Interparfums

2017 consolidated financial statements

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Consolidated financials

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Consolidated financial statements

Consolidated income statement

(€ thousands) Except per share data which is in units	Notes	2016	2017
Revenue	4.1	**365,649**	**422,047**
Cost of sales	4.2	(128,694)	(146,138)
Gross margin		**236,955**	**275,909**
% of sales		*64.8%*	*65.4%*
Selling expenses	4.3	(172,821)	(201,534)
Administrative expenses	4.4	(13,562)	(14,350)
Current operating income		**50,572**	**60,025**
% of sales		*13.8%*	*14.2%*
Other operating expenses	4.5	(6,309)	-
Other operating income	4.5	5,400	-
Operating profit		**49,663**	**60,025**
% of sales		13.6%	14.2%
Financial income		2,555	1,435
Interest and similar expenses		(1,965)	(1,341)
Net finance costs		**590**	**94**
Other financial income		6,654	6,754
Other financial expense		(6,560)	(8,421)
Net financial income (expense)	4.6	**684**	**(1,573)**
Income before income tax		**50,347**	**58,452**
% of sales		*13.8%*	*13.8%*
Income tax	4.7	(17,490)	(17,841)
Effective tax rate		*34.7%*	*30.5%*
Net income before non-controlling interests***		**32,857**	**40,611**
% of sales		*9.0%*	*9.6%*
Attributable to non-controlling shareholders		419	655
Net income		**32,438**	**39,956**
% of sales		*8.9%*	*9.5%*
Net earnings per share [1]	4.8	0.93	1.07
Diluted earnings per share[1]	4.8	0.93	1.07

[1] Restated for bonus share grants

Consolidated statement of comprehensive income and expense

(€ thousands)	2016	2017
Consolidated net profit for the period	**32,857**	**40,611**
Available-for-sale assets	-	-
Currency hedges	(30)	96
Deferred tax arising from items able to be recycled	10	(33)
Items able to be recycled in profit or loss	**(20)**	**63**
Actuarial gains and losses	(630)	(324)
Deferred taxes on items unable to be recycled	217	112
Items unable to be recycled in profit or loss	**(413)**	**(212)**
Other comprehensive income total	**(433)**	**(149)**
Comprehensive income for the period (1)	**32,424**	**40,462**
Attributable to non-controlling shareholders	419	655
Attributable to equity holders of the parent	**32,005**	**39,807**

Consolidated balance sheet

ASSETS (€ thousands)	Notes	2016	2017
Non-current assets			
Net trademarks and other intangible assets	3.1	162,748	159,177
Net property, plant, equipment	3.2	7,025	6,454
Long-term investments		2,951	2,839
Other non-current financial assets	3.3	5,166	4,066
Deferred tax assets	3.11	7,174	7,545
Total non-current assets		**185,064**	**180,081**
Current assets			
Inventory and work in progress	3.4	66,328	89,486
Trade receivables and related accounts	3.5	76,618	75,700
Other receivables	3.6	14,631	8,999
Corporate income tax		1,558	2,214
Current financial assets	3.7	89,367	58,283
Cash and cash equivalents	3.7	141,238	162,825
Total current assets		**389,740**	**397,507**
Total assets		**574,804**	**577,588**

SHAREHOLDERS' EQUITY & LIABILITIES (€ thousands)	Notes	2016	2017
Shareholders' equity			
Share capital		106,526	117,179
Additional paid-in capital		874	-
Retained earnings		263,720	264,669
Net income for the year		32,438	39,955
Equity attributable to parent company shareholders		**403,558**	**421,803**
Non-controlling interests		847	1,425
Total shareholders' equity	3.8	**404,405**	**423,228**
Non-current liabilities			
Provisions for non-current commitments	3.9	7,012	8,118
Non-current borrowings	3.10	50,341	30,190
Deferred tax liabilities	3.11	2,565	2,553
Total non-current liabilities		**59,918**	**40,861**
Current liabilities			
Trade payables and related accounts	3.12	61,838	64,830
Current borrowings	3.10	20,391	20,322
Provisions for contingencies and expenses	3.9	873	923
Income tax		2,069	639
Other liabilities	3.12	25,310	26,785
Total current liabilities		**110,481**	**113,499**
Total shareholders' equity and liabilities		**574,804**	**577,588**

Statement of changes in consolidated shareholders' equity

(€ thousands)	Number of shares	Share capital	Paid-in capital	Other comprehensive income	Retained earnings and income	Total equity		
						Group share	Non-controlling interests	Total
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)	0	-	**0**
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 pension obligations	-	-	-	(413)	-	(413)	-	**(413)**
2015 dividend paid in 2016	-	-	-	-	(16,051)	(16,051)	-	**(16,051)**
Treasury shares	(74,783)	-	-	-	(1,394)	(1,394)	-	**(1,394)**
Remeasurement of financial instruments at fair value	-	-	-	(20)	-	(20)	-	**(20)**
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**
Bonus share issue	3,550,878	10,653	(874)	-	(9,779)	-	-	-
Shares issued on exercise of stock options	-	-	-	-	-	-	-	-
2017 net income	-	-	-	-	39,956	39,956	654	40,610
Change in actuarial gains and losses on provisions for pension obligations	-	-	-	(212)	-	(212)	-	(212)
Remeasurement of financial instruments at fair value	-	-	-	63	-	63	-	63
2016 dividend paid in 2017	-	-	-	-	(19,442)	(19,442)	(76)	(19,518)
Treasury shares	(20,617)	-	-	-	803	803	-	803
Currency translation adjustments	-	-	-	-	(2,923)	- 2,923	-	(2,923)
As of December 31, 2017(2)	**38,878,263**	**117,179**	**0**	**(1,454)**	**306,078**	**421,803**	**1,425**	**423,228**

(2) Excluding treasury shares

Statement of cash flows

(€ thousands)	2016	2017
Cash flows from operating activities		
Net income before non-controlling interests	32,857	40,611
Depreciation, amortization and other	17,039	4,204
Capital (gains) losses on fixed assets disposals	-	-
Net finance costs	(590)	(94)
Tax charge of the period	17,490	17,841
Operating cash flows	**66,796**	**62,562**
Interest expense payments	(2,023)	(1,604)
Tax payments	(22,162)	(17,617)
Cash flow after interest expense and tax	**42,611**	**43,341**
Change in inventory and work in progress	2,950	(23,059)
Change in trade receivables and related accounts	(6,425)	1,020
Change in other receivables	(6,324)	5,541
Change in trade payables and related accounts	7,807	2,922
Change in other current liabilities	4,768	1,746
Change in working capital needs	**2,776**	**(11,830)**
Net cash flows provided by (used in) operating activities	**45,387**	**31,511**
Cash flows from investing activities		
Net acquisitions of intangible assets	(1,179)	(1,076)
Net acquisitions of property, plants and equipment	(3,054)	(2,227)
Net acquisitions of marketable securities (>3 months)	(13,513)	31,657
Changes in investments and other non-current assets	(326)	1,212
Net cash flows provided by (used in) investing activities	**(18,072)**	**29,566**
Cash flow from financing activities		
Issuance of borrowings and new financial debt	-	-
Debt repayments	(20,004)	(20,000)
Dividends paid to shareholders	(16,051)	(19,442)
Capital increases	1,415	-
Treasury shares	(1,332)	(48)
Net cash flows provided by (used in) financing activities	**(35,972)**	**(39,490)**
Change in net cash	**(8,657)**	**21,587**
Cash and cash equivalents, beginning of year	149,895	141,238
Cash and cash equivalents, end of year	**141,238**	**162,825**

The reconciliation of net cash breaks down as follows:

(€ thousands)	2016	2017
Cash and cash equivalents	141,238	162,825
Current financial assets	89,367	58,283
Net cash and current financial assets	**230,605**	**221,108**

Annual highlights

<u>January</u>

Launch of *La Collection* of Boucheron
The new six Boucheron fragrances of this new collection draws on the memories of the gem hunters, who forged the spirit of the Maison with their journeys. Bringing back from Madras, Syracuse, Carthage, Alexandria, Isfahan or Zanzibar, a wealth of new inspirations and rediscovering forgotten fragrances.

<u>March</u>

Launch of the *Mademoiselle Rochas* line
Reflecting Parisian chic, *Mademoiselle Rochas* , has that delicious, irresistible "je ne sais quoi" that casts a spell with its floral fruity trail.

Launch of the women's line, *Jimmy Choo L'Eau*
The Jimmy Choo Woman's duality is matched by *L'Eau*'s strong, free-spirited yet resolutely feminine scent. The fragrance combines a symphony of floral, fresh and musky notes.

Balmain license
In connection with the termination of the Balmain license agreement announced in early March, components and finished products inventory at March 31, 2017 was sold to Balmain.

Launch of the women's line, *Montblanc Lady Emblem L'Eau*
A floral fruity musky fragrance conceived for an elegant and gentle woman, given with an innate grace. An unique and timeless beauty, just as the Montblanc diamond.

<u>April</u>

A new member is appointed to the Board of Directors
Véronique Gabaï Pinski, currently Chair of the US ready-to-wear company *Vera Wang*, with more than 25 years of experience in the field of luxury and cosmetics, was appointed director of Interparfums.

Launch of the men's line, *Jimmy Choo Man Ice*
Refreshing and elegant, *Jimmy Choo Man Ice* opens a new chapter for the Jimmy Choo men's fragrance franchise.

<u>May</u>

Dividend
A dividend of €0.55 per share for fiscal 2016, voted by the General Meeting of April 2017 and representing a 21% increase from 2015, was paid in early May.

Paul Smith license
The Paul Smith fragrance license agreement was extended for an additional four years until December 31, 2021.

<u>June</u>

Bonus share issue
The company proceeded with its 18th bonus share issue on the basis of one new share for every ten shares held.

<u>July</u>

Launch of the fragrance line, *Montblanc Legend Night*
In this third olfactory chapter... Enter the universe of gentlemen's clubs and discover this new incredibly sensual and masculine fragrance. For a man of mystery.

August

Launch of the Karl Lagerfeld duo *Parfums Matières*
The first duo of Parfums Matières reinvents two star ingredients of selective perfume: Peach Blossom and Vetiver Wood. The essence of style where the fragrance is transformed into substance.

September

Launch of the men's line, *Coach For Men*
An Eau De Toilette takes you on a journey of endless possibilities, evoking a sense of freedom that comes from the energy and spontaneity of New York City.

Paris Fashion Week (Women's)
The Paris fashion show for the 2018 spring-summer season was held at the end of September/early October Rochas unveiled its latest creations to the press and buyers.

October

Launch of the men's line, S.T. Dupont *Be Exceptional*
This elegant woody aromatic oriental is a modern combination of a fresh breeze and a warm sensuality.

November

Eligibility for the Deferred Settlement Service (SRD)
The Company announces that the Interparfums share will be included in the Deferred Settlement Service (SRD) of Euronext Paris starting January 1, 2018.

December

Jimmy Choo license agreement
Jimmy Choo and Interparfums announced their decision amend their license agreement extending their partnership through to December 31, 2031.

Best Investor Relations 2017 Award
The company was awarded the second prize for the Best Investor Relations in the "Mid Cap" category.

1. Accounting principles

1.1. Compliance statement

In accordance with EC regulations 1606/2002 of July 19, 2002 on international accounting standards, the 2017 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, 2017 were adopted by the Board of Directors on March 13, 2018. They will become definitive after having been approved by the ordinary general meeting of April 27, 2018.

1.2. Changes in accounting standards

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, 2017.

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. At this stage, the Company has identified lease agreements to be recognized in the balance sheet under assets, and namely for the premises of the Paris headquarters, the New York and Singapore offices and the Rouen warehousing facility. No other contract has been identified as falling within the scope of this standard.

  According to initial calculations based on existing leases and their maturities at the end of the reporting period, a restatement of fixed assets and borrowings for a maximum amount of approximately €15 million to €20 million may be expected. This first estimate may be subject to revisions according to new information for fiscal 2018 unavailable to the Company to date, without however significantly calling into question the current forecasts.

1.3. Basis of consolidation

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.
All Group subsidiaries are fully consolidated.

1.4. 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, 2017. Translation losses and gains arising from the conversion of accounts denominated in foreign currencies on December 31, 2017 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	
	2016	2017	2016	2017
US dollar (USD)	1.0541	1.1993	1.1069	1.1297
Singapore dollar (SGD)	1.5234	1.6024	1.5275	1.5588
Swiss franc (CHF)	1.0739	1.1702	1.0902	1.1117

1.5. 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.

1.6. Revenue

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.

1.7. Trademarks and other intangible assets

Trademarks and other intangible fixed assets, including trademarks under licensing contracts and acquired trademarks are recorded at cost. These legally protected trademarks 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 fair value less costs to sell and its value in use on the basis of the present value of estimated future cash flows derived from five year budgets discounted to infinity.
A provision for impairment is recorded if this value is lower than the carrying value.

The discount rate before tax applied for remeasurement is the weighted average cost of capital (WACC) of 6.22 % at December 31, 2017 compared to 6.20 % at December 31, 2016. 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 1.03 % at December 31, 2017 and 0.2 % at December 31, 2016.

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.

1.8. 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.
The majority of tangible fixed assets are used in France.

1.9. 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.

1.10. Other non-current financial assets

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.

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.

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 would be 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 against future royalties every year. 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.

1.11. 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.

1.12. 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.

1.13. 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.

1.14. 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.

1.15. 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.

1.16. 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 by Ordinance 2017-1387 published in the French Official Journal of September 23, 2017 and Decree 2017-1398 published in the French Official Journal of September 26, 2017. 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.

1.17. Financial instruments

Currency hedges

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 in 2016 to cover budgeted sales in 2017 in US dollars. In accordance with IAS 39, these hedges 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 was restated to eliminate the impact of these hedges.

On the basis of the same accounting treatment, hedges were put into place in 2017 to cover future sales in 2018 in pound sterling.

Interest rate hedges

A swap to hedge interest-rate risk in connection with the Rochas loan subject to interest based on 3-month Euribor was arranged in 2015. In compliance with IAS 39, the difference in the market value of this instrument and the notional amount is recorded in the income statement.

1.18. 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.

1.19. 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.

1.20. Performance share 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 and 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 amortized and adjusted upon each exercise for changes in assumptions regarding the presence of the beneficiaries over the vesting period.

1.21. 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".

1.22. 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 consolidated 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 the 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)	2016	+	-	2017
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
Karl Lagerfeld upfront license fee	12,877	-	-	12,877
Other intangible assets				
Rights on molds for bottles and related items	10,599	887	(430)	11,056
Registration of trademarks	580	40	-	620
Software	3,237	149	(178)	3,208
Total gross amount	**204,910**	**1,076**	**(608)**	**205,378**
Amortization and impairment				
Finite life intangible assets				
S.T. Dupont upfront license fee Dupont	(1,219)	-	-	(1,219)
Van Cleef & Arpels upfront license fee	(15,210)	(1,520)	-	(16,730)
Montblanc upfront license fee	(615)	(67)	-	(682)
Boucheron upfront license fee	(6,000)	(1,000)	-	(7,000)
Karl Lagerfeld upfront license fee	(7,795)	(635)	-	(8,430)
Other intangible assets				
Rights on molds for bottles and related items	(8,281)	(1,056)	351	(8,986)
Registration of trademarks	(500)	-	-	(500)
Software	(2,542)	(160)	48	(2,654)
Total amortization and impairment	**(42,162)**	**(4,438)**	**399**	**(46,201)**
Net total	**162,748**	**(3,362)**	**(209)**	**159,177**

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.

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.

- 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

- Proprietary brands

A valuation was performed of the Lanvin and Rochas brands on December 31, 2017 by discounting future cash flows to infinity. No provision was recorded.

- Upfront license fees

All upfront license fees were measured on December 31, 2017 using the discounted cash flow method over the term of the licenses.

No provision was recorded for impairment in 2017.

The measurement of the Karl Lagerfeld upfront license fee on December 31, 2016 resulted in a provision for impairment of €5,113,000 presented under other operating expenses in the income statement in light of its nature as a non-recurring item (see note 4.5).

For all discounts, the weighted average cost of capital (WACC) of 6.22 % is applied.

- **Analysis of sensitivity**

A one point increase in the discount rate before tax or the perpetuity growth rate would not result in an additional impairment charge on trademarks and other intangible assets.

3.2. Property, plant and equipment

(€ thousands)	2016	+	-	2017
Fixtures, improvements, fittings	7,364	512	(289)	7,587
Office and computer equipment and furniture	2,099	688	(35)	2,752
Molds for bottles and caps	10,287	854	(489)	10,652
Other [1]	1,104	173	(89)	1,188
Total gross amount	**20,854**	**2,227**	**(902)**	**22,179**
Accumulated depreciation and impairment [1]	(13,829)	(2,521)	625	(15,725)
Net total	**7,025**	**(294)**	**(277)**	**6,454**

[1] Including fixed assets held under finance leases (vehicles) for a gross amount of €639,000 and an accumulated depreciation of €381,000.

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 €4,066,000 at December 31, 2017.
The corresponding offset is recognized by increasing the amortization of upfront license fees.

3.4. Inventory and work-in-progress

(€ thousands)	2016	2017
Raw materials and components	27,391	30,876
Finished goods	43,227	62,149
Total gross amount	**70,618**	**93,025**
Allowances for raw materials	(1,825)	(374)
Impairment of finished goods	(2,465)	(3,165)
Accumulated provisions for impairment	**(4,290)**	**(3,539)**
Net total	**66,328**	**89,486**

3.5. Trade receivables and related accounts

(€ thousands)	2016	2017
Gross amount	78,217	76,915
Impairment	(1,599)	(1,215)
Net total	**76,618**	**75,700**

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

(€ thousands)	2016	2017
Not due	63,154	65,084
0-90 days	13,346	11,291
91-180 days	447	8
181-360 days	108	105
More than 360 days	1162	427
Total gross amount	**78,217**	**76,915**

3.6. Other receivables

(€ thousands)	2016	2017
Prepaid expenses	3,592	3,328
Accrued income	5,400	-
Interparfums Holding current accounts	2,957	2,971
Value-added tax	1,544	1,877
Hedging instruments	15	140
License royalties	459	347
Other	664	336
Total	**14,631**	**8,999**

Accrued income for 2016 corresponded to the exit fee for the Balmain license agreement for which payment was received in March 2017.

3.7. Current financial assets, cash and cash equivalents

(€ thousands)	2016	2017
Current financial assets	89,367	58,283
Cash and cash equivalents	141,238	162,825
Current financial assets, cash and cash equivalents	**230,605**	**221,108**

3.7.1. Current financial assets

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

(€ thousands)	2016	2017
Certificates of deposit	4,000	-
Capital redemption contracts	37,460	-
Term deposit accounts	47,693	58,079
Other current financial assets	214	204
Current financial assets	**89,367**	**58,283**

The decrease in cash investments in vehicles with maturities exceeding three months is the result of capital retention contracts reclassified under cash and cash equivalents in 2017 as they are henceforth free of all commitments.

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)	2016	2017
Certificates of deposit (less than 3 months)	5,311	-
Interest-bearing accounts	7,383	12,394
UCITS	5,612	-
Term deposit accounts	70,536	45,004
Capital redemption contracts	-	50,306
Current interest-bearing accounts	11,995	5,436
Bank balances	40,401	49,685
Cash and cash equivalents	**141,238**	**162,825**

In 2017, the capital redemption contracts were reclassified under cash and cash equivalents as henceforth free of all commitments.

3.8. Shareholders' equity

3.8.1. Share capital

As of December 31, 2017, Interparfums' capital was comprised of 39,059,662 shares fully paid-up with a par value of €3, 72.71 %-held by Interparfums Holding.

Capital increases in 2017 are the result of the bonus issue of June 13, 2017 in the amount of 3,550,878 shares on the basis of one new share for every ten shares held.

3.8.2 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.

Effective delivery 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.

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 €1,022,000 at December 31, 2017.

To ensure the availability of shares for remittance to employees on maturity, the company purchased an initial tranche of 119,182 shares on the market on December 31, 2017 (after taking into account the bonus share issue of June 2017) for a total amount of €2.6 million. These shares are presented as a deduction from shareholders' equity.

At December 31, 2017, the estimated number of shares to be remitted was 150,191.

3.8.3. Treasury shares

Within the framework of the share repurchase program authorized by the General Meeting of April 28, 2017, 62,217 Interparfums shares with a nominal value of €3 per share were held by the company as of December 31, 2017 or 0.16% of the share capital.
Changes in the period break down as follows:

(€ thousands)	Average price	Number of shares	Book Value
At December 31, 2016	**24.30**	**52,434**	**1,274**
Acquisition	31.96	404,196	12,918
Bonus share issue of June 13, 2017		4,824	
Sales	30.36	(399,237)	(12,122)
At December 31, 2017	**33.27**	**62,217**	**2,070**

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.

3.8.4. 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)	2016	2017
Reserves attributable to non-controlling interests	428	770
Earnings attributable to non-controlling interests	419	655
Non-controlling interests	**847**	**1,425**

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

3.8.5. 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 represents 60 % of consolidated earnings, destined to reward shareholders while at the same time associating them with the Group's expansion. In early May 2017, a dividend of €0.55 per share was paid or a total of €19.4 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. At December 31, 2017, the nominal amount still outstanding on this loan amounted to €50 million.

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)	2016	Allowances	Actuarial gains / losses	Provisions used the period	Reversal of unused provisions	2017
Provisions for retirement severance payments	6,940	527	324	-	-	7,791
Provision for expenses	72	255	-	-	-	327
Total provisions for expenses > 1 year	**7,012**	**782**	**324**	**-**	**-**	**8,118**
Accruals for taxes	572	1	-	-	-	573
Other provisions for contingencies < 1 year	301	100	-	-	(51)	350
Total provisions for contingencies > 1 year	**873**	**101**	**-**	**-**	**(51)**	**923**
Total provisions for contingencies and	**7,885**	**883**	**324**	**-**	**(51)**	**9,041**

3.9.1. Provisions for retirement severance payments

For the measurement of retirement severance benefits, Interparfums has adopted the procedure for voluntary severance agreements introduced by Ordinance 2017-1387 published in the French Official Journal of September 23, 2017 and Decree 2017-1398 published in the French Official Journal of September 26, 2017.

For 2017, the following assumptions were applied:
- A negotiated termination at age 65;
- A rate of 50 % for employer payroll contributions for all employees;
- A 3 % 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 1.4 %.

On the basis of these assumptions, the annual expense of €527,000 recorded under current income breaks down as follows:
- Service costs: €448,000
- Financial expense: €79,000

Actuarial gains and losses in 2017 amounting to €324,000 recorded under reserves resulted primarily from changes in assumptions.

A 0.5 % increase in the discount rate would result in a €19,000 reduction in the present value of rights at December 31, 2017 versus a 0.5% decrease resulting in a €20,000 increase.

3.9.2. Other provisions or disputes

The provision for expenses concerns the social contribution payable in connection with the restricted share unit plan.
The provision for tax represents the outstanding balance from the tax audit for the fiscal years of 2012 to 2014.
Other provisions for contingencies relate to commercial and employment-related litigation.

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. Changes in finance costs

In accordance with IAS 7, cash flows relating to changes in borrowings and financial liabilities break down as follows:

(€ thousands)	2016	Cash flow	Non-cash items			2017
			Net acquisitions	Changes in fair value	Amortization	
Borrowings	70,000	(20,000)	-	-	-	50,000
Loan acquisition costs	(377)	-	-	-	180	(197)
Interest rate swap	861	-	-	(420)	-	441
Total Rochas loan	**70,484**	**(20,000)**	**-**	**(420)**	**180**	**50,244**
Lease financing	248	-	20	-	-	268
Total borrowings and other financial debt	**70,732**	**(20,000)**	**20**	**(420)**	**180**	**50,512**

3.10.2 Borrowings by the maturities

(€ thousands)	Total	< 1 year	1 to 5 years	> 5 years
Variable-rate bank debt	49,803	19,877	29,926	-
Interest rate swap	441	309	132	-
Automobile leases	268	136	132	-
Total at December 31, 2017	**50,512**	**20,322**	**30,190**	**-**

3.10.3 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, 2017, on the basis of a notional amount of €50 million, a gain of €420,000 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, 2017 represented a negative amount for the company of €441,000.

3.10.4. 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 2017, 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)	2016	Changes through reserves	Changes through income	2017
Deferred tax assets				
Timing differences between financial and tax accounting	3,233	-	500	3,733
Provisions for retirement liabilities	179	112	(112)	179
Loss carryforwards	779	-	(345)	434
Swap instrument	296	-	(296)	-
Currency hedges	59	-	(59)	-
Intra-group inventory margin	2,694	-	(113)	2,581
Advertising and promotional costs	583	-	363	946
Other	130	-	(24)	106
Total deferred tax assets before amortization	**7,953**	**112**	**(86)**	**7,979**
Depreciation of deferred tax assets	(779)		345	(434)
Net deferred tax assets	**7,174**	**112**	**259**	**7,545**
Deferred tax liabilities				
Acquisition costs	569	-	(7)	562
Bonus shares	-	(87)	87	-
Levies imposed by governments	185	-	8	193
Borrowing costs associated with the Rochas brand acquisition	131	-	(62)	69
Capitalization of costs associated with the Rochas brand acquisition	1,677	-	-	1,677
Gains (losses) on treasury shares	-	258	(258)	-
Forward hedging instruments	-	34	(25)	9
Derivatives	3	-	40	43
Total deferred tax liabilities	**2,565**	**205**	**(217)**	**2,553**
Total net deferred tax	**4,609**	**(93)**	**476**	**4,992**

3.12. Trade payables and other current liabilities

3.12.1. Trade payables and related accounts

(€ thousands)	2016	2017
Trade payables for components	18,107	18,803
Other trade payables	43,731	46,027
Total	**61,838**	**64,830**

3.12.2 — Other payables

(€ thousands)	2016	2017
Accrued credit notes	3,203	3,003
Tax and employee-related liabilities	12,909	15,947
Accrued royalties	7,493	6,957
Hedging instruments	584	18
Other liabilities	1,121	860
Total	**25,310**	**26,785**

3.13. Financial instruments

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

At December 31, 2017 (€ thousands)	Notes	Carrying value	Fair value	Fair value through profit or loss	Available-for-sale assets	Loans & receivables or payables	Derivatives
Long-term investments		2,839	2,839	-	-	-	-
Other non-current financial assets	3.3	4,066	4,066	-	-	-	-
Trade receivables and related accounts	3.5	75,700	75,700	-	-	-	-
Other receivables	3.6	8,999	8,999	-	-	-	140
Current financial assets	3.7	58,283	58,283	-	-	-	-
Cash and cash equivalents	3.7	162,825	162,825	-	-	-	-
Assets		**312,712**	**312,712**	**-**	**-**	**-**	**140**
Borrowings and financial liabilities	3.10	50,512	50,112(1)	441	-	50,071	-
Trade payables and related accounts	3.12	64,830	64,830	-	-	64,830	-
Other liabilities	3.12	26,785	26,785	-	-	26,767	18
Liabilities		**142,127**	**141,727**	**441**	**-**	**141,668**	**18**

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**

(1) The fair value of borrowings and financial liabilities is measured as the total value of future cash flows discounted according to the prevailing interest rate on the market for comparable instruments.

In accordance with IFRS 13, 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 or provided by financial institutions (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	500	2,000	1,566	4,066
Current financial assets	-	58,079	204	58,283
Cash and cash equivalents	162,825	-	-	162,825
Total financial assets	**163,325**	**60,079**	**1,770**	**225,174**
Borrowings and financial liabilities	(20,013)	(30,058)	-	(50,071)
Total financial liabilities	**(20,013)**	**(30,058)**	**-**	**(50,071)**
Net position before hedging	**143,312**	**30,021**	**1,770**	**175,103**
Hedging of assets and liabilities (swaps)	(309)	(132)	-	(441)
Net position after hedging	**143,003**	**29,889**	**1,770**	**174,662**

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	14,626	3,375	764	303
Liabilities	(2,964)	(161)	0	(50)
Net position before hedging at the closing price	**11,662**	**3,214**	**764**	**253**
Net position hedged	(4,920)	-	(133)	-
Net position after hedging	**6,742**	**3,214**	**631**	**253**

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 (42.8 % of sales) and to a lesser extent the pound sterling (5.7 % of sales) and the Japanese yen (1.4 % 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, 2017, the Group had hedged 46 % of its receivables and 59 % of its payables in US dollars and 17 % for trade receivables booked in Japanese yen.
At December 31, 2017, for the budget for sales in pounds sterling for 2018, 50% 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 €20.7 million on sales and €16.3 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)	2016	2017
Montblanc	110,016	112,191
Jimmy Choo	81,721	96,065
Lanvin	56,028	57,618
Boucheron (6 months of activity in 2016)	20,906	50,936
Rochas	29,212	38,450
Boucheron	16,027	18,412
Van Cleef & Arpels	19,106	17,179
Karl Lagerfeld	6,465	8,824
Paul Smith	9,233	6,741
S.T. Dupont	5,364	4,808
Repetto	5,041	3,801
Balmain	3,785	2,245
Other***	669	2,296
Perfume sales	**363,573**	**419,566**
Rochas fashion license revenues	2,076	2,481
Total revenue	**365,649**	**422,047**

4.2. Cost of sales

(€ thousands)	2016	2017
Raw materials, trade goods and packaging	(120,173)	(163,897)
Changes in inventory and allowances for impairment	370	29,315
POS advertising	(2,255)	(3,497)
Staff costs	(4,021)	(5,001)
Property rental expenses	(2,119)	(2,064)
Transportation costs	(287)	(761)
Other expenses related to the cost of sales	(209)	(233)
Total cost of sales	**(128,694)**	**(146,138)**

4.3. Selling expenses

(€ thousands)	2016	2017
Advertising	(80,341)	(102,254)
Royalties	(26,954)	(27,550)
Staff costs	(26,731)	(30,367)
Service fees /subsidiaries	(8,966)	(10,400)
Subcontracting	(7,205)	(7,898)
Transportation costs	(3,672)	(4,387)
Travel and entertainment expenses	(5,900)	(5,325)
Allowances and reversals	(4,559)	(3,965)
Tax and related expenses	(3,186)	(3,137)
Commissions	(1,289)	(1,501)
Property rental expenses	(1,632)	(1,865)
Other selling expenses	(2,386)	(2,885)
Total selling expenses	**(172,821)**	**(201,534)**

4.4. Administrative expenses

(€ thousands)	2016	2017
Purchases and external costs	(5,288)	(5,258)
Staff costs	(5,691)	(6,579)
Property rental expenses	(680)	(490)
Allowances and reversals	(625)	(885)
Travel expenses	(746)	(509)
Other administrative expenses	(532)	(629)
Total administrative expenses	**(13,562)**	**(14,350)**

4.5. Other operating income and expenses

For fiscal 2016, other operating income represents the Balmain license agreement exit fee. Operating expenses relate to the 2016 impairment charge for the Karl Lagerfeld trademark. No other items impacted these line items in 2017.

4.6. Net financial income (expense)

(€ thousands)	2016	2017
Financial income	2,555	1,435
Interest and similar expenses	(1,965)	(1,341)
Net finance costs	**590**	**94**
Currency losses	(5,830)	(8,418)
Currency gains	5,917	6,754
Net currency gains (losses)	**87**	**(1,664)**
Other financial income and expenses	**7**	**(3)**
Net financial income /(expense)	**684**	**(1,573)**

The change in net currency gains must be interpreted by including the correction of sales for a profit of nearly €17 million linked to hedging contracts obtained at the end of 2016 for 2017 sales and accounted for as cash flow hedges. After restating to eliminate this item, net currency gains did not show a significant change.

4.7 Income taxes

4.7.1. Analysis of income taxes

(€ thousands)	2016	2017
Current income tax - France	(13,702)	(13,070)
Current income tax – Foreign operations	(3,675)	(6,374)
Total current income tax	**(17,377)**	**(19,444)**
Non-current income tax	**(1,626)**	**1,127**
Deferred tax- France	1,422	265
Deferred tax- Foreign operations	91	211
Total deferred taxes	**1,513**	**476**
Total income taxes	**(17,490)**	**(17,841)**

The non-current tax corresponded 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.
The 2017 non-current tax represents tax income linked to the request for a refund at year end of the 3% French surtax on dividend distributions for the fiscal years 2015 to 2017.

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

The difference between the effective tax recorded and the theoretical tax expense calculated by applying the tax rate of 34.43 % applicable in France for fiscal 2017 and 2016 to pre-tax income reflects the following.

(€ thousands)	2016	2017
Tax base	**50,347**	**58,452**
Theoretical tax calculated at the parent company rate	(17,334)	(20,125)
Effect of tax rate differences	896	779
Recognition of tax income not previously classified as tax assets	226	345
Deferred tax not recognized on losses of the period	(749)	-
Tax adjustment	(1,525)	1,523
Permanent non-deductible differences	996	(363)
Income tax	**(17,490)**	**(17,841)**

4.8. Earnings per share

(€ thousands) except number of shares and earnings per share in euros	2016	2017
Consolidated net income	32,438	39,956
Average number of shares	35,017,433	37,280,817
Basic earnings per share (1)	**0.93**	**1.07**
Dilutive effect of stock options:		
Potential additional number of fully diluted shares	-	-
Potential fully diluted average number of shares outstanding	35,017,433	37,280,817
Diluted earnings per share(1)	**0.93**	**1.07**

(1) Adjusted for bonus shares granted in 2016 and 2017.

5. Segment reporting

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, 2017 were as follows:

(€ thousands)	Perfumes	Fashion	Total
Intangible assets - Rochas brand	86,739	19,086	105,825
Medium-term loan	41,183	9,061	50,244

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)	2016	2017
North America	98,157	118,454
South America	24,535	31,280
Asia	53,272	59,751
Eastern Europe	33,715	39,216
Western Europe	83,783	89,220
France	33,196	37,553
Middle East	32,355	39,679
Africa	4,560	4,413
Perfume sales	**363,573**	**419,566**
Rochas fashion license revenues	**2,076**	**2,481**
Total	**365,649**	**422,047**

6. Other information

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	2016	2017
Guaranteed minima on trademark royalties	Guaranteed minima on royalties regardless of sales achieved for each of the trademarks in the period.	147,633	304,832
Headquarters rental payments	Rental payments due over the remainder of the lease terms (3, 6 or 9 years).	13,885	13,981
Guaranteed minima for warehousing and logistics	Contractual minima for remuneration of warehouses regardless of sales volume for the period.	4,697	3,355
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.	4,485	5,174
Total commitments given in connection with operating activities		**170,700**	**327,342**

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, 2017 amounted to US$8,000,000 and ¥18,000,000.

Commitments with respect to forward currency purchases for US Dollar hedges at December 31, 2017 amounted to €1,766,000.

Commitments with respect to forward currency sales at December 31, 2017 budgeted in the 2018 amounted to £8 million.

6.1.3. Commitments given by maturity at December 31, 2017

(€ thousands)	Total	Up to 1 year	1 to 5 years	5 years or more
Guaranteed minima on trademark royalties	304,832	21,904	96,514	186,414
Headquarters rental payments	13,981	2,363	8,427	3,191
Guaranteed minima for warehousing and logistics	3,355	1,342	1,342	671
Firm component orders	5,174	5,174	-	-
Total commitments given	**327,342**	**30,783**	**106,283**	**190,276**

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

6.1.4. Commitments received

Commitments in connection with forward currency purchases at December 31, 2017 amounted to €6,771,000 for US dollar hedges and €136,000 for Pound Sterling hedges representing total commitments of €6,907,000.

Commitments with respect to forward currency sales at December 31, 2017 amounted to US$1,766,000.

Commitments with respect to forward currency purchases at December 31, 2017 budgeted in 2018 amounted to €8,971,000 for Pound Sterling hedges.

6.2. License agreements

	Nature of license	License inception date	Duration	Expiration date
S.T. Dupont	Original	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	Original	January 1999	12 years	-
	Renewal	July 2008	7 years	-
	Renewal	July 2017	4 years	December 2021
Van Cleef & Arpels	Original	January 2007	12 years	December 2018
Jimmy Choo	Original	January 2010	12 years	December 2021
	Renewal	January 2018	13 years	December 2031
Montblanc	Original	July 2010	10 years and 6 months	-
	Renewal	January 2016	5 years	December 2025
Boucheron	Original	January 2011	15 years	December 2025
Repetto	Original	January 2012	13 years	December 2024
Karl Lagerfeld	Original	November 2012	20 years	October 2032
Coach	Original	June 2016	10 years	June 2026

In May 2017, the company extended its partnership with Paul Smith in advance for an additional four years, i.e. until December 31, 2021.

In December 2017, Interparfums and Jimmy Choo decided to amend their license agreement extending their partnership for an additional 13 years through December 31, 2031.

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,...) 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	31/12/2016	31/12/2017
Managers	177	181
Supervisory staff	8	6
Employees	72	79
Total	**257**	**266**

The increase in the number of employees in the year is linked to the growth in business.

6.4.2. Workforce by department

Number of employees at	31/12/2016	31/12/2017
Executive Management	2	2
Production & Operations	38	40
Marketing	53	55
Export	61	68
France	40	41
Finance & Corporate Affairs	52	56
Rochas fashion	11	4
Total	**257**	**266**

6.4.3. Wages and benefits

(€ thousands)	2016	2017
Staff costs	24,268	27,507
Social security charges	9,430	10,249
Profit-sharing	2,349	2,914
Restricted stock awards	396	1,277
Total wages and benefits	**36,443**	**41,947**

In addition €542,000 in supplemental retirement benefits for executive management were paid in 2017.

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)	2016	2017
Wages and social charges	5,923	6,534
Share based payment expenses	110	349

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

(€ thousands)	2016	2017
Gross wages	1,703	1,873
Benefits in-kind	18	18
Supplemental retirement contribution	51	44
	1,772	1,935

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)	2016	2017
Directors' fees(1)	78	80

(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			
	2016	%	2017	%	2016	%	2017	%
Statutory auditing and certification of accounts, review of separate and consolidated accounts								
For the Issuer	280	63%	325	66%	90	96%	95	100%
For fully consolidated subsidiaries	155	35%	160	33%	-	-	-	
Services other than for the certification of accounts								
For the Issuer	7	2%	6	1%	4	-	-	0%
For fully consolidated subsidiaries	-	-	0		-	-	-	
Total	442	100%	**491**	100%	**94**	100%	**95**	**100%**

Services other than account certification relate to statements certificates issued at the request of the company for bank covenants and sales for our licensors and suppliers.
In accordance with applicable regulations, these assignments were approved by the board of directors acting in the capacity of audit committee.

6.7. Post-closing events

None.