial changes in 2018 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, 2018 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 €106,400 thousand (€45,439 thousand at December 31, 2017). 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 services activities and the necessity to deploy surplus funds. 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.

The Group's most significant floating rate financial assets at December 31, 2018 were cash and cash equivalents and certain receivables from financing activities (related to client and dealer financing), while 37 percent of the Group's gross debt bears floating rates of interest. At December 31, 2018, a decrease of 10 basis points in interest rates on floating rate financial assets and debt, with all other variables held constant, would have resulted in a decrease in profit before taxes of €251 thousand on an annual basis (an decrease of €225 thousand at December 31, 2017). 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.

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.

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. 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. 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 26. Details of the repayment of derivative financial instruments are provided in Note 20.

The Group has a revolving credit facility of €500 million, which was entirely undrawn at December 31, 2018 and 2017. 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.

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, 2018 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.

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 €878,496 thousand at December 31, 2018 (€732,947 thousand at December 31, 2017) are shown net of the allowance for doubtful accounts amounting to €6,457 thousand (€6,948 thousand at December 31, 2017). After considering the allowance for doubtful accounts, €53,800 thousand of receivables were overdue (€11,943 thousand at December 31, 2017). Therefore, overdue receivables represent a minor portion of receivables from financing activities.

Receivables from financing activities relate entirely to the financial services portfolio in the United States and such receivables are generally secured on the titles of cars or other guarantees.

Trade receivables amounting to €211,399 thousand at December 31, 2018 (€239,410 thousand at December 31, 2017) are shown net of the allowance for doubtful accounts amounting to €24,346 thousand (€21,993 thousand at December 31, 2017). After considering the allowance for doubtful accounts, €36,772 thousand of receivables were overdue (€32,336 thousand at December 31, 2017).

32. 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,		
	2018	2017	2016
	(€ thousand)		
Italy	449,312	563,921	387,184
Other EMEA	1,400,443	1,308,261	1,314,788
Americas ⁽¹⁾	922,639	920,858	835,045
Mainland China, Hong Kong and Taiwan	274,268	282,550	272,223
Rest of APAC ⁽²⁾	373,659	341,300	295,844
Total net revenues	3,420,321	3,416,890	3,105,084

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

(2) 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,					
	2018			2017		
	Property, plant and equipment	Goodwill	Intangible assets	Property, plant and equipment	Goodwill	Intangible assets
	(€ thousand)					
Italy	844,218	785,182	644,689	704,262	785,182	439,369
Other EMEA	2,251	—	—	2,368	—	—
Americas ⁽¹⁾	3,327	—	850	2,760	—	812
Mainland China, Hong Kong and Taiwan	351	—	—	264	—	—
Rest of APAC ⁽²⁾	403	—	258	606	—	275
Total	850,550	785,182	645,797	710,260	785,182	440,456

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

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

33. SUBSEQUENT EVENTS

The Group has evaluated subsequent events through February 26, 2019, which is the date the Consolidated Financial Statements were authorized for issuance.

Under a new common share repurchase program announced by Ferrari on December 28, 2018, the Company has purchased 335,346 common shares for a total consideration of €33.4 million. As a result, as of February 22, 2019 the Company held an aggregate of 6,338,189 common shares in treasury.

On February 26, 2019, the Board of Directors of Ferrari N.V. recommended to the Company's shareholders that the Company declare a dividend of €1.03 per common share, totaling approximately €194 million. The proposal is subject to the approval of the Company's shareholders at the Annual General Meeting to be held on April 12, 2019.

Ferrari N.V.

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Ferrari N.V.
INCOME STATEMENT / STATEMENT OF COMPREHENSIVE INCOME
for the years ended December 31, 2018, and 2017

	<u>Note</u>	For the years ended December 31,	
		2018	2017
		(€ thousand)	
Net revenues	3	196	2,399
Other income	3	3,401	5,171
Dividend income	4	186,700	235,000
Cost of sales		930	904
Selling, general and administrative costs	5	29,493	26,646
Net financial expenses	6	25,003	32,210
Profit before taxes		134,871	182,810
Income tax benefit	7	12,498	9,591
Net and comprehensive income		147,369	192,401

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
STATEMENT OF FINANCIAL POSITION
at December 31, 2018, and 2017

	Note	At December 31,	
		2018	2017
(€ thousand)			
Assets			
Property, plant and equipment	8	106	119
Investments in subsidiaries	9	8,778,123	8,778,123
Financial assets - Non-current	11	22,871	15,417
Deferred tax assets	7	390	—
Total non-current assets		8,801,490	8,793,659
Inventories	10	149	317
Trade receivables	11	7,102	9,999
Tax receivables	7	111,590	30,037
Financial assets - Current	11	—	54,269
Other current assets	11	12,384	3,472
Ferrari Group cash management pools	12	3,618	—
Cash and cash equivalents	13	75,615	114,922
Total current assets		210,458	213,016
Total assets		9,011,948	9,006,675
Equity and liabilities			
Share capital		2,504	2,504
Share premium		5,768,544	5,768,544
Other reserves		(67,835)	13,119
Retained earnings		174,870	160,178
Total equity	14	5,878,083	5,944,345
Debt - Non-current	16	1,190,493	1,619,816
Deferred tax liabilities	7	—	1,206
Total non-current liabilities		1,190,493	1,621,022
Debt - Current	16	1,818,337	1,406,733
Trade payables	17	15,885	10,820
Tax payables	7	100,640	19,078
Employee benefits		2,192	—
Other current liabilities	18	6,318	1,978
Ferrari Group cash management pools	12	—	2,699
Total current liabilities		1,943,372	1,441,308
Total liabilities		3,133,865	3,062,330
Total equity and liabilities		9,011,948	9,006,675

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
STATEMENT OF CASH FLOWS
for the years ended December 31, 2018, and 2017

	For the years ended December 31,	
	2018	2017
	(€ thousand)	
Cash and cash equivalents at beginning of the period	114,922	119,372
Cash flows from operating activities		
Profit before taxes ^(*)	134,871	182,810
Net financial expenses	25,003	32,210
Depreciation	8	24
Other non-cash income and expenses	12,729	14,144
Change in trade payables	5,084	(660)
Change in trade receivables	2,891	(4,429)
Change in inventories	—	162
Change in other operating assets and liabilities	6,349	14,034
Cash received as part of dividend in kind from subsidiaries	940	—
Interest paid	(19,634)	(30,257)
Total	168,241	208,038
Cash flows from/(used in) investing activities		
Proceeds from loans to related parties	53,957	—
Loans to related parties	—	(53,214)
Investments in property, plant and equipment	—	(54)
Total	53,957	(53,268)
Cash flows used in financing activities		
Proceeds from financial liabilities with related parties	165,000	—
Repayment of financial liabilities with related parties	(187,000)	(3,122)
Proceeds from bonds	—	694,172
Repayment of Term Loan	—	(733,333)
Change in Ferrari Group cash management pools	(6,317)	3,048
Dividends paid to owners	(133,095)	—
Cash distribution of reserves	—	(119,985)
Share repurchases	(100,093)	—
Total	(261,505)	(159,200)
Total change in cash and cash equivalents	(39,307)	(4,450)
Cash and cash equivalents at the end of the period	75,615	114,922

^(*) Dividends received for the years ended December 31, 2018 and 2017 of €186,700 thousand and €235,000 thousand respectively are included within profit before taxes.

The accompanying notes are an integral part of the Company Financial Statements.

Ferrari N.V.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the years ended December 31, 2018, and 2017

	<u>Share capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Retained earnings/(deficit)</u>	<u>Total equity</u>
			(€ thousand)		
At December 31, 2016	2,504	5,888,529	(15,478)	(32,223)	5,843,332
Comprehensive income	—	—	—	192,401	192,401
Cash distribution of reserves	—	(119,985)	—	—	(119,985)
Share-based compensation	—	—	28,597	—	28,597
At December 31, 2017	2,504	5,768,544	13,119	160,178	5,944,345
Comprehensive income	—	—	—	147,369	147,369
Dividends to owners	—	—	—	(133,939)	(133,939)
Share repurchase	—	—	(100,093)	—	(100,093)
Share-based compensation	—	—	22,491	—	22,491
Other changes	—	—	(3,352)	1,262	(2,090)
At December 31, 2018	2,504	5,768,544	(67,835)	174,870	5,878,083

The accompanying notes are an integral part of the Company Financial Statements.

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Ferrari N.V., (the “Company” or “Ferrari” 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.

The Company is listed under the ticker symbol RACE on the New York Stock Exchange and on the Mercato Telematico Azionario, the stock exchange managed by Borsa Italiana.

The Company’s official seat (statutaire zetel) is in Amsterdam, the Netherlands, and the Company’s corporate address is in Maranello, Italy at Via Abetone Inferiore 4. The Company is registered with the Dutch trade register under number 64060977.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Date of authorization for issuance

The separate financial statements of the Company (the “Company Financial Statements”) as of and for the year ended December 31, 2018 were authorized for issuance on February 26, 2019.

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”) and with Part 9 of Book 2 of the Dutch Civil Code.

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, 2018 (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 with the exception of the new standards and amendments effective from January 1, 2018 as noted below.

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 and the Company uses a current/non-current classification for assets and liabilities in the statement of financial position.

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. Cash inflows or outflows related to taxes are reported as changes in other operating assets and liabilities as they are primarily settled through transactions with related parties as a result of the Group Italian Tax Consolidation. Dividends received are included as part of operating activities.

New standards and amendments effective from January 1, 2018

The following amendments were effective from January 1, 2018 and were adopted by the Company for the purpose of the preparation of the Company Financial Statements.

IFRS 15 - Revenue from Contracts with Customers - The Company adopted IFRS 15 and related amendments using the modified retrospective approach with the cumulative effect of initial adoption (if any) recognized at the date of initial application of January 1, 2018. The Company concluded that its accounting for revenue under IFRS 15 did not result in the recognition of a cumulative adjustment to opening retained earnings under the modified retrospective approach, nor did it have a material effect on the Company's financial position or results of operations. The Company's updated accounting policy for revenue recognition is provided further below.

IFRS 9 - Financial Instruments - IFRS 9 did not result in material changes compared to the Company's accounting for financial instruments under IAS 39, therefore, there was no impact on the Company's financial statements upon initial adoption of the standard and related amendments. The Company's updated accounting policy for financial instruments is provided further below.

Amendments to IFRS 2 - Share-Based Payment - The amendments are effective for annual periods beginning on or after January 1, 2018 with early application permitted. The Company has applied the amendments to share-based payment transactions under the Group's equity incentive plan that contains a net settlement feature for withholding tax obligations, resulting in such transactions being classified in their entirety as equity-settled. There were no other effects from the adoption of these amendments.

IFRIC Interpretation 22 - Foreign Currency Transactions and Advance Consideration - The interpretation is effective on or after January 1, 2018. There was no effect from the adoption of this interpretation.

Annual Improvements to IFRSs 2014-2016 Cycle - The improvements have amended two standards with effective date of January 1, 2018: i) *IFRS 1 - First-time Adoption of International Financial Reporting Standards* and ii) *IAS 28 - Investments in Associates and Joint Ventures*. There was no effect from the adoption of these amendments.

Further information on these standards is provided in Note 2 of the Consolidated 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, 2019:

IFRS 16 - Leases

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 lease assets separately from interest on lease liabilities in the income statement. As IFRS 16 substantially carries forward the lessor accounting requirements under 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.

The Company will apply IFRS 16 from its mandatory adoption date of January 1, 2019. The Company intends to apply the simplified transition approach and not restate comparative amounts for the year prior to adoption. Upon adoption, right-of-use assets are measured at the amount of the related lease liabilities, adjusted for any prepaid or accrued lease expenses. The Company elected to use the exemptions permitted by the standard on lease contracts for which the lease terms ends within 12 months of the date of initial application, and lease contracts for which the underlying asset is of low value.

The main contracts of the Company within the scope of IFRS 16 relate to buildings. As of January 1, 2019, after considering the exemptions mentioned above, the Company has non-cancellable operating lease commitments of approximately

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

€3.3 million. Of these commitments, the Company expects to recognize right-of-use assets (after adjustments for prepayments and accrued lease payments recognized as at December 31, 2018) and related lease liabilities of €2.8 million. The Company expect no significant impact from the application of the new standard on net income and cash flow from operating activities. Lease liabilities are measured at the present value of the fixed or in substance fixed lease payments over the lease term that have not been paid at the date of adoption. The lease term includes both the non-cancellable periods for which the Company has the right to use the underlying assets and also any renewal periods if the Company is reasonably certain to exercise the related renewal option. The discount rate was determined taking into consideration country risk, currency, lease term and the Group's credit spread. Lease liabilities do not include any non-lease components that may be included in the related contracts.

The Company does not expect to recognize any deferred tax assets or liabilities in respect of temporary differences arising on initial recognition of right-of-use assets and lease liabilities as the recognition does not affect accounting profit or taxable profit.

Interpretation 23 - Uncertainty over Income Tax Treatments which provides requirements regarding how to reflect uncertainties in accounting for income taxes. The interpretation is effective on or after January 1, 2019. The Company does not expect any material impact from the adoption of this interpretation.

Amendments to IFRS 9 - Financial Instruments that allow, under certain conditions, for a prepayable financial asset with negative compensation payments to be measured at amortized cost or at fair value through other comprehensive income. The amendments also contain a clarification relating to the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The amendments are effective on or after January 1, 2019. The Company does not expect any impact from the adoption of these amendments.

Further information on these standards is provided in Note 2 of the Consolidated Financial Statements.

New standards, amendments, clarifications and interpretations issued by IASB but not yet endorsed by the EU

The following standards, amendments and interpretations have been issued by the IASB but not yet endorsed by the EU:

- *IFRS 17 - Insurance Contracts*
- *Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to IFRSs 2015-2017 Cycle*
- *Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement*
- *Amendments to IFRS 3 - Business Combinations*
- *Amendments to IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies*

The Company will introduce any new standards, amendments and interpretations once they are endorsed by the European Union and as of their effective dates. Further information on these standards is provided in Note 2 of 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.

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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 Pound 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, 2018 amounted to €23 thousand (€2 thousand at December 31, 2017).

The principal foreign currency exchange rates used to translate other currencies into Euro were as follows:

	2018		2017	
	Average	At December 31,	Average	At December 31,
U.S. Dollar	1.1810	1.1450	1.1297	1.1993
Pound Sterling	0.8847	0.8945	0.8767	0.8872

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
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 restrictions on cash and cash equivalents. Cash and cash equivalents do not include amounts in Ferrari Group cash management pools.

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 net 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.

Revenue is recognized when control over a product or service is transferred to a customer. Revenue is measured at the transaction price which is based on the amount of consideration that the Company expects to receive in exchange for transferring the promised goods or services to the customer and excludes any sales incentives as well as taxes collected from customers that are remitted to government authorities. The transaction price will include estimates of variable consideration to the extent it is probable that a significant reversal of revenue recognized will not occur. The Company enters into contracts that may include both products and services, which are generally capable of being distinct and accounted for as separate performance obligations.

The Company accounts for a contract with a customer when there is a legally enforceable contract between the Company and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable.

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 U.S. 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 income statement 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 income/(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.

Dividend income is recognised in the income statement on the date that the right to receive payment is established.

Dividends in kind transaction

At October 1, 2018, a dividend in kind was distributed from the subsidiary Ferrari S.p.A. to the Company. The dividend in kind relates to the transfer of finance, HR and other personnel, as well as certain liabilities associated with the personnel transferred, in exchange for cash.

The distribution of the Dividend in Kind represents a transfer of a business from a subsidiary to the Company. The Company accounts for such transaction as an “under common control” transaction. EU IFRS currently provide no guidance for the accounting treatment of transactions among entities under common control. If there is no specifically applicable guidance, IAS 8 requires an entity to develop a policy that is relevant to the decision-making needs of users and that is reliable. The Company decided to apply the “Predecessor Accounting Method”, according to which:

- Assets and liabilities of the acquired/transferred business are stated at predecessor carrying values. Fair value measurement is not required.
- No new goodwill arises in predecessor accounting.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

According to the Predecessor Accounting Method, the dividend in kind amounted to €940 thousand and was recorded as an increase in other liabilities in connection with personnel transferred, with an equal amount of cash received.

Share-based compensation

The Company has implemented an equity incentive plan that provides for the granting of share-based compensation to the Chief Executive Officer, all other members of the Senior Management Team (“SMT”) and key leaders. The equity incentive plan is accounted for in accordance with *IFRS 2 - Share-based Payments*, which requires the Company to recognize share-based compensation based on fair value of awards granted. Share-based compensation for the equity-settled awards containing market performance conditions is measured at the grant date fair value of the award using the Monte Carlo simulation model, which requires the input of subjective assumptions, including the expected volatility of the Company’s common stock, the dividend yield, interest rates and a correlation coefficient between the common stock and the relevant market index. The fair value of the awards which are conditional only on a recipient’s continued service to the Company is measured using the share price at the grant date adjusted for the present value of future distributions which employees will not receive during the vesting period.

Share based compensation is recognized over the service period. Pursuant to an agreement between the Company and various subsidiaries of the Group, the Company recharges subsidiaries for share-based compensation relating to equity instruments awarded to employees of the subsidiaries under the equity incentive plan. The Company’s portion of the share-based compensation for the equity incentive plan is recognized as an expense within selling, general and administrative costs or cost of sales in the income statement depending on the function of the employee with an offsetting entry recorded as an increase to equity, whilst share-based compensation recharged to the subsidiaries of the Group is recognized as a financial receivable with an offsetting entry recorded as an increase to equity.

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 9.

3. NET REVENUES AND OTHER INCOME

Net revenues for the year ended December 31, 2018 amounted to €196 thousand (€2,399 thousand for the year ended December 31, 2017) and primarily 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, 2018 amounted to €3,401 thousand (€5,171 thousand for the year ended December 31, 2017) and primarily relates to costs recharged to Ferrari S.p.A.

4. DIVIDEND INCOME

Dividend income for the year ended December 31, 2018 amounted to €186,700 thousand and related entirely to a dividend from Ferrari S.p.A, approved on April 5, 2018 and received on May 11, 2018.

Dividend income for the year ended December 31, 2017 amounted to €235,000 thousand and related entirely to a dividend from Ferrari S.p.A, approved on November 2, 2017 and received on November 23, 2017.

5. SELLING, GENERAL AND ADMINISTRATIVE COSTS

Selling, general and administrative costs consisted of the following:

	For the years ended December 31,	
	2018	2017
	(€ thousand)	
Personnel expenses	17,112	11,808
Shared services provided by Ferrari S.p.A.	5,272	7,436
Legal and professional services	3,566	4,061
Insurance	2,321	2,043
Other expenses	1,222	1,298
Total selling, general and administrative costs	29,493	26,646

Personnel expenses include costs related to the equity incentive plan (see Note 15), compensation for Non-Executive Directors and employees. 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.

At December 31, 2018 the Company had 22 full time equivalent employees (12 at December 31, 2017, all of which related to the UK branch), 12 of which relate to the UK Branch and 10 of which relate to the Italian Branch, the personnel transferred through the dividend in kind transaction described in Note 2 - *Basis of preparation and significant accounting policies*. All employees work outside of the Netherlands.

Shared service costs mainly relate to services provided by Ferrari S.p.A. for human resources, payroll, tax, legal, accounting and treasury and the decrease is mainly due to the transfer of finance, human resources and other personnel through the dividend in kind transaction described in Note 2 - *Basis of preparation and significant accounting policies*.

Legal and professional services mainly relate to listing fees and expenses for legal, financial and other consulting services.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

6. NET FINANCIAL EXPENSES

Net financial expenses consisted of the following:

	For the years ended December 31,	
	2018	2017
	(€ thousand)	
Interest expenses	23,577	31,582
<i>Of which:</i>		
<i>Interest on bonds</i>	12,386	9,231
<i>Interest on intercompany borrowings</i>	11,191	15,124
<i>Interest on the Term Loan</i>	—	7,227
Fair value changes on currency swap	1,296	(815)
Foreign exchange rate differences	(507)	585
Other financial expenses	1,259	995
Other financial income	(622)	(137)
Net financial expenses	25,003	32,210

Fair value changes on currency swap relates to the instruments entered into to hedge exposure to foreign currency exchange fluctuations of a U.S. Dollar denominated financial receivable with Ferrari Financial Services Inc. (“FFS Inc”), a subsidiary of Ferrari S.p.A, that was entered into in November 2017 (see Note 11 for additional details). The currency swap matured in November 2018, concurrently with the repayment of the financial receivable.

Other financial expenses for both 2018 and 2017 includes bank fees and charges.

Other financial income for both 2018 and 2017 includes interest income on cash and cash equivalents held with banks and the financial receivable with FFS Inc.

7. INCOME TAXES

Income tax benefit for the years ended December 31, 2018 and 2017 is as follows:

	For the years ended December 31,	
	2018	2017
	(€ thousand)	
Current income tax benefit	10,902	11,938
Deferred income tax benefit/(expense)	1,596	(2,347)
Total income tax benefit	12,498	9,591

	For the years ended December 31,	
	2018	2017
	(€ thousand)	
Profit before tax	134,871	182,810
Theoretical income tax expense	(32,369)	(43,877)
Tax effect on:		
Non-taxable dividends	42,568	53,580
Non-deductible costs	(93)	(19)
Other permanent differences	2,392	(93)
Total income tax benefit	12,498	9,591

The theoretical income tax expense has been calculated at a rate of 24.0 percent for the years ended December 31, 2018 and 2017, which is the corporate rate of taxation according to the Italian Tax Code for the respective years.

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NOTES TO THE COMPANY FINANCIAL STATEMENTS

	At December 31,	
	2018	2017
	(€ thousand)	
Tax receivables	111,590	30,037
Tax payables	100,640	19,078
Net	10,950	10,959

Tax receivables of €111,590 thousand at December 31, 2018 primarily relate to amounts due from the tax authorities for the 2018 group tax consolidation in Italy. Tax receivables of €30,037 thousand at December 31, 2017 primarily relate to amounts due from related parties for the 2017 group tax consolidation in Italy.

Tax payables of €100,640 thousand at December 31, 2018 primarily relate to amounts due to related parties for the 2018 group tax consolidation in Italy. Tax payables of €19,078 thousand at December 31, 2017 primarily relate to amounts to the tax authorities for the 2017 group tax consolidation in Italy.

	At December 31,	
	2018	2017
	(€ thousand)	
Deferred tax assets		
To be recovered after 12 months	312	—
To be recovered within 12 months	78	—
	390	—
Deferred tax liabilities		
To be realized after 12 months	—	(9)
To be realized within 12 months	—	(1,197)
	—	(1,206)
Net deferred tax (liabilities)/assets	390	(1,206)

Net deferred tax assets of €390 thousand at December 31, 2018 are primarily related to timing differences arising from provision of labor costs. Net deferred tax liabilities of €1,206 thousand at December 31, 2017 primarily relate to timing differences arising from the deduction of bond issuance costs.

8. PROPERTY, PLANT AND EQUIPMENT

	At December 31,	
	2018	2017
	(€ thousand)	
Cost	166	172
Accumulated depreciation	(60)	(53)
Carrying amount	106	119

Property, plant and equipment 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 €8 thousand for the year ended December 31, 2018 (€24 thousand for the year ended December 31, 2017) were recorded within cost of sales.

9. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries include Ferrari S.p.A. amounting to €8,778,000 thousand and New Business 33 S.p.A. (formerly Fiat Investments S.p.A.), amounting to €123 thousand.

Investment in subsidiaries amounted to €8,778,123 thousand at December 31, 2018 and 2017.

Impairment testing

At December 31, 2018, the market capitalization of Ferrari N.V. amounted to approximately €16.4 billion. Considering the share price of the Company at December 31, 2018 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.

10. INVENTORIES

Inventories at December 31, 2018 amounted to €149 thousand (€317 thousand at December 31, 2017) 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 €517 thousand (€353 thousand at December 31, 2017). An inventory provision charge of €168 thousand was recorded within cost of sales for the year ended December 31, 2018 (€172 thousand for the year ended December 31, 2017).

Changes in the provision for slow moving and obsolete inventories were as follows:

	2018	2017
	(€ thousand)	
At January 1,	353	252
Provision	168	172
Use and other changes	(4)	(71)
At December 31,	517	353

11. TRADE RECEIVABLES, FINANCIAL ASSETS AND OTHER CURRENT ASSETS

	At December 31,	
	2018	2017
	(€ thousand)	
Trade receivables	7,102	9,999
Financial assets	22,871	69,686
Other current assets	12,384	3,472
Total	42,357	83,517

Trade receivables

Trade receivables at December 31, 2018 amounted to €7,102 thousand (€9,999 thousand at December 31, 2017) and included €6,513 thousand due from Ferrari S.p.A. for corporate services rendered and fees charged and €589 thousand due from third parties for marketing-related events (€9,512 thousand and €487 thousand respectively at December 31, 2017).

The carrying amount of trade receivables is deemed to approximate their fair value. There are no overdue balances and no allowance has been recorded for trade receivables.

The following sets forth a breakdown of trade receivables by currency:

	At December 31,	
	2018	2017
	(€ thousand)	
<i>Trade receivables denominated in:</i>		
Euro	5,938	3,900
Pound Sterling	1,164	6,099
Total	7,102	9,999

Ferrari N.V
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Financial assets

	At December 31,	
	2018	2017
	(€ thousand)	
Non-current financial receivables	22,871	15,417
Current financial receivables	—	53,546
Derivative financial instruments	—	723
Total	22,871	69,686

At December 31, 2018, non-current financial receivables of €22,871 thousand (€15,417 thousand at December 31, 2017) relate to receivables from subsidiaries, mainly Ferrari S.p.A., for recharges of share-based compensation relating to equity instruments awarded to employees of the subsidiaries under the equity incentive plan, pursuant to an intercompany agreement.

Current financial receivables at December 31, 2017 related to a U.S. Dollar denominated loan of \$64 million provided to FFS Inc in November 2017, primarily to repay the U.S. Dollar denominated portion of the Term Loan. The receivable, which amounted to €53,546 thousand at December 31, 2017 accrued interest quarterly at a rate of LIBOR 3M + 60 basis points, and was fully paid off in November 2018.

Derivative financial instruments at December 31, 2017 related to the fair value of a currency swap entered into in November 2017 to hedge against the currency risk of the \$64 million U.S. Dollar denominated loan provided to FFS Inc. The currency swap had a notional value of \$64 million and matured in November 2018, consistent with the repayment of the loan above.

Other current assets

Other current assets of €12,384 thousand at December 31, 2018 (€3,472 thousand at December 31, 2017) primarily include VAT credits and prepaid expenses.

12. FERRARI GROUP CASH MANAGEMENT POOLS

Ferrari Group cash management pools relate to the Company's participation in a group-wide cash management system that is managed centrally by Ferrari S.p.A. At December 31, 2018, the Company had a net asset of €3,618 thousand and at December 31, 2017 the Company had a net liability of €2,699 thousand.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents amounted to €75,615 thousand at December 31, 2018 (€114,922 thousand at December 31, 2017) 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, 2018 and 2017.

Credit risk associated with cash and cash equivalents is considered limited as the counterparties are leading national and international banks.

14. EQUITY

Share capital

At December 31, 2018 and 2017 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 per share. At December 31, 2018, the Company had 6,002,843 common shares and 4,744 special voting shares held in treasury, while at December 31, 2017 the Company held 4,969,625 common shares and 4,099 special voting shares in treasury.

The following table provides a reconciliation of the opening and closing number of outstanding common shares and outstanding special voting shares:

Ferrari N.V
NOTES TO THE COMPANY FINANCIAL STATEMENTS

	Common Shares	Special Voting Shares	Total
Outstanding shares at January 1, 2018	188,953,874	56,493,519	245,447,393
Shares repurchased under share repurchase program ⁽¹⁾	(1,033,218)	—	(1,033,218)
Other changes ⁽²⁾	—	(645)	(645)
Outstanding shares at December 31, 2018	187,920,656	56,492,874	244,413,530

(1) Includes shares repurchased between January 1, 2018 and December 31, 2018 based on the transaction trade date.

(2) Relates to the deregistration of special voting shares from the loyalty register.

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.

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. Exor N.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 meetings. 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 Company.

Share premium

The share premium reserve amounted to €5,768,544 thousand at both December 31, 2018 and December 31, 2017, and primarily originated from the issuance of common shares pursuant to the restructuring activities undertaken as part of an intra-group restructuring (the Separation).

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 14, 2017, a cash distribution of €0.635 per common share was approved, corresponding to a total distribution of €119,985 thousand in 2017.

Retained earnings

Following approval of the annual accounts by the shareholders at the Annual General Meeting of the Shareholders on April 13, 2018, a dividend distribution of €0.71 per common share was approved, corresponding to a total distribution of €133,939 thousand (of which €133,095 thousand was paid in 2018). The distribution was made from the retained earnings reserve.

Retained earnings amounted to €174,870 thousand at December 31, 2018 (€160,178 thousand at December 31, 2017).

Other reserves

Other reserves includes, among others:

- a treasury reserve of €100,143 thousand at December 31, 2018 and €50 thousand at December 31, 2017;
- a share-based compensation reserve of €52,198 thousand at December 31, 2018 and €29,707 thousand at December 31, 2017;
- a legal reserve of €29 thousand at December 31, 2018 and €8 thousand at December 31, 2017, determined in accordance with Dutch law.

Ferrari N.V
NOTES TO THE COMPANY FINANCIAL STATEMENTS

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, 2018, the legal and non-distributable reserves of the Company amounted to €29 thousand (€8 thousand at December 31, 2017) and included the following:

- The UK Branch operates in the Pound 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 in other comprehensive income. At December 31, 2018, the cumulative translation reserve amounted to €23 thousand (€2 thousand at December 31, 2017).
- The Company records a statutory non-distributable reserve equal to 1 percent of the nominal value of the special voting shares. At December 31, 2018 and 2017, this reserve amounted to €6 thousand.

On February 9, 2018, the Company announced its intention to launch a share repurchase program. The program is intended to optimize the capital structure of the Company. Shares repurchased may also be used to meet the Company's obligations arising from the equity incentive plan approved in 2017. As of December 31, 2018 the Company had repurchased 1,033,218 common shares for a total consideration of €100,093 thousand under the program.

Reconciliation of Equity and Net Profit

The reconciliation of equity as per the Consolidated Financial Statements to equity as per the Company Financial Statements is provided below:

	At December 31,	
	2018	2017
	(€ thousand)	
Equity attributable to owners of the parent in the Consolidated Financial Statements of Ferrari N.V.	1,348,722	778,678
Intra-group restructuring	5,969,427	5,969,427
OCI reserves in the Consolidated Financial Statements	(26,740)	(29,833)
Cumulative results of subsidiaries in the Consolidated Financial Statements in prior years	(1,008,927)	(430,935)
Results of subsidiaries in the Consolidated Financial Statements	(824,009)	(577,992)
Cumulative dividends in prior years	235,000	—
Other changes	(2,090)	—
Dividends	186,700	235,000
Equity in the Company Financial Statements of Ferrari N.V.	5,878,083	5,944,345

The reconciliation of net profit as per the Consolidated Financial Statements to net profit as per the Company Financial Statements is provided below:

	For the year ended December 31,	
	2017	2016
	(€ thousand)	
Net profit in the Consolidated Financial Statements of Ferrari N.V.	784,678	535,393
Results of subsidiaries in the Consolidated Financial Statements	(824,009)	(577,992)
Dividends	186,700	235,000
Net profit in the Company Financial Statements of Ferrari N.V.	147,369	192,401

15. SHARE-BASED COMPENSATION

Following the approval on March 1, 2017 of the equity incentive plan by the Board of Directors on April 14, 2017 the Shareholders approved an award to the Chief Executive Officer under the Group's equity incentive plan, which is applicable to members of the Senior Management Team ("SMT") and key leaders of the Group. The grants of the PSUs and the RSUs, each representing the right to receive one common share of the Company, cover a five-year performance period from 2016 to 2020, consistent with the Group's strategic horizon. During 2018 additional PSU and RSU awards were granted to the new Chief Executive Officer and certain key employees of the Group under the equity incentive plan.

Pursuant to an agreement between the Company and various subsidiaries of the Group, the Company recharges subsidiaries for share-based compensation relating to equity instruments awarded to employees of the subsidiaries under the equity incentive plan.

At December 31, 2018 none of the PSUs or RSUs were vested, and 33 thousand PSUs and 16 thousand RSUs were forfeited. Under the equity incentive plan, the total number of PSUs and RSUs outstanding at December 31, 2018 were 675 thousand and 113 thousand respectively.

For the years ended December 31, 2018 and 2017, the Company recognized €22,491 thousand and €28,179 thousand, respectively, as an increase to other reserves in equity for the PSU awards and RSU awards. Of this amount for the year ended December 31, 2018, €15,037 thousand was recognized as an expense in cost of sales and selling, general and administrative costs, and €7,454 thousand was recorded as financial receivables in relation to share-based compensation recharged to subsidiaries (€12,762 thousand and €15,417 thousand respectively for the year ended December 31, 2017).

At December 31, 2018 the unrecognized share-based compensation amounted to approximately €5,572 thousand and will be recognized over the remaining vesting period until 2020. A portion of the unrecognized share-based compensation will be recharged to subsidiaries of the Company.

See Note 22 "*Share-based Compensation*" to the Consolidated Financial Statements for additional details relating to the equity incentive plan.

16. DEBT

The breakdown of debt at December 31, 2018 and 2017 by nature and by maturity is as follows:

	At December 31,							
	2018				2017			
	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)							
Bonds	7,616	1,190,493	—	1,198,109	6,159	694,402	492,956	1,193,517
Financial liabilities with related parties	1,810,721	—	—	1,810,721	1,400,574	432,458	—	1,833,032
Total debt	1,818,337	1,190,493	—	3,008,830	1,406,733	1,126,860	492,956	3,026,549

Bonds

2023 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 were used, together with additional cash held by the Company, to fully repay the €500,000 thousand Bridge Loan under the Facility (see "Borrowings from banks" below). The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amounts outstanding at December 31, 2018 of €500,197 thousand includes accrued interest of €5,938 thousand (€498,894 thousand including accrued interest of €5,938 thousand at December 31, 2017).

Ferrari N.V
NOTES TO THE COMPANY FINANCIAL STATEMENTS

2021 Bond

On November 16, 2017, the Company issued 0.25 percent coupon notes due January 2021, having a principal of €700 million. The bond was issued at a discount for an issue price of 99.557 percent, resulting in net proceeds of €694,172 thousand after the debt discount and issuance costs. The net proceeds were primarily used to repay the Term Loan (see “Borrowings from banks” below). The bond is unrated and was admitted to trading on the regulated market of the Irish Stock Exchange. The amount outstanding at December 31, 2018 of €697,912 thousand includes accrued interest of €1,678 thousand (€694,623 thousand including accrued interest of €221 thousand at December 31, 2017).

The notes for both the 2013 Bond and the 2021 Bond 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, 2018 and 2017, the Company was in compliance with the covenants of the notes.

Financial liabilities with related parties

Financial liabilities with related parties at December 31, 2018 are broken down as follows:

Currency	Total amount outstanding at December 31, 2018	Due date	Interest Rate
(€ thousand)			
Ferrari S.p.A.	1,000,153	September 2019	EURIBOR 3M + 60bps
Ferrari S.p.A.	432,468	October 2019	EURIBOR 3M + 110bps
Ferrari S.p.A.	148,074	April 2019	EURIBOR 3M + 60bps
Ferrari S.p.A.	230,026	December 2019	EURIBOR 3M + 60bps
Total	1,810,721		

Financial liabilities with related parties at December 31, 2017 are broken down as follows:

Currency	Total amount outstanding at December 31, 2017	Due date	Interest Rate
(€ thousand)			
Ferrari S.p.A.	1,000,331	September 2018	EURIBOR 3M + 110bps
Ferrari S.p.A.	100,141	April 2018	EURIBOR 3M + 110bps
Ferrari S.p.A.	200,021	December 2018	EURIBOR 3M + 60bps
Ferrari S.p.A.	100,081	May 2018	EURIBOR 3M + 110bps
Ferrari Financial Services S.p.A.	432,458	October 2019	EURIBOR 3M + 110bps
Total	1,833,032		

During 2018, total repayments of financial liabilities with related parties amounted to €187,000 thousand, and additional proceeds received amounted to €165,000 thousand.

At December 31, 2018 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 before tax of €1,734 thousand on an annualized basis (decrease of €1,832 thousand at December 31, 2017).

The carrying amount of the financial liabilities with related parties approximates its fair value.

Ferrari N.V
NOTES TO THE COMPANY FINANCIAL STATEMENTS

Information on fair value measurement and qualitative and quantitative information on financial risks are provided in Note 28 and Note 31, 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.

Borrowings from banks

At December 31, 2018 and 2017 there were no borrowings from banks.

Revolving Credit Facility

At December 31, 2018 and 2017 the Company has a revolving credit facility of €500 million (the "RCF") which was undrawn. Proceeds of the RCF may be used from time to time for general corporate and working capital purposes of the Group. The RCF has a maturity in November 2020.

17. TRADE PAYABLES

	At December 31,	
	2018	2017
	(€ thousand)	
Due to related parties	14,701	9,305
Due to third parties	1,184	1,515
Total trade payables	15,885	10,820

Due to related parties primarily relates to amounts payable to Ferrari S.p.A. for corporate services rendered and costs recharged. Due to third parties relates 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,	
	2018	2017
	(€ thousand)	
<i>Trade payables denominated in:</i>		
Euro	13,535	8,407
Pound Sterling	2,350	2,413
Total	15,885	10,820

Trade payables are due within one year and their carrying amount at the reporting date is deemed to approximate their fair value.

18. OTHER CURRENT LIABILITIES

Other current liabilities amounted to €6,318 thousand at December 31, 2018 (€1,978 thousand at December 31, 2017) 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.

19. EARNINGS PER SHARE

Earnings per share information is provided in Note 13 to the Consolidated Financial Statements.

20. 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 31,	
	2018	2017
	(€ thousand)	
Audit fees	1,340	1,610
Tax fees	12	4
Audit-related fees	5	2
Total	1,357	1,616

Audit fees of Ernst & Young Accountants LLP amounted to €80 thousand in 2018 (€100 thousand in 2017) and are included in the table above.

21. 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.

22. COMMITMENTS AND CONTINGENCIES

At December 31, 2018 and 2017, the Company provided guarantees over certain debt of its subsidiary Ferrari Financial Services Inc. The book value of the related debt at December 31 2018 and 2017 was €30,694 thousand and €29,189 thousand, respectively.

23. 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 10)
- Corporate services and recharge of expenses to Ferrari S.p.A. (Note 5)
- Share services received from Ferrari S.p.A. mainly related to human resources, payroll, tax, legal, accounting and treasury. (Note 5)
- 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. Amounts recorded as Ferrari Group cash management pools represented the Company’s participation in such pools. (Note 12)
- Financial liabilities with Ferrari S.p.A., Ferrari Financial Services S.p.A. and Ferrari North Europe Ltd. (Note 16)
- Financial receivables with Ferrari Financial Services Inc. originated in 2017 primarily to repay the U.S. denominated portion of the Term Loan (Note 11)
- Key management compensation (Note 21).

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

24. ORGANIZATIONAL STRUCTURE

The following table sets forth the Company's subsidiaries and associates at December 31, 2018:

Name	Country	Nature of business	Shares held by the Group
Directly held interests			
Ferrari S.p.A.	Italy	Manufacturing	100%
New Business 33 S.p.A.	Italy	Holding company	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 International Cars Trading (Shanghai) Co. L.t.d.	China	Importer and distributor	80%
Ferrari (HK) Limited	Hong Kong	Importer and distributor	100%
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%
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 Auto Securitization Transaction, LLC ⁽¹⁾	USA	Financial services	100%
Ferrari Auto Securitization Transaction - Lease, LLC ⁽¹⁾	USA	Financial services	100%
Ferrari Auto Securitization Transaction - Select, LLC	USA	Financial services	100%
Ferrari Financial Services Titling Trust ⁽¹⁾	USA	Financial services	100%
410, Park Display Inc. ⁽²⁾	USA	Retail	100%
Associated companies valued at cost			
Fondazione Casa di Enzo Ferrari	Italy	Service company	25%
Branches			
UK Branch	UK	Sales and after sales support	

(1) Shareholding held by Ferrari Financial Services Inc.

(2) Shareholding held by Ferrari North America Inc.

Ferrari Financial Services S.p.A., which at December 31, 2017 was a wholly-owned indirect subsidiary, was merged into Ferrari S.p.A. effective May 31, 2018. As a consequence, Ferrari Financial Services Inc., previously a wholly-owned subsidiary of Ferrari Financial Services S.p.A., became a direct wholly-owned subsidiary of Ferrari S.p.A. effective May 31, 2018.

25. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through February 26, 2019, which is the date the Financial Statements were authorized for issuance.

Under a new common share repurchase program announced by Ferrari on December 28, 2018, the Company has purchased 335,346 common shares for a total consideration of €33.4 million. As a result, as of February 22, 2019 the Company held an aggregate of 6,338,189 common shares in treasury.

On February 26, 2019, the Board of Directors of Ferrari N.V. recommended to the Company's shareholders that the Company declare a dividend of €1.03 per common share, totaling approximately €194 million. The proposal is subject to the approval of the Company's shareholders at the Annual General Meeting to be held on April 12, 2019.

February 26, 2019

Board of Directors

John Elkann

Louis C. Camilleri

Piero Ferrari

Sergio Duca

Delphine Arnault

Giuseppina Capaldo

Eddy Cue

Lapo Elkann

Amedeo Felisa

Maria Patrizia Grieco

Adam Keswick

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 article 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.

Branch offices

Please make reference to Note 24 of the Company 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 2018 financial statements included in the annual report

Our opinion

We have audited the 2018 financial statements of Ferrari N.V. (the company), incorporated in Amsterdam, the Netherlands.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Ferrari N.V. as at December 31, 2018, and of its result and its cash flows for 2018, 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, 2018
- The following statements for 2018: the consolidated and company income statement, the consolidated and company statements of comprehensive income, cash flows and changes in equity
- 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 EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), 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	€40 million (2017: €36 million)
Benchmark applied	5% of profit before taxes
Explanation	We consider an earnings-based measure, particularly profit before taxes, as the appropriate basis for determining our 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 €2 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.

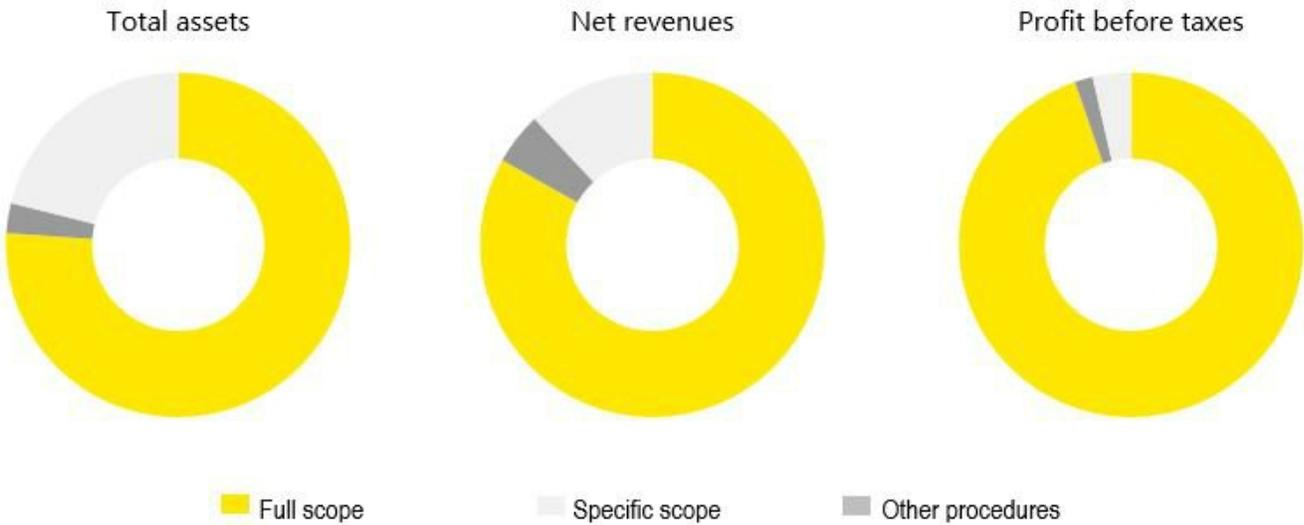
Our group audit mainly focused on significant group entities. Group entities are considered significant because of their individual financial significance or because they are more likely to include significant risks of material misstatement due to their specific nature or circumstances. All significant group entities were included in the scope of our group audit. 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 the remaining entities.

In establishing the overall approach to the audit, we determined the work to be performed by us, as group auditors, or by component auditors from Ernst & Young Global member firms and operating under our coordination and supervision. We have performed the following procedures:

- We visited EY Italy and reviewed the audit work performed on the group consolidation, financial statements and related disclosures and the key audit matters related to Ferrari S.p.A.: revenue recognition and warranty and recall campaigns provisions. We reviewed the audit files of the component auditor and determined the sufficiency and appropriateness of the work performed.
- Other component auditors included in the group audit scope received detailed instructions, including key risks and audit focus areas, and we reviewed the reporting deliverables for Ferrari North America Inc. and Ferrari Financial Services Inc.

The entities included in the group audit scope represent 99% of the group’s total assets, 99% of net revenues and 99% of profit before taxes. The scope of the procedures performed is detailed in the graphs reported below:



By performing the procedures 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 on the 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. The key audit matters are consistent with those reported in prior year.

Revenue recognition	
Risk	<p>The group recognizes revenue for sales of vehicles, net of discounts, cash sales incentives and rebates recognized to dealers or customers, when control over a product or service is transferred to a customer.</p> <p>Revenue is measured at the transaction price which is based on the amount of consideration that the group expects to receive in exchange for transferring the promised goods or services to the customer. The group enters into contracts that may include both products and services, which are generally capable of being distinct and accounted for as separate performance obligations, and allocates the transaction price to the performance obligations based on the stand alone selling prices for each obligation. The group accounts for a contract with a customer when there is a legally enforceable contract between the group and the customer, the rights of the parties are identified, the contract has commercial substance, and collectability of the contract consideration is probable. The majority of revenue is recognized at a point-in-time or over a period of one year or less.</p> <p>The group also grants to customers the opportunity to benefit of maintenance programs performed by authorized dealers. The scheduled maintenance service is included in the price paid by the customer for the car. The maintenance programs include free annual maintenance services, performed once a year, for a period of 7 years.</p> <p>Other revenue streams relate to the sale of spare parts and engines, as well as sponsorships, commercial and brand activities.</p> <p>Revenue recognition is inherently an area which we substantially focus on.</p> <p>The group has disclosed its accounting policy related to revenue recognition in the financial statements under note 2: significant accounting policies.</p>
Our audit approach	<p>Our procedures, designed to be responsive to the risk identified, included the following:</p> <p>We confirmed our understanding of the revenues recognition process for each class of transaction, evaluated the new group's accounting policy and its implementation under IFRS15, and assessed the design and operating effectiveness of relevant internal controls. We performed sales cut-off testing procedures, with an additional focus on shipping terms and manual adjustments.</p> <p>We performed in depth analysis on revenues and margin, disaggregated by month, on the group's key revenues streams, compared to operational data (i.e. cars/engines shipping data), to identify and assess any unusual fluctuations.</p> <p>We performed testing of sales incentive programs and late period-end sale, including a retrospective review of any credits to customers issued subsequent to the year-end date.</p> <p>We assessed the reasonableness of the consideration allocated to vehicle sales and maintenance programs based on the relative stand-alone selling price. We further tested the recognition of revenues over the maintenance programs terms and underlying base data.</p> <p>Finally, we reviewed the adequacy of the disclosures included in the financial statements.</p>
Key observations	As a result of the audit procedures performed we did not identify any material misstatement in the revenues reported in the financial statements.
Subject 2 Warranty and recall campaigns provision	
Risk	<p>As at December 31, 2018 warranty and recall campaigns provision amounts to €111 million.</p> <p>The group establishes a provision for product warranties at the time the sale is recognized to guarantee the performance of vehicles from defects that may become apparent within a certain period or term. The provision includes management's best estimate of the expected cost to fulfill the obligations over the contractual warranty period based on the group's historical claims or costs experience and the cost of parts and services to be incurred.</p> <p>In addition, the group periodically initiates voluntary service actions to address various client satisfaction, safety and emissions issues related to cars sold. Included in the provision are the estimated costs of these services and recall actions.</p> <p>Future costs of these actions are subject to numerous uncertainties, including the enactment of new laws and regulations, the number of vehicles affected by warranty or recall actions and the nature of the corrective action that may result in adjustments to the established provision.</p> <p>The costs related to this provision are recognized within cost of sales.</p> <p>The group has disclosed its accounting policy related to warranty and recall campaigns provision in the financial statements under note 2: significant accounting policies.</p>

	<p>Our procedures, designed to be responsive to the risk identified, included the following:</p> <p>We confirmed our understanding of the warranty and recall campaign provisioning process, evaluated the group’s accounting policy, and assessed the design and operating effectiveness of relevant internal controls.</p> <p>We assessed the reasonableness of the methodology and assumptions used by management in estimating future costs for warranty programs and recall campaigns, and assessed any changes, or the lack thereof, from the prior year.</p> <p>We completed analytical procedures aimed at assessing the reasonableness of the accrued provision.</p> <p>We completed a retrospective analysis comparing the provisions recorded by the group against actual spending for warranty and recall service costs to corroborate the cost assumptions used by management.</p>
Our audit approach	Finally, we reviewed the adequacy of the disclosures included in the financial statements.
Key observations	As a result of the audit procedures performed we did not identify any material misstatement in the provision for warranty and recall campaigns reported in the financial statements.

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, as required by 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 substantially 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 required by 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 as auditor of Ferrari N.V. on September 29, 2015, as of the audit for the year 2015, and have operated as statutory auditor ever since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

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 engagement 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 detect all material errors and fraud during our audit.

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 among others:

- 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. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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 to the audit committee, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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, February 26, 2019

Ernst & Young Accountants LLP

/s/ Pieter Laan