interparfums

CONSOLIDATED FINANCIAL STATEMENTS 2016

BALMAIN
BOUCHERON
COACH
JIMMY CHOO
KARL LAGERFELD
LANVIN
MONTBLANC
PAUL SMITH
REPETTO
ROCHAS
S.T. DUPONT
VAN CLEEF & ARPELS

Consolidated financials

Consolidated income statement

(€ thousands) Except per share data which is in units	Notes	2015	2016
Sales	4.1	**327,411**	**365,649**
Cost of sales	4.2	(119,343)	(128,694)
Gross margin		**208,068**	**236,955**
% of sales		*63.5%*	*64.8%*
Selling expenses	4.3	(149,954)	(172,821)
Administrative expenses	4.4	(12,289)	(13,562)
Current operating income		**45,825**	**50,572**
% of sales		*14.0%*	*13.8%*
Other operating expenses	4.5	-	(6,309)
Other operating income	4.5	-	5,400
Operating profit		**45,825**	**49,663**
% of sales		14.0%	13.6%
Financial income		2,242	2,555
Interest and similar expenses		(2,182)	(1,965)
Net borrowing costs		**60**	**590**
Other financial income		9,216	6,654
Other financial expense		(9,946)	(6,560)
Net financial income (expense)	4.6	**(670)**	**684**
Income before income tax		**45,155**	**50,347**
% of sales		*13.8%*	*13.8%*
Income tax	4.7	(15,923)	(17,490)
Effective tax rate		*35.3%*	*34.7%*
Net income		**29,232**	**32,857**
% of sales		*8.9%*	*9.0%*
Attributable to non-controlling shareholders		80	419
Net income		**29,152**	**32,438**
% of sales		*8.9%*	*8.9%*
Net earnings per share [1]	4.8	0.90	0.98
Diluted earnings per share[1]	4.8	0.90	0.98

[1] Restated for bonus share grants

Consolidated statement of comprehensive income and expense

(€ thousands)	2015	2016
Consolidated net profit for the period	**29,232**	**32,857**
Available-for-sale assets	-	-
Currency hedges	-	(30)
Deferred tax arising from items able to be recycled	-	10
Items able to be recycled in profit or loss	**-**	**(20)**
Actuarial gains and losses	(454)	(630)
Deferred taxes on items unable to be recycled	156	217
Items unable to be recycled in profit or loss	**(298)**	**(413)**
Other comprehensive income total	**(298)**	**(433)**
Comprehensive income for the period (1)	**28,934**	**32,424**
Attributable to non-controlling shareholders	80	419
Attributable to equity holders of the parent	**28,854**	**32,005**

Consolidated balance sheet

ASSETS (€ thousands)	Notes	2015	2016
Non-current assets			
Net trademarks and other intangible assets	3.1	172,733	162,748
Net property, plant, equipment	3.2	5,927	7,025
Long-term investments		1,975	2,951
Other non-current financial assets	3.3	5,816	5,166
Deferred tax assets	3.11	5,605	7,174
Total non-current assets		**192,056**	**185,064**
Current assets			
Inventory and work in progress	3.4	70,653	66,328
Trade receivables and related accounts	3.5	69,515	76,618
Other receivables	3.6	8,601	14,631
Corporate income tax		1,364	1,558
Current financial assets	3.7	76,097	89,367
Cash and cash equivalents	3.7	149,895	141,238
Total current assets		**376,125**	**389,740**
Total assets		**568,181**	**574,804**

SHAREHOLDERS' EQUITY & LIABILITIES (€ thousands)	Notes	2015	2016
Shareholders' equity			
Share capital		96,515	106,526
Additional paid-in capital		459	874
Retained earnings		260,925	263,720
Net income for the year		29,152	32,438
Equity attributable to parent company shareholders		**387,051**	**403,558**
Non-controlling interests		429	847
Total shareholders' equity	3.8	**387,480**	**404,405**
Non-current liabilities			
Provisions for non-current commitments	3.9	5,745	6,940
Non-current borrowings	3.10	70,215	50,341
Deferred tax liabilities	3.11	2,676	2,565
Total non-current liabilities		**78,636**	**59,846**
Current liabilities			
Trade payables and related accounts	3.12	53,730	61,838
Current borrowings	3.10	20,357	20,391
Provisions for contingencies and expenses	3.9	248	945
Income tax		6,199	2,069
Other liabilities	3.12	21,531	25,310
Total current liabilities		**102,065**	**110,553**
Total shareholders' equity and liabilities		**568,181**	**574,804**

Statement of changes in shareholders' equity

(€ thousands)	Number of shares	Share capital	Paid-in capital	Other comprehensive income	Retained earnings and net income	Total equity		
						Group share	Non-controlling interests	Total
At December 31, 2014 (1)(2)	**29,084,374**	**87,460**	**26**	**(574)**	**280,987**	**367,899**	**111**	**368,010**
Bonus share issue	2,919,269	8,759	(467)	-	(8,292)	0	-	**0**
Shares issued on exercise of stock options	98,995	296	900	-	-	1,196	-	**1,196**
2015 net income	-	-	-	-	29,152	29,152	80	**29,232**
Change in actuarial gains and losses on provisions for		-	-	(298)	-	(298)	-	**(298)**
2014 dividend paid in 2015	-	-	-	-	(12,814)	(12,814)	-	**(12,814)**
Treasury shares	(16,905)	-	-	-	(378)	(378)	-	**(378)**
Changes in Group structure of consolidated operations	-	-	-	-	-	0	238	**238**
Currency translation adjustments	-	-	-	-	2,277	2,277	-	**2,277**
Other changes	-	-	-	-	17	17	-	**17**
As of December 31, 2015(2)	**32,085,733**	**96,515**	**459**	**(872)**	**290,949**	**387,051**	**429**	**387,480**
Bonus share issue	3,219,038	9,657	(646)	-	(9,011)	-	-	-
Shares issued on exercise of stock options	118,014	354	1,061	-	-	1,415	-	1,415
2016 net income	-	-	-	-	32,438	32,438	418	32,856
Change in actuarial gains and losses on provisions for		-	-	(413)	-	(413)	-	(413)
Remeasurement of financial instruments at fair value		-	-	(20)	-	(20)		(20)
2015 dividend paid in 2016	-	-	-	-	(16,051)	(16,051)	-	(16,051)
Treasury shares	(74,783)	-	-	-	(1,394)	(1,394)	-	(1,394)
Currency translation adjustments	-	-	-	-	532	532	-	532
As of December 31, 2016(2)	**35,348,002**	**106,526**	**874**	**(1,305)**	**297,463**	**403,558**	**847**	**404,405**

(1) Restated to eliminate the impact of applying IFRIC interpretation 21 presented in note 1.3.
(2) Excluding treasury shares

Statement of cash flows

(€ thousands)	2015	2016
Cash flows from operating activities		
Net income	29,232	32,856
Depreciation, amortization and other	13,308	17,039
Capital (gains) losses on fixed assets disposals	-	-
Net finance costs	(60)	(590)
Tax charge of the period	15,923	17,490
Operating cash flows	**58,403**	**66,795**
Interest expense payments	(1,950)	(2,023)
Tax payments	(13,449)	(22,162)
Cash flow after interest expense and tax	**43,004**	**42,610**
Change in inventory and work in progress	(10,172)	2,950
Change in trade receivables and related accounts	(12,426)	(6,425)
Change in other receivables	(2,514)	(6,324)
Change in trade payables and related accounts	8,908	7,807
Change in other current liabilities	6,683	4,769
Change in working capital needs	**(9,521)**	**2,777**
Net cash flows provided by (used in) operating activities	**33,483**	**45,387**
Cash flows from investing activities		
Net acquisitions of intangible assets	(108,085)	(1,179)
Net acquisitions of property, plants and equipment	(2,451)	(3,054)
Net acquisitions of marketable securities (>3 months)	80,346	(13,513)
Changes in investments and other non-current assets	468	(326)
Net cash flows provided by (used in) investing activities	**(29,722)**	**(18,072)**
Cash flow from financing activities		
Issuance of borrowings and new financial debt	100,000	-
Debt repayments	(10,000)	(20,004)
Dividends paid to shareholders	(12,815)	(16,051)
Capital increases	1,196	1,415
Treasury shares	(299)	(1,332)
Net cash flows provided by (used in) financing activities	**78,082**	**(35,972)**
Change in net cash	**81,843**	**(8,657)**
Cash and cash equivalents, beginning of year	68,052	149,895
Cash and cash equivalents, end of year	**149,895**	**141,238**

The reconciliation of net cash breaks down as follows:

(€ thousands)	2015	2016
Current financial assets	76,097	89,367
Cash and cash equivalents	149,895	141,238
Current financial assets, cash and cash equivalents	**225,992**	**230,605**

Annual highlights

January

Investor relations and financial communications award
The company was the recipient of an award for the best investor relations in the mid cap segment (*Trophée des Meilleures Relations Investisseurs par une Valeur Moyenne*) for 2015.

Launch of the *Montblanc Legend Spirit* line
The legend continues… a newfound expression of his personality caught in a moment of total freedom and serenity with a new spirited expression of masculinity… … *Montblanc Legend Spirit*

April

Interparfums eligible for PEA-PME
Based on the eligibility criteria for French tax-advantaged PEA-PME savings accounts, as defined by the Implementing Decree No. 2014-283 of March 4, 2014, Interparfums confirmed the eligibility of its shares for inclusion in this new vehicle.

Launch of the *So First* line of Van Cleef & Arpels
A reinterpretation of the soul of *First* with a creation that embodies grace and modernity. A sparkling bouquet made of Jasmine petals and frangipani blossom blended with addictive notes of an intense vanilla infused with creamy sandalwood…

May

Launch of the *Escapade en Méditerranée* line, a limited edition of *Eau de Rochas*
This limited edition of *Eau de Rochas* takes us to the Mediterranean. A modern interpretation of the original fragrance, *Escapade en Méditerranée* offers an invitation to a Chypre Zesty Floral voyage.

Interparfums changes its shareholder registrar services provider
CM-CIC Market Solutions was appointed to provide shareholders registrar services.

June

Bonus share issue
The company proceeded with its 17th bonus share issue on the basis of one new share for every ten shares held.

July

Launch of the *In New York* line of Van Cleef & Arpels
A Fresh and Woody, Aromatic Fragrance. A majestic and timeless perfume that pays tribute to the city of New York! The iconic Van Cleef & Arpels boutique located at 744 Fifth Avenue also inspired this new fragrance for men.

Rochas Fashion womenswear
The company renews the contract with Alessandro Dell' Acqua as Creative Director for Women's Fashion.

August

Launch of the women's line, *Coach*
The *Coach Eau de Parfum* is inspired by the spontaneous energy and downtown style of New York City. A fragrance full of contrasts, opens with bright, sparkling raspberry, which gives way to creamy Turkish roses, before drying down to a sensual suede musk base note.

September

Launch of the *Modern Princess* line of Lanvin
A fruity duo of pink apple and red currant with a tangy freshness and crispness. The middle notes offer a blend of jasmine with freesia flower. In the end, the base notes unveil sensual femininity of vanilla orchid with a touch of femme fatale.

Rochas Fashion menswear
One year after closing the Rochas brand acquisition, Interparfums announced Béatrice Ferrant's arrival as the Artistic Director for Men's Fashion.

November

Launch of the *Montblanc Lady Emblem Elixir* line
A magic potion... An elixir casting a spell of love... *Lady Emblem Elixir* offers a new vision of the Rose. A potion said to have the powers of transforming metals into gold.

December

End of Balmain license
Effective as of December 31, 2016, by mutual agreement Interparfums and Balmain decided to terminate the license agreement entered into in 2012. The final deliveries will cease on March 31, 2017.

1. Significant accounting policies

1.1. Compliance statement

In accordance with EC regulations 1606/2002 of July 19, 2002 on international accounting standards, the 2016 consolidated financial statements of Interparfums are established in compliance with IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) applicable since 2005 as endorsed by the European Union.

Financial information presented herein is based on:
- IFRS standards and interpretations whose application was mandatory starting in 2005;
- Options retained and exemptions used by the Group for the preparation of IFRS consolidated financial statements.

The consolidated financial statements at December 31, 2016 were adopted by the Board of Directors on March 13, 2017. They will become definitive after having been approved by the ordinary general meeting of April 28, 2017.

1.2. Changes in accounting standards

The following standards, amendments and interpretations that entered into force on January 1, 2016 were applied by the company in preparing its interim consolidated financial statements for the six-month period ending December 31, 2016:

- Amendment to IAS 1 “Presentation of financial statements — disclosure initiative”;

- IFRS 2012-2014 annual improvement cycles.

These standards, amendments and interpretations did not have a material effect on the company's consolidated financial statements.

Furthermore no standards, amendments or interpretations currently under review by IASB and IFRIC were applied in advance in the financial statements for the period ending December 31, 2016.

The following standards, amendments and interpretations, not yet entered into effect, have been studied in advance to evaluate their impacts on future consolidated financial statements:

- IFRS 9 "instruments financiers" - entering into effect in January 2018: to date, the company does not anticipate any material impact in the consolidated financial statements in the future;
- IFRS 15 "Revenue recognition" - entering into effect in January 2018: to date, the company does not anticipate any material impact in the consolidated financial statements in the future;
- IFRS 16 "Leases" - entering into effect in 2019: the company has initiated a study. The impacts on the consolidated financial statements are currently being quantified. On this date, the company has identified the leases to be recognized under assets: These concern the premises for the Paris head office and the storage facility in Rouen. No other contract has been identified as falling within the scope of this standard.

1.3. Application of interpretation IFRIC 21 "Levies"

The interpretation IFRIC 21 was published in the Official Journal of the European Union on June 14, 2014 with a mandatory application date of January 1, 2015. It provides guidance on when to recognize a liability for a levy imposed by a government, and falling under the scope of application of IAS 37.

IFRIC 21 identifies the obligating event for the recognition of a tax liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.

Only the French social security levy, *Contribution Sociale de Solidarité des Sociétés* (C3S) was identified as impacting the consolidated financial statements and as such must be recognized in the year due rather than in the year when the provision is recognized in the statutory financial statements.

The impacts of these provisions have been integrated in the financial statements as from January 1, 2015.

The impact of the change in method on equity at December 31, 2014 breaks down as follows:

(€ thousands)	Shareholders' equity
Other liabilities *(cancellation of the C3S debt accrued for in 2013)*	497
Deferred tax	(189)
Impacts of the amendment at December 31, 2014	**308**

1.4. Basis of consolidation

All Group subsidiaries are fully consolidated.

Interparfums S.A.		Controlling interest (%)	Ownership interest (%)
Interparfums Deutschland GmbH	Germany	51 %	51 %
Interparfums Suisse Sarl	Switzerland	100 %	100 %
Inter España Parfums et Cosmetiques S.L.	Spain	100 %	100 %
Parfums Rochas Spain	Spain	51%	51%
Interparfums Srl	Italy	100 %	100 %
Interparfums Luxury Brands	United States	100 %	100 %
Interparfums Asia Pacific pte Ltd	Singapore	100 %	100 %

Subsidiaries' financial statements are prepared on the basis of the same accounting period as the parent company. The fiscal year covers the 12 month period ending on December 31.

In June 2015, Interparfums set up a new distribution subsidiary in Spain to market Rochas fragrances in a major market for this brand. This "Parfums Rochas Spain" entity is 51%-held by Interparfums and 49%-held by its local distributor. Because Interparfums exercises exclusive control over this company, it is fully consolidated.

In September 2015, Interparfums UK Ltd, a wholly-owned subsidiary of the Group, with no activity as from the end of 2014, was wound up. This had no impact on the consolidated financial statements.

All Group subsidiaries are fully consolidated.

1.5. Translation method

The company's operating currency and currency for the presentation of financial statements is the euro.

Transactions in foreign currencies are translated at the exchange rate in effect on the date of the transaction. Foreign currency denominated payables and receivables are translated at the exchange rate prevailing on December 31, 2016. Translation losses and gains arising from the conversion of accounts denominated in foreign currencies on December 31, 2016 are recorded in the income statement. Hedged transactions are translated at the negotiated exchange rate.

The main exchange rates applied for the translation of subsidiaries' accounts in relation to the euro are as follows:

Currency	Closing exchange rate		Average exchange rate	
	2015	2016	2015	2016
US dollar (USD)	1.0887	1.0541	1.1095	1.1069
Singapore dollar (SGD)	1.5417	1.5234	1.5255	1.5275
Swiss franc (CHF)	1.0835	1.0739	1.0679	1.0902

1.6. Use of estimates

The preparation of consolidated financial statements requires the use of estimates and assumptions for the valuation of certain balance sheet and income statement balances. These concern primarily the valuation of intangible assets, amounts to be set aside for provisions for contingencies and expenses and provisions for inventory losses. Although these estimates are based on management's best knowledge of current events and situations, actual results may ultimately differ from these estimates.

1.7. Sales

Revenue includes principally ex-warehouse sales to distributors and agents and direct sales to retailers for the portion realized by Group subsidiaries.
Revenue from perfume and cosmetics products is presented net of all forms of discounts and rebates.
Revenue is recognized on the basis of conditions of transfer to the buyer of the risks and rewards incident to ownership. Amounts invoiced at year-end when the actual transfer of title occurs in the following year are not recognized under revenue of the year in progress.

1.8. Trademarks and other intangible assets

Trademarks and other intangible fixed assets, including trademarks under licensing contracts and acquired trademarks are recorded at cost.

These trademarks that constitute well-established legally protected international brand names are classified as indefinite life intangible assets and are not amortized.

Finite life intangible assets such as upfront license fees are amortized on a straight-line basis over the duration of the license.

Rights on molds for bottles and related items are classified as finite life intangible assets and amortized over a period of between three and five years.

Licenses and upfront license fees are remeasured at least once a year according to the discounted cash flow method defined as the present value of estimated future cash flows expected to arise from the continuing use of these assets calculated according to their estimated or actual length. Data used originates from the annual and multi-year budgets for duration of the license agreements drawn up by Management.

Proprietary brand names are remeasured at least once a year by comparing the net carrying value and the recoverable amount defined as the higher of value in use on the basis of the present value of estimated future cash flows derived from five year budgets discounted to infinity.

The discount rate before tax applied for remeasurement is the weighted average cost of capital (WACC) of 6.20 % at December 31, 2016 compared to 8.02 % at December 31, 2015. This ratio is determined on the basis of the long-term interest rate of 0.7 % corresponding to the average rate for 10-year OAT French fungible treasury bonds of the last quarter, the rate expected by an investor in this sector and the specific risk premium for this sector. The perpetuity growth rate used is 0.2% at December 31, 2016 and December 31, 2015.
A provision for impairment is recorded if this value is lower than the carrying value.

Costs generated on acquisition analyzed as directly attributable costs are included in the cost of the acquired assets.

Other intangible assets are amortized over their useful lives and subject to impairment testing when an indication of impairment exists.

All license agreements provide for international rights of use. Other intangible assets, in particular rights on molds for bottles are mainly used in France by our subcontractors.

1.9. Property, plant and equipment

Tangible fixed assets are valued at cost (purchase price plus acquisition-related costs) and depreciated over their estimated useful lives on a straight-line basis (2 to 5 years). Tangible fixed assets include molds for caps.
All tangible fixed assets are used in France.

1.10. Inventory and work in progress

Inventories are valued at the lower of cost or probable resale value. A provision for impairment is recorded when their probable resale value is lower than the carrying value.

The cost of inventories of raw materials and supplies is valued on the basis of average weighted prices.

The cost of finished products includes the cost of materials used, production expenses and a share of indirect costs valued at a standard rate.

At the end of every year, these standard rates are compared with the effective rate obtained based on actual figures at year-end.

1.11. Other non-current financial assets

Marketable securities on initial recognition are recorded at cost and subsequently remeasured at fair value corresponding to the market value at the end of each period.

Because they are destined to be held for more than one year, all Group marketable securities have been classified as "Available-for-sale financial assets" and presented in "Non-current financial assets.

Gains and losses on “available-for-sale financial assets” are recorded at year-end in equity. However, a significant or prolonged decline in fair value below the cost value of the securities is recognized in profit or loss.

In addition, the line item "non-current financial assets" also includes a royalties advance on the Karl Lagerfeld license agreement that is charged every year against future royalties. This advance was remeasured at present value over the license agreement's term and the corresponding offset is recognized by increasing the amortization of upfront license fees.

1.12. Receivables

Accounts receivable are recorded at face value. A provision for impairment is recorded on a case-by-case basis when the probable recovery value is deemed to be less than the carrying value.

1.13. Deferred tax

Timing differences between the tax base of consolidated assets and liabilities and tax on restatements on consolidation give rise to the recognition of deferred taxes under the liability method, taking the known year-end tax conditions into account.

Potential tax savings resulting from loss carry forwards are recorded under deferred tax assets only when their use in the short term is deemed likely, and subject to depreciation when appropriate, are maintained in the balance sheet.

1.14. Current financial assets

Current financial assets consist of investments in the form of certificates of deposits, term deposits, capital redemption contracts or any other vehicles having maturities of more than three months.

1.15. Cash and cash equivalents

The item "Cash and cash equivalents" includes marketable securities and cash at bank and in hand that consist of highly liquid investments with maturities of less than three months readily convertible to a known cash amount and subject to an insignificant risk of changes in value.

1.16. Treasury shares

Interparfums shares held by the Group are recorded as a deduction from equity at cost.
If sold, the proceeds are recorded directly under equity net of tax.

1.17. Provisions for contingencies and expenses

- Retirement severance benefits

This reserve is maintained to honor employee pension benefit commitments and corresponds to the present value of the payments to which employees are entitled, under the collective bargaining agreement, once they retire. For the measurement of retirement severance benefits, Interparfums has adopted the procedure for voluntary severance agreements introduced on July 23, 2008 extending the cross-industry agreement (*accord interprofessionnel*) of January 11, 2008. This procedure provides for the systematic signature of a severance agreement by the employer and the employee specifying the terms and conditions of the termination. Because the method in force prior to the end of the reporting period involved compulsory retirement, the impact of this change in the assumptions used for calculation was recognized under past service costs. The projected unit credit was applied. This method takes into account rights and wages projected to term, the probability of payment as well as the prorated amount of seniority so that commitments correspond to the value of service already rendered by employees.
Accordingly, the calculation of commitments for severance benefits involves estimating the probable present value of projected benefit obligations (PBO), i.e. the rights of employees at the time of departure taking into account the probability of departure and death of the employees before term as well as the impact of revaluations and discounts. This projected benefit obligation is then prorated to take into account the seniority of the employees of the company on the calculation date.

- Provisions for other contingencies and expenses

A provision is recognized when the company has a present obligation (legal or constructive) as a result of a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation.

1.18. Financial instruments

Derivative financial and hedging instruments are used by the Group to reduce exposure to interest rate and foreign exchange risks. Such instruments are not used for speculative purposes.

The company has recourse to forward exchange contracts and cash flow hedges put into place at the time receivables or payables are recognized. These contracts have maturities of three to six months according to the maturities of the corresponding receivables and payables in foreign currencies (primarily the US dollar and Sterling pound). Currency gains and losses from these instruments are recognized in the income statement when the receivables are booked.

In addition hedges have been put into place to cover future sales in US dollars. In accordance with IAS 39, these hedges of projected cash flows were accounted for as cash flow hedges. Hedge accounting is applicable if the hedge is formally defined and documented on inception of the hedging relationship and it is demonstrated that the hedging relationship will be highly effective over the life of the hedging instrument. At year-end, hedging instruments corresponding to these criteria are recognized in the balance sheet at fair value. The ineffective portion of changes in fair value of these hedging instruments is recorded in profit or loss and the effective portion in equity. In 2017, revenue will be restated to eliminate the impact of these hedges.

1.19. Borrowings

On initial recognition, borrowings are measured at fair value to which are added transaction costs directly attributable to the issuance of the liability.
At year-end, borrowings are recognized at amortized cost according to the effective interest rate method.

1.20. Other liabilities

Other financial debt and operating liabilities are measured at fair value on initial recognition. This amount generally corresponds to the amount of the invoice in the case of short-term payables.

1.21. Stock option and restricted stock awards

Stocks options

IFRS 2 requires that a charge be recorded in the income statement with a corresponding increase to reserves representing advantages granted to beneficiaries of stocks options. For the measurement of these advantages, the company uses the Black & Scholes model. This model takes into account the characteristics of the plans (exercise price, exercise period), market data at time of grants (risk-free rate, share price, volatility, projected dividends) and assumptions with respect to the behavior of beneficiaries. Changes occurring after the grant date do not have an impact on this initial valuation. The value of the options is related notably to their expected lifespan. This expense is recognized over the duration of the vesting period.

1.21.2 Restricted stock awards

IFRS 2 requires that a charge be recorded in the income statement with a corresponding increase to reserves representing the market value of restricted stock awards, estimated on the grant date. This value also takes into account assumptions relating to the departure of beneficiaries in the rate of probability of achieving performance criteria to be eligible for the shares. Changes occurring after the grant date do not have an impact on this initial valuation. This expense is recognized over the duration of the vesting period.

1.22. Registration of trademarks

Under IAS 38, expenses incurred in connection with the registration of each trademark are not capitalized and are expensed under "research and consulting costs".

1.23. Earnings per share

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year after subtracting treasury shares.

Fully-diluted earnings per share are calculated based on the average number of shares outstanding in the period, after subtracting only treasury shares destined to be held on a long-term basis and adjusted for the effects of all potential diluted ordinary shares resulting from the exercise of stock options in the period.

To ensure the comparability of information, basic and diluted earnings per share of the prior year are systematically recalculated to take into account bonus share grants in the year in progress.

2. Principles of presentation

2.1. Presentation of the income statement

The consolidated income statement of the company is presented by function. Under this format, expenses and income are broken down by function (cost of sales, selling expenses, administrative expenses) and not according to the nature of the origin of expenses and income.

2.2. Presentation of the balance sheet

The balance sheet is presented according to a breakdown between assets and liabilities defined as current or non-current.

2.3. Segment information

Segment information presented in this report is based on the segments used by management to monitor Group operations.

2.3.1. Business lines

Up until December 31, 2014, the company operated solely in the segment of "Perfumes" where the indicators for financial performances for each brand of this segment were comparable. In consequence, the Group's income statement and balance sheet henceforth reflected the operations of the "Perfumes" activity in its entirety.

Since the acquisition of the Rochas brand on May 29, 2015, the company now operates in two distinct segments: "Perfumes" henceforth including Rochas' fragrance business and "Fashion" corresponding to activity generated by Rochas' fashion business.

However because the "Fashion" business accounts for less than 0.6 % of revenue, it is not presented separately in the income statement.

Significant balance sheet items relating to the "fashion" business are presented in note 5.1.

2.3.2. Geographical segments

The company has a significant international dimension and analyses sales by geographic segment.
All assets necessary for the company's activity are located in France.

3. Notes to the balance sheet

3.1. Trademarks and other intangible assets

3.1.1. Nature of intangible assets

(€ thousands)	2015	+	-	2016
Gross value				
Indefinite life intangible assets				
Lanvin trademark	36,323	-	-	36,323
Rochas Fragrances brand	86,739	-	-	86,739
Rochas Fashion brand	19,086	-	-	19,086
Finite life intangible assets				
S.T. Dupont upfront license fee Dupont	1,219	-	-	1,219
Van Cleef & Arpels upfront license fee	18,250	-	-	18,250
Montblanc upfront license fee	1,000	-	-	1,000
Boucheron upfront license fee	15,000	-	-	15,000
Balmain upfront license fee	2,050	-	(2,050)	0
Karl Lagerfeld upfront license fee	12,877	-	-	12,877
Other intangible assets				
Rights on molds for bottles and related items	9,808	791	-	10,599
Registration of trademarks	500	80	-	580
Software	2,940	308	(11)	3,237
Total gross amount	**205,792**	**1,179**	**(2,061)**	**204,910**
Amortization and impairment				
Finite life intangible assets				
S.T. Dupont upfront license fee Dupont	(1,219)	-	-	(1,219)
Van Cleef & Arpels upfront license fee	(13,689)	(1,521)	-	(15,210)
Montblanc upfront license fee	(548)	(67)	-	(615)
Boucheron upfront license fee	(5,000)	(1,000)	-	(6,000)
Balmain upfront license fee	(684)	(170)	854	-
Karl Lagerfeld upfront license fee	(2,040)	(5,755)	-	(7,795)
Other intangible assets				
Rights on molds for bottles and related items	(7,238)	(1,043)	-	(8,281)
Registration of trademarks	(496)	(4)	-	(500)
Software	(2,145)	(408)	11	(2,542)
Total amortization and impairment	**(33,059)**	**(9,968)**	**865**	**(42,162)**
Net total	**172,733**	**(8,789)**	**(1,196)**	**162,748**

Proprietary brands

- **Lanvin trademark**

As Interparfums acquired ownership for the Lanvin trademark and brand name for class 3 products (perfumes) in July 2007 no amortization was recognized in its balance sheet.

- **Rochas trademark**

As Interparfums acquired ownership for the Rochas trademark and brand name for products of class 3 (perfumes) and class 25 (fashion) in May 2015, no amortization was recognized in its balance sheet.

The purchase price allocation of the Rochas fragrances brand and the Rochas Fashion brand were measured by an outside appraiser and analyzed as follows:

(€ thousands)	Perfumes	Fashion	Total
Brand	82,745	18,210	100,955
Allocated costs (cost of intermediaries and attorneys)	594	130	724
Allocated costs (registration rights)	3,400	746	4,146
Total indefinite life intangible assets	**86,739**	**19,086**	**105,825**
Rights on molds for bottles	155	-	155
Fixtures, improvements, fittings	197	-	197
Total property, plant and equipment	**352**	**-**	**352**
Total acquisition of Rochas brand	**87,091**	**19,086**	**106,177**

Brands under license agreements

- **S.T. Dupont upfront license fee Dupont**

The total upfront license fee of €1,219,000 has been fully amortized since June 30, 2011.

- **Van Cleef & Arpels upfront license fee**

An upfront license fee of €18 million paid on 1 January 2007 is amortized over the 12-year term of the Van Cleef & Arpels license agreement.

- **Montblanc upfront license fee**

The upfront license fee of €1 million paid on June 30, 2010 is amortized over the 10.5 year term of the Montblanc license agreement.

- **Boucheron upfront license fee**

The upfront license fee of €15 million paid on 17 December 2010 is amortized over the 15 year term of the Boucheron license agreement.

- **Balmain upfront license fee**

The upfront license fee of €2,050,000 was paid in 2011 and is amortized over the term of the Balmain license agreement or 12 years commencing on January 1, 2012. Interparfums and Balmain ended their partnership by mutual agreement on December 31, 2016. The net unamortized value of the license agreement in the amount of €1,196,000 was canceled (see note 4.5)

- **Karl Lagerfeld upfront license fee**

The upfront license fee of €12,877,000 was recognized in 2012 and is amortized over the term of the Lagerfeld license agreement that commenced on January 1, 2012.
The upfront license fee includes the difference between the nominal value and the present value of the advance on royalties for €3,287,000 (See note 3.3 — Other non-financial assets).

- **Rights on molds for bottles and related items**

Rights on molds for bottles and related items are amortized over 5 years. Design costs are amortized over 3 years.

3.1.2. Impairment tests

- **Rochas trademark**

A valuation was performed on December 31, 2016 by discounting future cash flows to infinity. No provision was recorded.

- **Lanvin trademark**

A valuation was performed on December 31, 2016 by discounting future cash flows to infinity. No provision was recorded.

- **Upfront license fees**

All upfront license fees were measured on December 31, 2016 using the discounted cash flow method over the term of the licenses.
The measurement of the Karl Lagerfeld upfront license fee on December 31, 2016 indicated a net carrying value that was less than the market value.
On that basis, the company recorded an impairment charge for this asset of €5,113,000. The net value of the license agreement in the financial statements of December 31, 2016 amounted to €5,081,000, representing the total future cash flows discounted to present value.
Due to the non-recurring nature of this impairment, it is presented in the income statement under other operating expenses. (see note 4.5)

No other provision was recorded.

For all discounts, the weighted average cost of capital (WACC) of 6.20 % is applied.

- **Analysis of sensitivity**

A one point increase in the discount rate before tax would result in an additional impairment charge of €200,000 for the Karl Lagerfeld license agreement. No other additional impairment charge will be recorded for the other trademarks and other intangible assets.

3.2. Property, plant and equipment

(€ thousands)	**2015**	**+**	**-**	**2016**
Fixtures, improvements, fittings	5,700	1,707	(43)	7,364
Office and computer equipment and furniture	1,936	339	(176)	2,099
Molds for bottles and caps	9,285	1,002	-	10,287
Other [(1)]	1,098	6	0	1,104
Total gross amount	**18,019**	**3,054**	**(219)**	**20,854**
Accumulated depreciation and impairment [(1)]	(12,092)	(2,073)	336	(13,829)
Net total	**5,927**	**981**	**117**	**7,025**

[(1)] Including fixed assets held under finance leases (vehicles) for a gross amount of €558,000 and an accumulated depreciation of €326,000.

3.3. Other non-current financial assets

The signature of the Karl Lagerfeld license agreement resulted in an advance on royalty payments to be charged against future royalties of €9,589,000. This advance was discounted over the license agreement term and reduced accordingly to €5,166,000 at December 31, 2016.
The corresponding offset is recognized by increasing the amortization of upfront license fees.

3.4. Inventory and work in progress

(€ thousands)	2015	2016
Raw materials and components	23,494	27,391
Finished goods	52,209	43,227
Total gross amount	**75,703**	**70,618**
Allowances for raw materials	(2,241)	(1,825)
Impairment of finished goods	(2,809)	(2,465)
Accumulated provisions for impairment	**(5,050)**	**(4,290)**
Net total	**70,653**	**66,328**

3.5. Trade receivables and related accounts

(€ thousands)	2015	2016
Total gross amount	71,010	78,217
Impairment	(1,495)	(1,599)
Net total	**69,515**	**76,618**

The aged trial balance for trade receivables breaks down as follows:

(€ thousands)	2015	2016
Not due	62,170	63,154
0-90 days	6,822	13,346
91-180 days	909	447
181-360 days	185	108
More than 360 days	924	1162
Total gross amount	**71,010**	**78,217**

3.6. Other receivables

(€ thousands)	2015	2016
Prepaid expenses	2,754	3,592
Accrued income	-	5,400
Interparfums Holding current accounts	2,807	2,957
Value-added tax	1,849	1,544
Hedging instruments	115	15
License royalties	237	459
Other	839	664
Total	**8,601**	**14,631**

Accrued income represents the Balmain exit fee.

3.7. Current financial assets, cash and cash equivalents

(€ thousands)	2015	2016
Current financial assets	76,097	89,367
Cash and cash equivalents	149,895	141,238
Current financial assets, cash and cash equivalents	**225,992**	**230,605**

3.7.1. Current financial assets

Current financial assets, represented by investments with maturities greater than three months, break down as follows:

(€ thousands)	2015	2016
Certificates of deposit	1,000	4,000
Capital redemption contracts	36,938	37,460
Term deposit accounts	37,935	47,693
Other current financial assets	224	214
Current financial assets	**76,097**	**89,367**

3.7.2. Cash and cash equivalents

Cash in banks and cash equivalents having maturities of less than three months break down as follows:

(€ thousands)	2015	2016
Certificates of deposit (less than 3 months)	1,915	5,311
Interest-bearing accounts	6,715	7,383
UCITS	-	5,612
Term deposit accounts	65,267	70,536
Current interest-bearing accounts	43,089	11,995
Bank accounts	32,909	40,401
Cash and cash equivalents	**149,895**	**141,238**

3.8. Shareholders' equity

3.8.1. Share capital

As of December 31, 2016, Interparfums' capital consisted of 35,508,784 shares fully paid-up with a par value of €3, 72.7 %-held by Interparfums Holding.

For the 2016 financial period, capital increases result from the exercise of stock options for 118,014 shares and the capital increase in connection with the bonus issue of June 20, 2016 for 3,219,038 shares on the basis of one new share for every ten shares held.

3.8.2. Stock option plans

No stock option plan was in effect at December 31, 2016.

In the period, changes in plans issued by Interparfums SA break down as follows:

Plans	Options outstanding at 12/31/2015	Conversions in the period	Bonus share grants	Cancellations in the period	Options outstanding at 12/31/2016
Plan 2010	109,153	(118,014)	9,066	(205)	0
	109,153	**(118,014)**	**9,066**	**(205)**	**0**

Benefits granted to employees in the form of stock options, in accordance with IFRS 2, were calculated using the Black & Scholes model. The impact of this calculation represents an expense that is recognized over the duration of the vesting period. This expense had been fully amortized on June 30, 2015.

Restricted stock awards

Interparfums SA awarded performance shares to all employees and managers with at least six months of seniority as of the date of the plan. The maximum number of shares to be awarded is 133,000 shares for senior executives and managers and 15,100 shares for all other employees.

The restricted share units will be remitted to employees after a vesting period of three years. After this period, the beneficiaries will freely dispose of their shares, without being subject to a lock-up period.

Actual transmission of the securities is contingent on the following terms and conditions:

Beneficiaries	Vesting conditions
Senior executives and managers	Condition of presence on September 6, 2019 And: Conditions of performance based on: - Consolidated revenue for fiscal 2018 for 50% of the restricted stock units awarded - Consolidated operating profit for 50% of the restricted stock units awarded
Other beneficiaries	Condition of presence on September 6, 2019

In accordance with IFRS 2, the Interparfums SA share price used to estimate the value in the consolidated financial statements is the average price for the last three trading sessions preceding the implementation of the plan or €23.98. The fair value applied on the award date is €22.46 after taking into account future dividends in the estimate.

An employee turnover rate and a rate of probability for achieving the performance criteria were also used for the calculation, bringing the total expense to be spread over the life of the plan (three years) to €3 million or €324,000 at December 31, 2016.

To ensure the availability of shares for remittance to employees on maturity, the company purchased an initial tranche of 108,000 shares on the market on December 31, 2016 for a total amount of €2.6 million. These shares are presented as a deduction from shareholders' equity.
At December 31, 2016, the estimated number of shares to be remitted was 136,500.

3.8.4. Treasury shares

Within the framework of the share repurchase program authorized by the General Meeting of April 22, 2016, 52,434 Interparfums shares were held by the company as of December 31, 2016 or 0.15 % of the share capital.

Changes in the period break down as follows:

(€ thousands)	Average price	Number of shares	Book value
At December 31, 2015	**-**	**85,999**	**1,952**
Acquisition	23.58	212,322	5,007
Bonus share issue of June 20, 2016	-	6,959	-
Sales	22.90	(252,846)	(5,791)
Impairment charges / reversals			106
At December 31, 2016	**-**	**52,434**	**1,274**

Management of the share buyback program is assured by an investment services provider within the framework of a liquidity agreement in compliance with the conduct of business rules of the French association of financial market professionals (AMAFI).

Purchases of shares under this program are subject to the following conditions:
- The maximum purchase price is € 40 per share, excluding execution costs;
- The total number of shares acquired may not exceed 5% of the company's capital stock.

3.8.5. Non-controlling interests

Non-controlling interests concern percentages not held in European subsidiaries (Interparfums Deutschland GmbH: 49%; Parfums Rochas Spain S.L: 49%) that break down as follows:

(€ thousands)	2015	2016
Reserves attributable to non-controlling interests	349	428
Earnings attributable to non-controlling interests	80	419
Non-controlling interests	**429**	**847**

Non-controlling shareholders have an irrevocable obligation and the ability to offset losses by an additional investment.

3.8.6. Information on equity

In compliance with the provisions of article L.225-123 of the French commercial code, the shareholders' meeting of September 29, 1995 decided to create shares carrying a double voting right. These shares must be fully paid up and recorded in the company's share register in registered form for at least three years.

Since 1998, the company has adopted a policy of distributing dividends that today represent approximately 50 % of consolidated earnings, destined to reward shareholders while at the same time associating them with the Group's expansion. In early May 2016, a dividend of €0.50 per share was paid or a total of €16.1 million.

Given its financial structure, the Group has the ability to secure financing for important projects from banks in the form of medium-term loans. At the end of May 2015, a 5 year €100 million loan was obtained to finance the acquisition of the Rochas brand.

The level of consolidated shareholders' equity is regularly monitored to ensure the company continues to have sufficient financial flexibility to take advantage of all potential opportunities for external growth.

3.9. Provisions for contingencies and expenses

(€ thousands)	2015	Allowances	Actuarial gains / losses	Provisions used the period	Reversal of unused provisions	2016
Provisions for retirement severance payments	5,745	565	630	-	-	6,940
Total provisions for expenses > 1 year	**5,745**	**565**	**630**	**-**	**-**	**6,940**
Accruals for taxes	-	572	-	-	-	572
Other provisions for contingencies < 1 year	248	375	-	(200)	(50)	373
Total provisions for contingencies > 1 year	**248**	**947**	**-**	**(200)**	**(50)**	**945**
Total provisions for contingencies and expenses	**248**	**947**	**-**	**(200)**	**(50)**	**7,885**

3.9.1. Provisions for retirement severance payments

Since 2008, for the measurement of retirement severance benefits, Interparfums has adopted the procedure for negotiated terminations introduced on July 23, 2008 extending the cross-industry agreement of January 11, 2008.
For 2016, the following assumptions were applied:
- A negotiated termination at age 65;
- A rate of 50 % for employer payroll contributions for all employees;
- A 4 % average rate for annual salary increases;
- An employee turnover rate depending on the age of employees;
- The TH 00-02 mortality table for men and the TF 00-02 mortality table for women; and
- A discount rate for the 10 year IBOXX corporate bond index of 1.30%.

On the basis of these assumptions, the annual expense of €565,000 recorded under current income breaks down as follows:
- Service costs: €450,000
- Financial expense: €115,000

Actuarial gains and losses in 2016 amounting to €630,000 recorded under reserves resulted primarily from changes in assumptions.

A 0.5% increase in the discount rate would result in a €22,000 reduction in the present value of rights at December 31, 2016 versus a 0.5% decrease resulting in a €21,000 increase.

3.9.2. Other provisions or disputes

A tax audit of 2012 of the French company resulted in a tax deficiency notification amounting to €6 million at the end of 2015.

After the company filed a formal challenge of these tax deficiency notifications and provided additional information and explanations, the tax authorities reduced this tax adjustment to €800,000 in May 2016. This tax adjustment concerned mainly the rates for royalties and commissions paid to certain Group subsidiaries.

The impact of this tax adjustment for the 2013, 2014 and 2015 financial years resulted in the recognition of an additional tax expense of €800,000, increasing the total amount of the tax adjustment to €1.6 million at December 31, 2016.

As these rates were adjusted starting with fiscal 2016, the company does not anticipate any tax contingencies of this nature for the following years.

3.10. Borrowings and financial liabilities

A loan with was obtained on May 29, 2015 with a face value of €100 million repayable over five years to finance the acquisition of the Rochas brand executed on that same date.

Its repayment is made in quarterly installments of €5 million each for the principal. This loan will be subject to interest equal to the 3-month Euribor plus the applicable margin.

This debt is recognized at fair value to which is allocated the €775,000 in transaction costs directly attributable to the acquisition, in compliance with IAS 39.

The line item "Borrowings" also corresponds to debt relating to fixed assets held under finance leases (vehicles).

3.10.1 Borrowings by the maturities

(€ thousands)	Total	< 1 year	1 to 5 years
Variable-rate bank debt	69,623	19,821	49,802
Interest rate swap	861	446	415
Automobile leases	248	124	124
Total at December 31, 2016	**70,732**	**20,391**	**50,341**

3.10.2 Additional disclosures

The Rochas loan contracted in May 2015 was covered by an interest rate swap covering 90% of the debt, guaranteeing a maximum rate of 2%.

At December 31, 2016, on the basis of a notional amount of €70 million, a gain of €64,000 in connection with this swap was recognized in the income statement whereby the Group did not apply hedge accounting in accordance with IAS 39. The market value of the swap at December 31, 2016 represented a negative amount for the company of €861,000.

3.10.3. Covenants

The Rochas loan obtained by the parent company is subject to the following covenant ratios:

- Interest coverage ratio: consolidated EBITDA / consolidated interest expense
- Leverage ratio: Consolidated net debt / consolidated EBITDA

At 31 December 2016, all these covenants were met. The current level of these ratios is considerably below the contractual limits. As a result, the Group has considerable financial flexibility in respect to these commitments.

3.11. Deferred tax

Deferred taxes arise mainly from timing differences between financial accounting and tax accounting. Deferred taxes from consolidation adjustments and deferred taxes based on loss carryforwards are recovered as follows:

(€ thousands)	2015	Changes through reserves	Changes through income	2016
Deferred tax assets				
Timing differences between financial and tax accounting	2,419	-	814	3,233
Provisions for retirement liabilities	179	217	(217)	179
Loss carryforwards	279	-	500	779
Swap instrument	318	-	(22)	296
Currency hedges	-	10	49	59
Intra-group inventory margin	1,993	-	701	2,694
Advertising and promotional costs	527	-	56	583
Other	169	-	(39)	130
Total deferred tax assets before amortization	**5,884**	**227**	**1,842**	**7,953**
Depreciation of deferred tax assets	(279)		(500)	(779)
Net deferred tax assets	**5,605**	**227**	**1,342**	**7,174**
Deferred tax liabilities				
Acquisition costs	576	-	(7)	569
Bonus shares	-	(13)	13	-
Levies imposed by governments	152	-	33	185
Borrowing costs associated with the Rochas brand acquisition	211	-	(80)	131
Capitalization of costs associated with the Rochas brand acquisition	1,677	-	-	1,677
Gains (losses) on treasury shares	39	73	(112)	-
Derivatives	21	-	(18)	3
Total deferred tax liabilities	**2,676**	**60**	**(171)**	**2,565**
Total net deferred tax	**2,929**	**167**	**1,513**	**4,609**

3.12. Trade payables and other current liabilities

3.12.1. Trade payables and related accounts

(€ thousands)	2015	2016
Trade payables for components	13,169	18,107
Other trade payables	40,561	43,731
Total	**53,730**	**61,838**

3.12.2 – Other payables

(€ thousands)	2015	2016
Accrued credit notes	2,446	3,203
Tax and employee-related liabilities	11,507	12,909
Accrued royalties	6,545	7,493
Hedging instruments	4	584
Other liabilities	1,029	1,121
Total	**21,531**	**25,310**

3.13. Financial instruments

Financial instruments according to IAS 39 classifications for measurement break down as follows:

At December 31, 2016 (€ thousands)	Notes	Carrying value	Fair value	Fair value through profit or loss	Available-for-sale assets	Loans & receivables or payables	Derivatives
Long-term investments		2,951	2,951	-	-	2,951	-
Other non-current financial assets	3.3	5,166	5,166	-	-	5,166	-
Trade receivables and related accounts	3.5	76,618	76,618	-	-	76,618	-
Other receivables	3.6	14,631	14,631	-	-	14,616	15
Current financial assets	3.7	89,367	89,367	-	-	89,367	-
Cash and cash equivalents	3.7	141,238	141,238	-	-	141,238	-
Assets		**329,971**	**329,971**	**-**	**-**	**329,956**	**15**
Borrowings and financial liabilities	3.10	70,732	70,069 (1)	861	-	69,871	-
Trade payables and related accounts	3.12	61,838	61,838	-	-	61,838	-
Other liabilities	3.12	25,310	25,310	-	-	24,726	584
Liabilities		**157,880**	**157,217**	**861**	**-**	**156,435**	**584**

At December 31, 2015 (€ thousands)	Notes	Carrying value	Fair value	Fair value through profit or	Available-for-sale assets	Loans & receivables or payables	Derivatives
Long-term investments		1,975	1,975	-	-	1,975	-
Other non-current financial assets	3.3	5,816	5,816	-	-	5,816	-
Trade receivables and related accounts	3.5	69,515	69,515	-	-	69,515	-
Other receivables	3.6	8,601	8,601	-	-	8,486	115
Current financial assets	3.7	76,097	76,097	-	-	76,097	-
Cash and cash equivalents	3.7	149,895	149,895	-	-	149,895	-
Assets		**311,899**	**311,899**	**-**	**-**	**311,784**	**115**
Borrowings and financial liabilities	3.10	90,572	88,780 (1)	925	-	89,647	-
Trade payables and related accounts	3.12	53,730	53,730	-	-	53,730	-
Other liabilities	3.12	21,531	21,531	-	-	21,527	4
Liabilities		**165,833**	**164,041**	**925**	**-**	**164,904**	**4**

(1) The fair value of borrowings and financial liabilities is presented at amortized cost.

In accordance with the amendment of IFRS 7, current and non-current financial assets, cash and cash equivalents and borrowings and financial liabilities are measured using directly observable inputs other than quoted market prices (level 2). The carrying value of other financial assets presented above represents a satisfactory approximation of their fair value.

3.14. Risk management

The primary risks related to the Group's business and organization result from interest rate and foreign exchange rate exposures that are hedged using derivative financial instruments. The potential impacts of other risks on the company's financials are not material.

3.14.1. Interest rate risks

The Group's interest rate exposure is related principally to debt. The objective of the Group's policy is to ensure a stable level of financial expense through the use of hedges in the form of interest rate swaps (fixed rate swaps). These financial instruments are not eligible for hedge accounting under IAS 39. The Group nevertheless considers that these transactions are not speculative in nature and are necessary to effectively manage its interest rate exposure.

3.14.2. Liquidity risks

The net position of financial assets and liabilities by maturity is as follows:

(€ thousands)	< 1 year	1 to 5 years	> 5 years	Total
Other non-current financial assets	1,100	2,000	2,066	5,166
Current financial assets	9,004	80,149	214	89,367
Cash and cash equivalents	141,238	-	-	141,238
Total financial assets	**151,342**	**82,149**	**2,280**	**235,771**
Borrowings and financial liabilities	(19,945)	(49,926)	-	(69,871)
Total financial liabilities	**(19,945)**	**(49,926)**	**-**	**(69,871)**
Net position before hedging	**131,397**	**32,223**	**2,280**	**165,900**
Hedging of assets and liabilities (swaps)	446	415	-	861
Net position after hedging	**131,843**	**32,638**	**2,280**	**166,761**

3.14.3. Foreign exchange risks

Net positions of the Group in the main foreign currencies are as follows:

(€ thousands)	USD	GBP	JPY	CAD
Assets	17,775	3,822	819	198
Liabilities	(3,502)	(152)	(246)	(67)
Net position before hedging at the closing price	**14,273**	**3,670**	**573**	**131**
Net position hedged	(9,392)	(1,877)	(405)	0
Net position after hedging	**4,881**	**1,793**	**168**	**131**

In addition, because a significant portion of Group sales is in foreign currencies, it incurs a risk from exchange rate fluctuations, primarily from the US dollar (41.2 % of sales) and to a lesser extent the pound sterling (6.6 % of sales) and the Japanese yen (1.5 % of sales).

- Foreign exchange risk management policy

The Group's exchange rate risk management policy seeks to cover budget exposures considered highly probable related to monetary flows resulting from US dollar sales, as well as trade receivables in the period in US dollars, pound sterling and Japanese yens.

To this purpose, the Group has recourse to forward exchange sales, according to procedures that prohibit speculative trading:

- All forward currency hedging must be backed in terms of amount and maturity by an identified economic underlying asset;
- All budget exposures are identified.

At December 31, 2016, the Group had hedged 64 % of its receivables and 57 % of its payables in US dollars, 52 % of its receivables and 72 % of payables booked in pound sterling and 49 % of its receivables in Japanese yen.
At December 31, 2016, for the sales budget for the 2017 first-half, 70% was hedged, with additional forward currency sales made for the balance.

- Sensitivity to foreign exchange risk

A 10% fluctuation in the exchange rate of the US dollar and the pound sterling in relation to the euro represents a pertinent risk factor that may reasonably occur within a given year. An immediate upswing in the exchange rate (US dollar and pound sterling) of 10% would result in a maximum positive currency effect of €17.6 million on sales and €14.4 million on operating income. A 10% decrease of these same exchange rates would have an inverse negative effect.

3.14.4. Counterparty risk

Financial instruments and cash deposits used by the Group to manage interest rate and foreign exchange risks are obtained from top-tier counterparties with benchmark ratings.

4. Notes to the income statement

4.1. Breakdown of consolidated sales by brand

(€ thousands)	2015	2016
Montblanc	88,031	110,016
Jimmy Choo	83,279	81,721
Lanvin	64,110	56,028
Rochas	12,105	29,212
Coach	-	20,906
Van Cleef & Arpels	17,525	19,106
Boucheron	17,745	16,027
Paul Smith	9,505	9,233
Karl Lagerfeld	10,352	6,465
S.T. Dupont	10,380	5,364
Repetto	8,013	5,041
Balmain	4,795	3,785
Other	538	669
Perfume sales	**326,378**	**363,573**
Rochas fashion license revenues	1,032	2,076
Total revenue	**327,410**	**365,649**

4.2. Cost of sales

(€ thousands)	2015	2016
Raw materials, trade goods and packaging	(120,150)	(120,173)
Changes in inventory and allowances for impairment	9,708	370
POS advertising	(2,341)	(2,255)
Staff costs	(3,960)	(4,021)
Property rental expenses	(1,810)	(2,119)
Transportation costs	(585)	(287)
Other expenses related to the cost of sales	(205)	(209)
Total cost of sales	**(119,343)**	**(128,694)**

4.3. Selling expenses

(€ thousands)	2015	2016
Advertising	(67,400)	(80,341)
Royalties	(24,594)	(26,954)
Staff costs	(20,608)	(26,638)
Service fees /subsidiaries	(11,107)	(8,966)
Subcontracting	(6,720)	(7,205)
Transportation costs	(3,284)	(3,672)
Travel and entertainment expenses	(3,714)	(5,900)
Allowances and reversals	(4,747)	(4,559)
Tax and related expenses	(2,469)	(3,186)
Commissions	(1,369)	(1,289)
Property rental expenses	(1,722)	(1,632)
Other selling expenses	(2,220)	(2,479)
Total selling expenses	**(149,954)**	**(172,821)**

4.4. Administrative expenses

(€ thousands)	2015	2016
Purchases and external costs	(4,871)	(5,288)
Staff costs	(5,448)	(5,691)
Property rental expenses	(675)	(680)
Allowances and reversals	(260)	(625)
Travel expenses	(462)	(746)
Other administrative expenses	(573)	(532)
Total administrative expenses	**(12,289)**	**(13,562)**

4.5. Other operating income and expenses

Other operating income and expenses include transactions related to the discontinuation of the Balmain license as well as the goodwill impairment charge on the Karl Lagerfeld brand that break down as follows:

(€ thousands)	Other operating income	Other operating expenses
Balmain license exit payment	5,400	-
Allowances for depreciation and amortization, provisions	-	(1,196)
Additional impairment for Karl Lagerfeld	-	(5,113)
Total administrative expenses	**5,400**	**(6,309)**

4.6. Net financial income (expense)

(€ thousands)	2015	2016
Financial income	2,242	2,555
Interest and similar expenses	(2,182)	(1,965)
Net finance costs	**60**	**590**
Currency losses	(8,684)	(5,830)
Currency gains	7,958	5,917
Net currency gains (losses)	**(726)**	**87**
Other financial income and expenses	**(4)**	**7**
Net financial income /(expense)	**(670)**	**684**

Returns on investments, particularly in US dollars, combined with the expense initially linked to the Rochas loan as well as the subsequent renegotiation of rates thereof reflect this decrease in the net borrowing costs.
Prudent management of the level of hedges of receivables and payables, mainly in the US dollar and Pound sterling allowed the Group to benefit from positive currency effects in 2016.

4.7 Income taxes

4.7.1. Analysis of income taxes

(€ thousands)	2015	2016
Current income tax - France	(11,979)	(13,702)
Current income tax—Foreign operations	(3,028)	(3,675)
Total current income tax	**(15,007)**	**(17,377)**
Non-current tax	**-**	**(1,626)**
Deferred tax- France	(925)	1,422
Deferred tax- Foreign operations	9	91
Total deferred taxes	**(916)**	**1,513**
Total income taxes	**(15,923)**	**(17,490)**

The non-current tax corresponds to a tax expense relating to a tax audit of the French company in 2012 and the resulting tax adjustment for the periods of 2013 to 2015 (see note 3.9.2).

4.7.2. Reconciliation of the effective tax expense and theoretical tax expense

The difference between the effective tax and theoretical tax expenses calculated by applying the tax rates applicable for fiscal 2016 and 2015 of respectively 34.43 % and 38.11 % to pretax income reflects the following.

(€ thousands)	2015	2016
Tax base	**45,155**	50,347
Theoretical tax calculated at the parent company rate	(17,209)	(17,334)
Effect of tax rate differences	1,750	896
Recognition of tax income not previously classified as tax assets	114	226
Deferred tax not recognized on losses of the period	(48)	(749)
Tax adjustment	-	(1,525)
Permanent non-deductible differences	(530)	996
Income tax	**(15,923)**	**(17,490)**

4.8. Earnings per share

In € thousands, except number of shares and earnings per share in euros	2015	2016
Consolidated net income	29,152	32,438
Average number of shares	32,312,538	33,192,284
Basic earnings per share (1)	**0.90**	**0.98**
Dilutive effect of stock options:		
Potential additional number of fully diluted shares	54,972	-
Potential fully diluted average number of shares outstanding	32,367,510	33,192,284
Diluted earnings per share (1)	**0.90**	**0.98**

(1) Adjusted for bonus shares granted in 2015 and 2016.

5. Segment information

5.1. Business lines

Up until December 31, 2014, the company operated solely in the segment of "Perfumes" where the indicators for financial performances for each brand of this segment were comparable. In consequence, the Group's income statement and balance sheet henceforth reflected the operations of the "Perfumes" activity in its entirety.

Since the acquisition of the Rochas brand on May 29, 2015, the company now operates in two distinct segments: "Perfumes" henceforth including Rochas' fragrance business and "Fashion" corresponding to activity generated by Rochas' fashion business.

However, a separate presentation is not provided for income statement aggregates because the "fashion" business represents less than 0.6 % of Group sales. Assets and liabilities relating to the Rochas brand at December 31 were as follows:

(In € thousands)	Perfumes	Fashion	Total
Intangible assets - Rochas brand	86,739	19,086	105,823
Medium-term loan	57,773	12,711	70,484

The amount of the loan has been allocated by business in proportion to the breakdown of intangible assets.
Segment assets and liabilities consist of assets (liabilities) used primarily in France.

5.2. Geographical segments

Sales by geographical sector break down as follows:

(€ thousands)	2015	2016
North America	75,834	98,157
South America	24,116	24,535
Asia	48,141	53,272
Eastern Europe	38,878	33,715
Western Europe	73,934	83,783
France	29,496	33,196
Mddle East	30,945	32,355
Africa	5,035	4,560
Perfume sales	**326,379**	**363,573**
Rochas fashion license revenues	**1,032**	**2,076**
Total	**327,411**	**365,649**

6. Other disclosures

6.1. Off-balance sheet commitments

The following presentation of off-balance sheet commitments is based on AMF recommendation No. 2010-14 of December 6, 2010.

6.1.1. Off-balance sheet commitments in connection with the company's operating activities

(€ thousands)	Main characteristics	2015	2016
			0
Guaranteed minima on trademark royalties	Guaranteed minima on royalties regardless of sales achieved for each of the trademarks in the period.	104,966	147,633
Headquarters rental payments	Rental payments due over the remainder of the lease terms (3, 6 or 9 years).	15,574	13,885
Guaranteed minima for warehousing and logistics	Contractual minima for remuneration of warehouses regardless of sales volume for the period.	6,039	4,697
Firm component orders	Inventories of components on stock with suppliers that the company undertakes to purchase as required for releases and which the company does not own.	3,800	4,485
Total commitments given in connection with operating activities		**130,379**	**170,700**

6.1.2. Off-balance sheet commitments in connection with the company's financing activities

Commitments with respect to forward currency sales at December 31, 2016 amounted to US$12,000,000, £1,700,000 and ¥50,000,000.

Commitments in connection with forward currency purchases at December 31, 2016 amounted to €1,975,000 for US dollar hedges and €108,000 for Pound Sterling hedges representing total commitments of €2,083,000.

Commitments given with investments in foreign currency at December 31, 2016 amounted to US$5,695,000 million.
Commitments with respect to forward currency sales at December 31, 2016 budgeted in the 2017 first half amounted to US$50 million.

6.1.3. Commitments given by maturity at December 31, 2016

(€ thousands)	Total	Up to 1 year	1 to 5 years	5 years or more
Guaranteed minima on trademark royalties	147,633	14,609	58,269	74,755
Headquarters rental payments	13,885	2,368	8,070	3,447
Guaranteed minima for warehousing and logistics	4,697	1,342	3,355	-
Firm component orders	4,485	4,485	-	-
Total commitments given	**170,700**	**22,804**	**69,694**	**78,202**

Maturities are defined on the basis of the contract terms (license agreements, logistic agreements, etc.)

6.1.4. Commitments received

Commitments received in connection with forward currency sales at December 31, 2016 amounted to €11,063,000 for hedges for US dollars, €1,978,000 for pound sterling and €406,000 for Japanese yen representing total commitments of €13,447,000.

Commitments with respect to forward currency sales at December 31, 2016 amounted to US$2,100,000 and £93,000.

Commitments received respect to investments and foreign currency for US Dollar hedges at December 31, 2016 amounted to €5,307,000.

Commitments with respect to forward currency sales at December 31, 2016 budgeted in the 2017 first half amounted to US$46,833,000 for US dollar hedges.

6.2. License agreements

	Nature of license	License inception date	Duration	Expiration date
S.T. Dupont	Amount	July 1997	11 years	-
	Renewal	January 2006	5 years and 6 months	-
	Renewal	January 2011	6 years	-
	Renewal	January 2017	3 years	December 2019
Paul Smith	Amount	January 1999	12 years	-
	Renewal	July 2008	7 years	December 2017
Van Cleef & Arpels;	Amount	January 2007	12 years	December 2018
Jimmy Choo	Amount	January 2010	12 years	December 2021
Montblanc	Amount Renewal	July 2010 January 2016	10 years and 6 months 5 years	- December 2025
Boucheron	Amount	January 2011	15 years	December 2025
Balmain	Amount	January 2012	(1)	December 2016
Repetto	Amount	January 2012	13 years	December 2024
Karl Lagerfeld	Amount	November 2012	20 years	October 2032
Coach	Amount	June 2016	10 years	June 2026

2015 highlights

With annual sales now exceeding €100 million, multiplied by 5 in just 4 years, Montblanc fragrances have met with enormous worldwide success, driven in particular by performances of the Montblanc Legend , Montblanc Emblem and Montblanc Legend Sprit lines.

In this context, and acting in advance, the two companies decided, to extend their partnership by an additional five years, i.e. until December 31, 2025. A new 10-year agreement entered into effect on January 1, 2016 without any material changes in operating conditions from the prior license.

2016 highlights

In April 2015, Interparfums signed a worldwide license agreement for a 10 year term to start in June 2016 with Coach Inc., the leading New York design house of modern luxury and fashion accessories and lifestyle collections to create, produce and distribute perfumes and ancillary products.

Interparfums and ST Dupont decided to extend their license agreement expiring in December 2016 for three years, i.e. until December 2019.

(1) Effective as of December 31, 2016, by mutual agreement Interparfums and Balmain decided to terminate the license agreement entered into in 2012. The final deliveries will cease on March 31, 2017.

6.3. Proprietary brands

Lanvin

At the end of July 2007, Interparfums acquired the Lanvin brand names and international trademarks for fragrance and make-up products from the Jeanne Lanvin company.

Interparfums and Lanvin concluded a technical and creative assistance agreement in view of developing new perfumes effective until June 30, 2019 and based on net sales. The Jeanne Lanvin company holds a buy back option for the brands which will be exercisable on July 1, 2025.

Rochas

At the end of May 2015, Interparfums acquired the Rochas brand (perfumes and fashion) from Procter & Gamble.

This transaction covered all Rochas brand names and registered trademarks (Femme, Madame, Eau de Rochas, ...) for France and international markets, mainly for class 3 (fragrances) and class 25 (fashion).

This brand was acquired for a price of US$108 million, excluding inventory and financed by a €100 million loan repayable over five years, subject to standard covenants.

6.4. Employee-related data

6.4.1. Workforce by category

Number of employees at	31/12/2015	31/12/2016
Managers	145	177
Supervisory staff	7	8
Employees	71	72
Total	**223**	**257**

Changes in the number of employees in the year reflected primarily recruitment linked to the development of the Rochas fashion menswear department and the development of the US subsidiary Interparfums Luxury Brands.

6.4.2. Workforce by department

Number of employees at	31/12/2015	31/12/2016
Executive Management	2	2
Production & Operations	35	38
Marketing	50	53
Export	44	61
France	38	40
Finance & Corporate Affairs	51	52
Rochas fashion	3	11
Total	**223**	**257**

6.4.3. Wages and benefits

(€ thousands)	2015	2016
Staff costs	19,662	24,340
Social security charges	8,588	9,358
Profit-sharing	1,832	2,349
Restricted stock awards	-	396
Total wages and benefits	**30,082**	**36,443**

In addition €507,000 in supplemental retirement benefits for executive management was paid in 2016.

6.5. Information on related parties

No new agreements were entered into in the period, involving a significant amount or that were not in accordance with normal market conditions, between the parent company and its subsidiaries.

6.5.1. Management Committee members

The members of the Management Committee exercise responsibilities in the areas of strategy, the management and oversight. They have employment contracts and receive compensation as follows:

(€ thousands)	2015	2016
Wages and social charges	4,520	5,923
Share based payment expenses	-	110

The increase compensation of the management committee reflects the addition of two new members in early 2016;

Total gross compensation for the three corporate officers breaks down as follows:

(€ thousands)	2015	2016
Gross wages	1,403	1,703
Benefits in-kind	18	18
Supplemental retirement contribution	50	51
	1,471	**1,772**

The executive officers Philippe Benacin and Jean Madar, co-founders of Interparfums SA are also executive officers and majority shareholders of the parent company Interparfums Inc.

6.5.2. Board Meeting.

The members of the Board of Directors exercise responsibilities in the areas of strategy, management consulting, acquisitions and oversight. Only outside directors are paid directors' fees that break down as follows:

(€ thousands)	2015	2016
Directors' fees(1)	108	78

(1) Calculated on the basis of actual Board meeting attendance

6.5.3. Relations with the parent company

The accounts of Interparfums SA and its subsidiaries, through Interparfums Holding, are fully consolidated into the accounts of Interparfums Inc., whose registered office is located at 551 Fifth Avenue, New York, NY 10176, United-States. No material transaction exists between Interparfums SA and Interparfums Inc. or Interparfums Holding.

6.6. Statutory Auditors' fees

Total auditors' fees expensed in the income statement relating to their engagement as statutory auditors break down as follows:

(€ thousands)	Mazars				SFECO & Fiducia Audit			
	2015	%	2016	%	2015	%	2016	%
Statutory auditing and certification of accounts, review of separate and consolidated accounts								
For the Issuer	349	74%	280	63%	90	100%	90	96%
For fully consolidated subsidiaries	120	25%	155	35%	-	-	-	
Services other than for the certification of accounts								
For the Issuer	4	1%	7	2%	-	-	4	4%
For fully consolidated subsidiaries	-	-	-		-	-	-	
Total	**473**	**100%**	**442**	**100%**	**90**	**100%**	**94**	**100%**

6.7. Post-closing events

None.