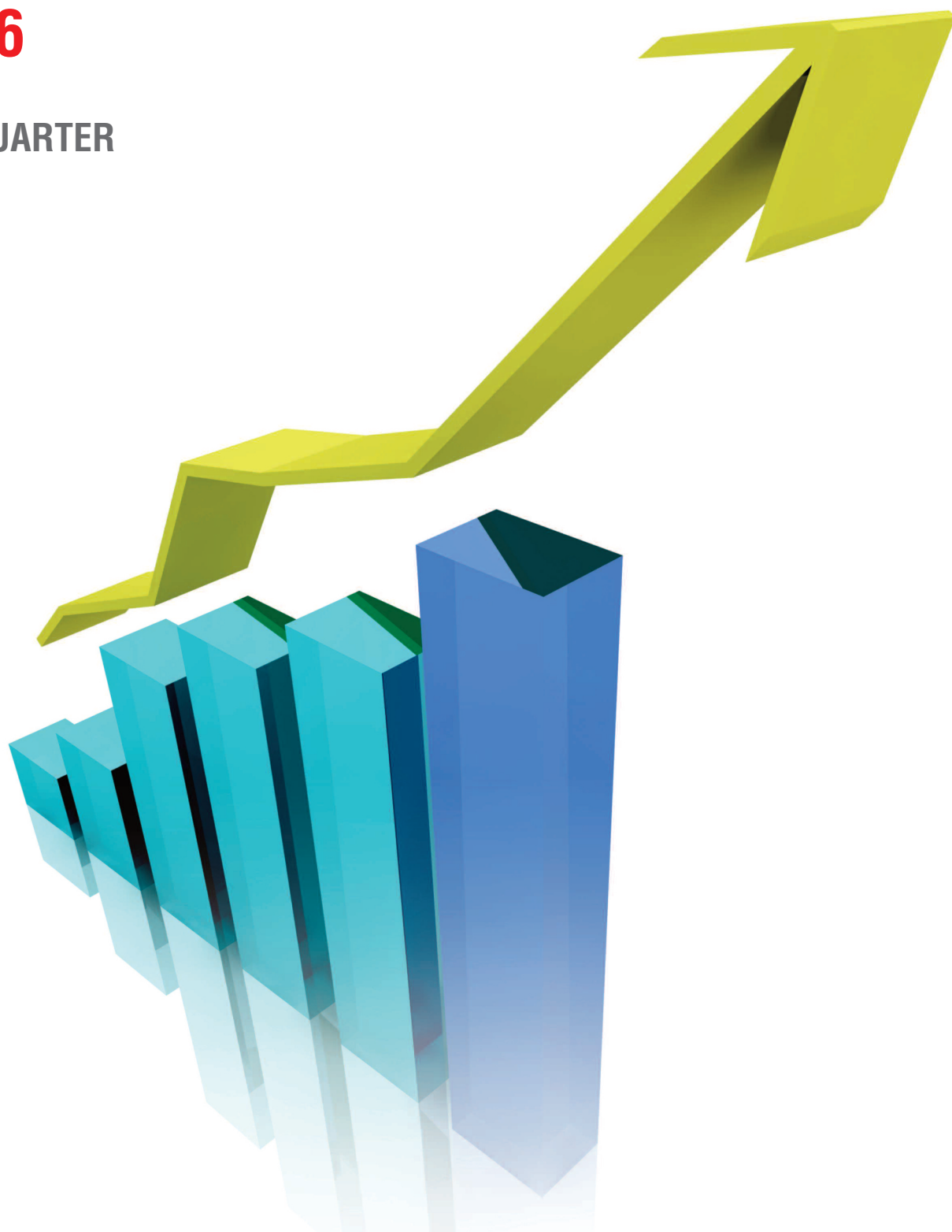


LEATHER MARKET OVERVIEW

LINEAPELLE
ECONOMIC DEPARTMENT

2016

4TH QUARTER



▶ RAW MATERIAL ◀

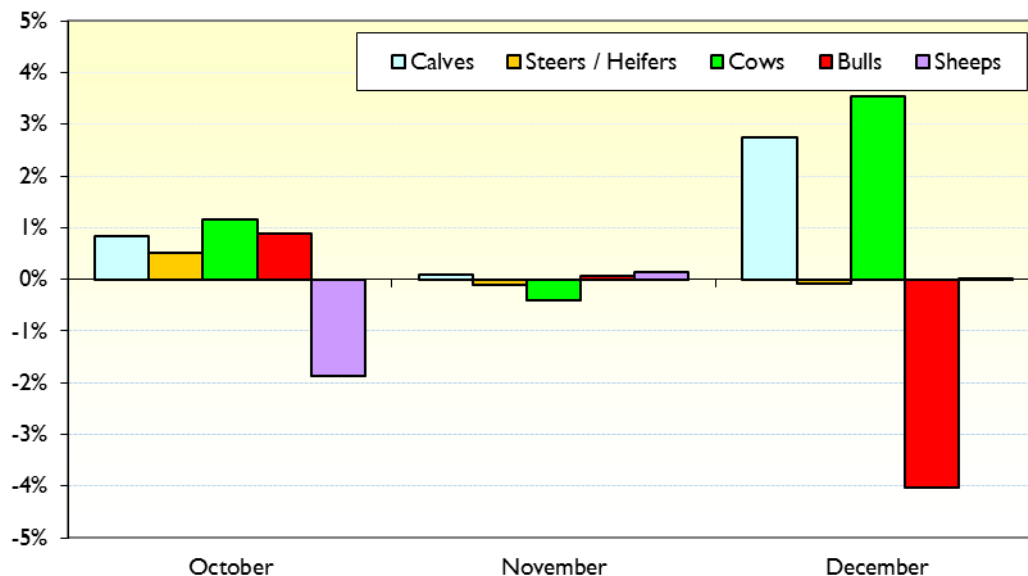
PRICES

In the last quarter of 2016, the price indexes for **raw hides and skins** kept showing substantially stable variations on average. The only exception is December, when some animal type registered less negligible movements. In general, the period indicates a prevailing rising trend.

Referring to **raw bovines**, calves continuously followed the rising trend, which has been identifying them since last spring, with a strong acceleration in the last month of the analyzed period (+8% between March and December). Increases even for cows, while medium size bovines look stable on average. Volatility in bulls, declining in the last two weeks of the year.

Average **sheep** prices highlighted a drop in October and stabilized in the following two months, but the main origins observed moved in a different way. If Iranian skins showed a trend aligned with the average, the New Zealand ones went down in October and went up again in November and December, while the Spanish raised up at the beginning of the period and fell down during the following weeks.

FIG. I - PRICE CHANGES, MONTH ON MONTH, FOR RAW HIDES AND SKINS BY ANIMAL TYPE IN THE QUARTER

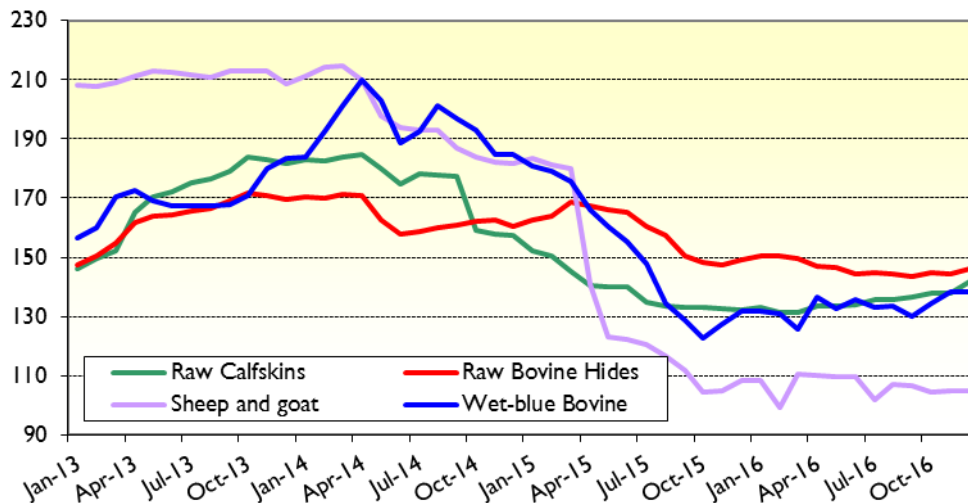


Bovine wet blue quotations revealed to be averagely increasing in all the main markets, with Brazil recoding the most consistent growth (+10% between September and December).

TAB. I - PRICE CHANGES FOR RAW HIDES AND SKINS BY ANIMAL TYPE AND ORIGIN FROM BEGINNING TO END OF 2016

Calves	+7%	Steers, bull calves, heifers	+3%	Cows	-9%	Bulls	-3%	Sheep	-3%
Italy	==	Italy (bull calves)	==	Italy	-3%	France	-3%	Iran	-1%
France	+9%	Germany (heifers)	-6%	France	-8%	Netherlands	-5%	N. Zealand	-5%
Netherlands	+10%	United Kingdom (mixed)	+9%	Netherlands	-19%	Germany	-3%	Spain	-23%
Spain	+7%	Spain (bull calves)	+7%	Germany	-7%	N. Zealand	-8%		
Australia	==	United States (mixed)	+7%	Spain	+5%	Denmark	==		
		Australia (mixed)	-1%	United States	-4%				
		Sweden (mixed)	-1%	Sweden	-2%				
		New Zealand (steers)	+5%	New Zealand	+6%				
				Denmark	-6%				

FIG. 2 - PRICE TREND FOR RAW MATERIAL BY MAIN TYPE (2005 BASIS: 100)



SLAUGHTERING

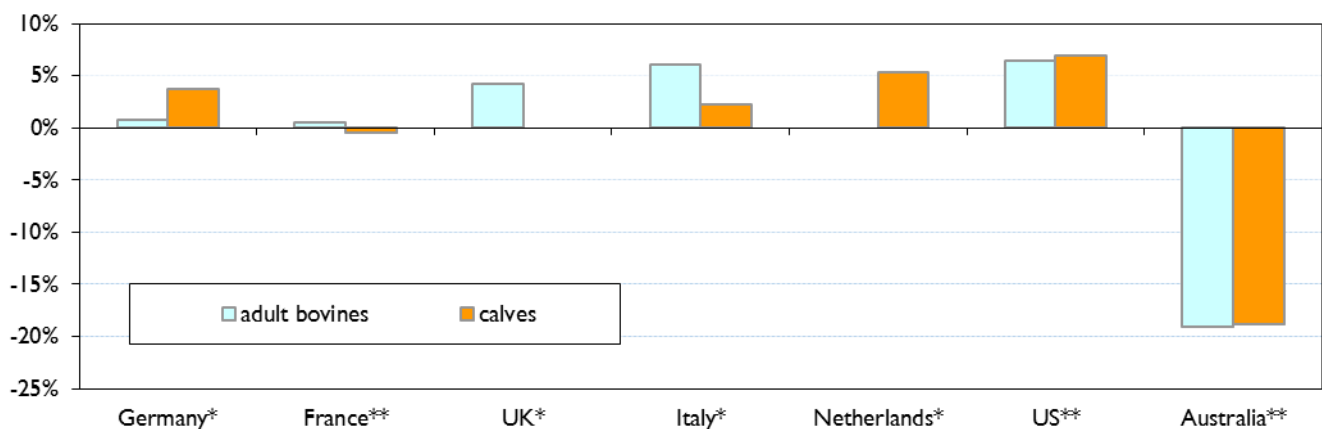
The global slaughtering of **adult bovine** in the main areas monitored (EU, USA, Latin America, Oceania) showed substantial stability (-0.4%) in 2016 compared to the previous year.

The EU global overview recorded an increase (+3%) for the second year in a row, with upgrading slaughtering in almost all the main countries in the area (France +1%, Germany +1%, United Kingdom +4%, Italy +6%, Ireland +5%, Poland +6%, Netherlands +13%). The only exception is Spain, which remained stable. Among the other regions only the US grew (+5%). Modest losses for the most important South American producers (Brazil -1%, Argentina -2%). More consistent drop in New Zealand (-7%) and Australia (-19%).

The year closed negatively for **calves** instead (total slaughtering downward by 5%). However, the European situation looks positive, with total slaughtering increasing by 3%. The growth concerns Netherlands (+5%), Spain (+3%), Italy (+1%), Germany and Belgium (+4%), France slows down (-1%), Poland is stable. As for adult bovine, in the rest of the world only the US rose (+7%); double-digit losses in Oceania.

Even total **sheep** slaughtering volumes fell in the above-mentioned areas. Europe confirms generally healthy (+1%), with increases in Spain, France, Italy and Ireland (decreases for United Kingdom and Greece). While negative variations were both in Australia (-5%) and New Zealand (-11%).

FIG. 3 - CHANGE IN SLAUGHTERING OVER THE LAST 3 MONTHS YEAR ON YEAR⁺



⁺ excluding figures for British and Irish calves and Dutch adult cattle as these were insignificant

* quarter ended in November

** quarter ended in December

▶ TANNING SECTOR ◀

ITALY

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

- ▶ MEDIUM-LARGE BOVINE - The slightly negative trend for medium-large bovine leather continued: -4%.
- ▶ SMALL BOVINE - This segment experienced a drop (-7%) for the second trimester in a row.
- ▶ SHEEP AND GOATS - Similar situation for sheep and goat sector, which turnover decreased by 7%.

TURNOVER INDEX - Annual Trend (Year 2016 vs Year 2015)

- ▶ MEDIUM-LARGE BOVINE - The estimated decline for 2016 is about 3% on average.
- ▶ SMALL BOVINE - Also this segment experienced a similar loss in value (-3%).
- ▶ SHEEP AND GOATS - Downward trend for sheep (-9%) and goat (-4%) as compared to 2015.

COMMENTS AND FORECASTS - The year closed with no surprises as compared to the dynamic emerged for manufacturing demand in the previous months. Expectations for the first part of 2017 remain very cautious.

REST OF EUROPE

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

- ▶ MEDIUM-LARGE BOVINE - A declining trend still prevails also for remaining main EU leather manufacturers. Double-digit drop for Austria, Germany and Netherlands, with Spain and France reporting more moderate loss (-3% for both). Different situation for United Kingdom (+15%) and Poland (+10%), Portugal stable.
- ▶ SMALL BOVINE - Still negative panorama for this segment (France -16%, Spain -10%, Germany -6%).
- ▶ SHEEP AND GOATS - Another positive trimester for France (+8), whilst Spain experienced and average -10%.

TURNOVER INDEX - Annual Trend (Year 2016 vs Year 2015)

- ▶ MEDIUM-LARGE BOVINE - Preliminary data on 2016 turnover show moderate increases for France (+3%), Spain (+3%), Portugal (+8%) and United Kingdom (+1%). Some relevant falls in Austria, Germany and Netherlands, whilst Poland closed the year with strong seasonal growth.
- ▶ SMALL BOVINE - Spain closed 2016 with a modest positive sign, France recorded -5%, Germany -10%.
- ▶ SHEEP AND GOATS - French producers rose by +3% while Spanish ones are on the loss (-3%).

COMMENTS AND FORECASTS - Companies focused on upholstery are affected by the high competition achieved by the segment (particularly automotive, always very dynamic). Demand from fashion does not reward everyone, but still had a positive sign in many countries. Difficult to predict changes before mid-year.

REST OF THE WORLD

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

- ▶ BOVINE - Widespread fall in the trimester, except for Brazil (recovering, +4%).
- ▶ SHEEP AND GOATS - Similar situation for this segment, with relevant declines for the main Asian players.

TURNOVER INDEX - Annual Trend (Year 2016 vs Year 2015)

- ▶ BOVINE - Negative year for China, India, Brazil, Argentina, Pakistan. Mexico stable; Turkish export rising.
- ▶ SHEEP AND GOATS - Double-digit fall for India, Turkey and Pakistan. Negative balance also for China.

COMMENTS AND FORECASTS - 2016 ended with a loss almost for all the main non-EU players. US demand supported only Mexico. Widespread decline in sales in the EU market.

▶ ACCESSORIES, COMPONENTS, SYNTHETICS ◀

RAW MATERIALS

PRICES - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

The last quarter of the year confirmed the upward trend of commodity prices.

Specifically, the decline in oil prices (in USD) slowed down, falling by 38%; while the price of cotton (+14%) and wool (+14-20%) went up. Natural rubber (+53%) and metals, including both nickel (+14%) and copper (+8%), continued their recovery.

PRICES - Annual Trend (Year 2016 vs Year 2015)

The price variation since the beginning of the year shows an essentially positive picture. Continuing decline for oil prices (-29%), in addition to losses for aluminum (-4%), copper (-12%) and nickel (-19%). Increases in the price of wool (+10-11%), cotton and natural rubber (both +5%).

TEXTILES, SYNTHETICS AND ALTERNATIVES

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

The fourth quarter of 2016 shows an essentially negative outlook in the textiles, synthetics and alternative materials market, with the European average going down by 4% year on year.

The negative trend of regenerated leather fiber materials was specifically influential; textiles, synthetic and artificial fibers were weak. Also synthetics lost ground, with Germany (+4%) unable to counterbalance the decline in France (-12%) and Italy (-5%). A detailed breakdown by country shows the overall good performance of Poland (+14%), Germany (+3%), the UK and Portugal (both +2%). Difficulties for Romania, France and Italy.

TURNOVER INDEX - Annual Trend (Year 2016 vs Year 2015)

The 2016 result ended positive overall (+4%/+5% at European level). The trend in the synthetics market was better on average, despite continuing declines in France, the UK and Romania. Continuing uncertainty for regenerated materials and textiles, affected by weak performances in Italy, Portugal and Romania. Solely for textiles, difficulties extended to France (-20%) and the UK (-2%). Positive dynamics for Germany across all segments.

ACCESSORIES AND COMPONENTS

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

The last quarter in 2016 showed a contrasting trend in the accessories and components market. Losses were contained in the UK (-11%) and Germany (-1%), while Italy's performance worsened slightly (-6%) in addition to the decline in Poland (-5%). Growth continued in France, Portugal and Romania, though more slowly. Spain recovering (+2%).

Contrasting trend for footwear components, affected by the decline of Italy (-8%), whereas Germany resisted (+1%) and Spain (+2%) and Romania (+7%) posted growth. Uncertainty in the small metal components market (European average: -1%), with France and Germany unable to counterbalance the decline in Italy (-4%) and Germany (-6%). Unclear picture for other accessories, with the sole exceptions of France and Romania.

TURNOVER INDEX - Annual Trend (Year 2016 vs Year 2015)

The 2016 result was positive (European average: +2%). All market segments on the rise, with small metal components showing the best dynamics (+4% at EU level). In the detailed breakdown by country, it was the UK that mostly went against this trend, posting double-digit losses in all segments (except for other accessories where it lost 4%) Good performances for Spain (+4%), Romania (+7%), France (+8%) and Poland (+10%). Slight decline in Italy (0/-1%).

▶ MANUFACTURING SECTORS ◀

FOOTWEAR

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

▶ ITALY - Italian manufacturers closed 2016 with a moderate increase: +2% the turnover in the quarter went down by about one percentage point.

▶ REST OF THE WORLD - The rest of Europe closed the year with a stable or slightly growing quarter on average, though with internal diversified dynamics. Specifically, Germany and Poland showed the best performances, posting double-digit growth, followed by Greece. In France, overall production posted significant losses, yet the turnover was supported by the positive trend of exports (+7%). Disappointing quarter for manufacturers in the Iberian Peninsula, with Spain posting marginal decline and Portugal growing by only one percentage point; decrease for the UK (-5%). Downward dynamics for all delocalizations in Eastern Europe, except for the Czech Republic posting moderate growth. As for extra-EU countries, double-digit losses for Chinese (-11%) and Pakistani exports, while Indian exports posted slight growth (+2%). Decline for production in Turkey, moderate growth for Vietnamese production (+5%). Generally positive trend of Brazilian exports (+12%), while Mexican exports posted significant declines.

TURNOVER INDEX - Annual Trend (2016 vs 2015)

▶ ITALY - The 2016 total turnover of the Italian footwear industry was generally stable (0/+1%) despite a declining trend of production in volumes.

▶ REST OF THE WORLD - Positive results also for the European footwear industry, with the only exception of slight declines in Bulgaria, Romania and Slovakia. Specifically, growth for France and Germany (+6% and +16%, respectively, even if the production data in volumes were negative), UK stable, and Poland and the Czech Republic on the rise (exports posting double-digit growth). Slight growth also for footwear manufacturers in the Iberian Peninsula. As for the leading Asian manufacturers, continuing yet slight decline for Turkey, while China and Pakistan closed the year with losses in exports, -13% and -17%, respectively. Also Indian exports reported negative results (-2%), while Vietnam posted +8%. In the Americas, good performances for Brazil +2%/4%, while double-digit losses for Mexico.

LEATHER GOODS

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

▶ ITALY - The final quarter of 2016 saw the recovery of Italian leather goods (exports and volumes produced): +4% year on year.

▶ REST OF THE WORLD - In the rest of Europe, positive results overall, moderate growth for the UK and France (both +4%), declines in Germany and in the Iberian Peninsula. As for delocalizations, good performances in Poland and Romania, while Slovakia, Bulgaria and the Czech Republic posted declines. In extra-EU manufacturing areas, Chinese exports continued to decline, while Indian exports were stable and Pakistani exports were on the rise. Falling quarter for Brazil and Mexico.

TURNOVER INDEX - Annual Trend (2016 vs 2015)

▶ ITALY - Thanks to the dynamics of the last three months, the 2016 annual result for Italian leather goods was rather positive year on year, with only a marginal contraction (-1%/-2%).

▶ REST OF THE WORLD - The 2016 general trend for European leather goods was satisfactory, with a growth trend for all the leading manufacturers (France, the UK, Germany, Spain and Portugal). The only declining areas were Bulgaria and Romania. Outside the EU, declines in Asia (double-digit losses in China), growth in the Americas.

GARMENTS

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

- ▶ ITALY - Further seasonal losses for the Italian manufacturers of leather garments who, in the final quarter of 2016, posted -5% year on year.
- ▶ REST OF THE WORLD - Static quarterly results on average for the European segment, with some growth in France, Germany and Portugal, counterbalanced by declines in Spain and the UK. In the rest of the world, continuing negative economic situation in Asia (exports widely down). Turkey slightly up.

TURNOVER INDEX - Annual Trend (2016 vs 2015)

- ▶ ITALY - Despite a gradual reduction in losses in the last months of the year, in 2016 Italian leather garments posted an overall 11% decline year on year.
- ▶ REST OF THE WORLD - Also in the rest of Europe, the annual result was marked by overall declines. Compared to average values, only France, Portugal and the Czech Republic posted growth. Widespread weakness also in extra-EU countries, with declines in both Asia (except for Turkey) and the Americas.

UPHOLSTERY

TURNOVER INDEX - Quarterly Trend (4th quarter 2016 vs 4th quarter 2015)

- ▶ ITALY - Further slowdown at year-end for the Italian manufacturers of upholstered furniture, which posted a slight turnover decline (-2%/-4%) on a seasonal basis. Production came to a halt in the automotive sector, though new car sales continued to increase, reporting +10% in the last quarter.
- ▶ REST OF THE WORLD - In the rest of Europe, similar dynamics for furniture upholstery, which went down 4%/5% on average. Specifically: declines in Poland (-7%), Germany (-8%) and France (-16%), while significant growth was posted in Spain and the UK. Orders in the US market slightly increased, with good performances also in the retail market. Moderate increase in new car sales also in the EU market, whose average value mirrored the trend of the five leading markets (Germany, the UK, France, Italy and Spain), though it was supported by the brilliant results of its new members, posting double-digit growth overall.

TURNOVER INDEX - Annual Trend (2016 vs 2015)

- ▶ ITALY - The annual result of the Italian furniture upholstery industry, despite the year-end slowdown, remained positive (+4%). Overall, 2016 remained a certainly positive year for the Italian automotive sector, posting +7% in production and +16% in new car sales.
- ▶ REST OF THE WORLD - Positive values were confirmed for all the leading European furniture manufacturers, except for Germany (-3%). Particularly brilliant performances for the UK, posting double-digit growth. US orders on the rise (+2%). The EU automotive market closed the year with an overall +7% increase in new car sales year on year.

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