

Independent auditors' report pursuant to article art.2409-ter of the Italian Civil Code
(Translation from the original Italian text)

To the Shareholders of Salvatore Ferragamo Italia S.p.A.

1. We have audited the consolidated financial statements of Salvatore Ferragamo Italia S.p.A. and its subsidiaries (the "Salvatore Ferragamo Italia Group") as of and for the year ended December 31, 2008, comprising the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of the Salvatore Ferragamo Italia S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards generally accepted in Italy. In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion. The audits of the financial statements of certain consolidated subsidiaries and associated companies, which respectively represent approximately 7.76% of consolidated total assets and approximately 9.46% of consolidated total revenues, are the responsibility of other auditors.
For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 17, 2008.
3. In our opinion, the consolidated financial statements of Salvatore Ferragamo Italia S.p.A. at December 31, 2008 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of the Salvatore Ferragamo Italia Group for the year then ended.
4. The management of Salvatore Ferragamo Italia S.p.A. is responsible for the preparation of the Board of Directors' Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Board of Directors' Report on Operations with the financial statements as required by art. 2409-ter, paragraph 2, letter e), of the Italian Civil Code. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC). In our opinion the Board of Directors' Report on Operations is consistent with the consolidated financial statements of the Salvatore Ferragamo Italia Group as of December 31, 2008.

Florence, May 13, 2009

Reconta Ernst & Young S.p.A.
signed by: Fulvio Favini, partner

Salvatore Ferragamo

CONSOLIDATED ANNUAL REPORT AS AT 31 DECEMBER 2008 and 2007

(Board of Directors' report on operations, financial statements and notes)

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General information

Registered office

Via Tornabuoni 2
50123 Florence
Florence Company Register and
Economic and Administrative
Register no. 464724

Board of Directors

Appointed by the Shareholders'
Meeting of 3 July 2007

Honorary Chairman

Wanda Miletta Ferragamo

Chairman

Ferruccio Ferragamo

Managing Director

Michele Norsa

Directors

Giovanna Ferragamo

Fulvia Ferragamo

Leonardo Ferragamo

Massimo Ferragamo

Francesco Caretti

Diego Paternò Castello di San
Giuliano

Board of Statutory Auditors

Chairman

Mario Alberto Galeotti Flori

Acting statutory auditors

Enrico Barachini

Daniela Moroni

Substitute statutory auditors

Antonella Andrei

Lorenzo Galeotti Flori

Independent auditors

Reconta Ernst & Young S.p.A.

Board of Directors' report on consolidated operations

Introduction

The consolidated annual report set out below has been prepared in accordance with the International Financial Reporting Standards (hereafter IFRS or “international accounting standards”) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission in accordance with the procedure set out in art. 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. The transition date from the Italian accounting principles to the international standards was 1 January 2005. The consolidated annual report consists of:

- Consolidated balance sheet
- Consolidated income statement
- Consolidated cash flow statement
- Consolidated statement of changes in shareholders' equity
- Notes to the consolidated annual report as at 2007 and 2008.

The year 2008 ended with the global economy in a very weak state, the impact of which will affect performance in 2009. The financial crisis, whose initial signs date back to the summer of 2007 and to the problems of the US lending market, has accelerated since last September following the collapse of Lehman Brothers. The fundamentals of the modern financial system have been shaken and many banking and lending institutes have had to face huge losses. The financial crisis has also weakened the global economic system and has put the economy into a spin. Indeed, the increasing uncertainty which has been a feature of the financial markets has reduced consumer and business confidence. Households and businesses have reviewed their willingness to consume and invest and have adopted a wait and see approach: many households have abandoned or put off some forms of consumption (in particular in relation to durable goods) and have changed their spending habits (by reducing consumption or buying lower quality goods), while some companies have reviewed their investment plans.

The fall in consumption and investment is a phenomenon which has involved all developed Countries and has caused a slowdown in the global economy.

Operating performance

The year 2008 was a positive year both in sales and profit terms, albeit against a backdrop of a serious global financial crisis, whose effects started to be felt in the real economy as from the second half of 2008 and which appears likely to further deteriorate in the near future.

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Total revenues	690,830	687,379	0.5%
Total gross profit	418,952	426,789	(1.8%)
Total costs (net of other income and revenues)	(355,161)	(349,399)	1.6%
Operating profit	63,791	77,390	(17.6%)
Net profit for the year	38,883	47,146	(17.5%)
Net financial position	(84,045)	(53,936)	55.8%

Revenues from sales and services reached 690.8 million Euro in 2008, compared to 687.4 million in 2007, up by 0.5% on the previous year (2007: 6.5%).

Gross profit was 419.0 million Euro compared to 426.8 million in 2007, down by 1.8%.

Operating profit was 63.8 million Euro in 2008 compared to 77.4 million in 2007, down by 17.6%.

Consolidated net profit totaled 38.9 million Euro compared to 47.1 million in 2007, down by 17.5%. In 2008, consolidated net profit pertaining to the Group was 29.8 million Euro compared to 38.5 million in 2007.

The year ended with net financial debt of 84.0 million Euro, or 43.0% of consolidated shareholders' equity, while in 2007 net debt was 53.9 million Euro. The 2008 decrease was due both to the significant investment made to open and renew stores and to the increase in working capital, and in particular the rise in inventories, following the

unforeseeable slowdown in sales in the final quarter of the year as a consequence of the financial crisis as mentioned at the start of this report.

Macroeconomic situation

The year 2008 was one of the worst years in the history of global finance. The crisis, whose extent and impact were certainly unexpected, seriously affected the performance of stock markets, above all from the second half of the year on and will make coming quarters very testing. For international investors 2008 was a terrible year and we have to go back to 1931 to find a fall in the Standard & Poors 500 index similar to that witnessed in 2008. It goes without saying that the financial crisis quickly spread to the real economy: the drop in confidence in the banking and insurance system, the credit crisis and uncertainty for the future produced an immediate and marked fall in consumption, the effects of which, already evident in the last four months of 2008, seem likely to deepen as time passes. In the first few months of 2009 we have seen a sharp rise in underemployment/unemployment and a striking fall in industrial production and gross domestic product in general. Naturally, as a consequence of the reduced demand, prices for the main raw materials, which in the first part of 2008 had reached record levels, have fallen significantly, thus affecting the economies of raw materials-exporting countries. The concern of monetary authorities which until very recently was focused on how to manage the inflation risk, is now completely focused on maintaining demand and the risk of deflation is considered a real possibility. Currencies have also been characterized by significant fluctuations; the dollar had reached a low against the Euro at over 1.60 dollars to one Euro, and then gradually appreciated to stand at 1.25/1.30 US dollars to one Euro in the last few months of 2008. The Japanese yen has appreciated even more sharply, going from a low of over 169 yen to one Euro in July 2008 to 126 yen to one Euro at the end of the year.

While all the main economic think tanks forecast negative economic growth in 2009, there is more uncertainty about the recovery which some see starting at the end of 2009, but which many others see as no earlier than 2010. What is certain is that, for the first time since the end of the Second World War, all the main industrialized countries now have to face a global crisis of extraordinary proportions.

Group structure

During 2008 the Group structure saw the following minor changes:

- in September, Ferragamo International BV bought 51% of the Indian Nelia Retail Private Limited, a company based in Delhi, through the subscription of 7,650,000 shares with a par value of 10.0 Indian rupees each, for a total of 76,500,000 rupees, corresponding to 51% of the share capital (1.2 million Euro);
- in July, Salvatore Ferragamo Italia SpA exercised the option to buy the remaining 1.64% of the share capital of Ferragamo Austria GmbH, which was held by minority shareholders, and so acquired 100% control of the company.

Sales performance

The Group's activities can be broken down into two main businesses (Core business and Fragrances) and a residual business (Other).

The Core business is the company's traditional business which involves the creation, development and production of items of footwear, leather goods, clothing and accessories for both men and women, mainly distributed through the direct retail network, and to a lesser extent through franchisees and qualified resellers. This sector also includes the licensing of the use of the *Ferragamo* brand.

The Fragrances business involves the creation, development and production of fragrances under the Ferragamo brand and, on license, under the Ungaro brand; sales are handled by a network of selected, mainly multi-brand, distributors.

The business "Other" involves the profitable management of some property in the United States and technical consultancy relating to the 50/50 joint venture with the Zegna Group.

In 2008 revenues from consolidated sales, services and rentals reached 690.8 million Euro compared to 687.4 million Euro in 2007, and can be broken down as follows:

(In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Core business	636,112	92.1%	636,631	92.6%
Fragrances	46,010	6.6%	41,762	6.1%
Other	8,708	1.3%	8,986	1.3%
Total	690,830	100.0%	687,379	100.0%

Core business

The Core business is strategically organized on a geographic basis. The following table shows sales by area:

Core business sales by geographic area

(In thousands of Euro)	Year ended 31 December				at constant exchange rates	
	2008	%	2007	%	2008 vs 2007 %	2008 vs 2007 %
Europe	158,551	24.9%	150,110	23.6%	5.6%	7.0%
North America	146,716	23.1%	172,163	27.0%	(14.8%)	(6.9%)
Japan	117,056	18.4%	127,728	20.1%	(8.4%)	(10.4%)
Asia Pacific	190,169	29.9%	165,941	26.1%	14.6%	23.1%
Central and South America	23,620	3.7%	20,689	3.2%	14.2%	24.3%
Total	636,112	100.0%	636,631	100.0%	(0.1%)	4.2%

As it has done for some years, the Asia and Oceania region provided the largest contribution to the increase in consolidated sales (+24.2 million Euro in 2008 and +18.4 million in 2007); the retail channel was the most dynamic in both years: in terms of local currency the growth in local sales was 18.8% in 2008 and 27.1 % in 2007.

North America was badly affected by the financial crisis, which started there with the sub-prime crisis and then exploded worldwide, showing a decrease in sales in local currency of 6.9%.

This fall, in addition to the erosion caused by a further deterioration in the exchange rate (average for 2008=1.47 / compared to the average for 2007=1.37) between the US\$ and the Euro, reduced the contribution to consolidated revenues from 27.0% in 2007 to 23.1% in 2008.

The opening of new direct stores enabled the decrease in the retail channel to remain largely unchanged in local currency (+0.4%), while the wholesale channel (-16.9% in local currency) was badly affected.

Europe (including Italy), which during 2008 was less badly affected by the financial crisis and almost untouched in terms of exchange rate changes¹, saw growth of almost 5.6%, thus contributing an increase of 8.4 million Euro to the change in consolidated sales (10.0 million Euro in 2007). The increase in 2008 was largely due to the retail channel compared to largely unchanged volumes in the wholesale channel.

Japan recorded a sharp fall in sales (-12.2% in local currency) caused by stagnant demand (negative in 2008, +1% in local currency in 2007); this caused a reduction in the value of sales in Euro of 10.7 million Euro in 2008, following that of 8.7 million in 2007 despite a slight appreciation in the exchange rate of the yen (average for 2008=152.45 compared to an average for 2007=161.25) of 5.46% in 2008, reversing the depreciating trend in recent years, i.e. 10% in 2007 and 6.7% in 2006.

Central and South America recorded a healthy growth rate also in 2008 (+14.2% compared to +14.1% in 2007). Retail sales, in local currency, rose in 2008 by 21.3%, also thanks to the continued expansion of the chain of stores (2007: +25.1%).

The following table shows the changes in Core business sales by geographic area in 2008 and 2007:

Core business

Change in sales by geographic area	Change	Change
(In thousands of Euro)	2008 vs 2007	2007 vs 2006
Europe	8,441	9,983
North America	(25,447)	13,769
Japan	(10,672)	(8,682)
Asia Pacific	24,228	18,420
Central and South America	2,931	2,560
Total	(519)	36,050

¹ Europe also manages sales in the Middle East and non-EU European countries

Core business sales by distribution channel can be broken down as follows:

Core business sales by distribution channel				
(In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Wholesale sales	199,332	31.3%	195,803	30.8%
Retail sales	429,165	67.5%	435,480	68.4%
Licenses and services	7,615	1.2%	5,348	0.8%
Total	636,112	100.0%	636,631	100.0%

The percentage of retail sales stayed just under 70% and was largely unchanged on the previous year (67.5% in 2008, 68.4% in 2007). Revenues from licenses and services benefited from the full-year contribution of royalties on *Ferragamo* branded watches produced and distributed by the Timex Group. Services include the interior design consultancy provided by Ferragamo for a real estate project in Dubai developed by Trident Holding International.

In 2008 the selective expansion of the chain of stores continued: the most important openings and restructurings took place in the Far East and in the United States (9 openings in China, of which 4 are direct stores and 5 are franchises), and India (4 stores opened/restructured in the last 4 months of the year) following the investment to buy 51% of the share capital in the Indian company Nelia Retail Private Limited.

In North America 6 new stores were opened, including Short Hills (New Jersey), Beverly Center (California), Westchester (New York) and Natick (Massachusetts), besides major investment to restructure existing stores.

In South America expansion continued in Mexico with the opening of new direct stores besides the expansion on the rest of the continent, especially in Brazil, with the opening of new stores (corners) as franchises.

Fragrances

The Fragrances business develops and produces items under the Ferragamo brand and, on license, the Ungaro brand. Sales are made through distributors and, just in Italy and in the USA, directly to retailers.

Despite the financial crisis affecting demand, even in 2008 the Ferragamo Fragrances business was remarkably dynamic, rising by 10.2%.

The trend by geographic area was as follows:

Sales of fragrances by geographic area (In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Europe	18,183	39.5%	18,218	43.6%
North America	5,954	12.9%	4,523	10.8%
Japan	7,370	16.0%	6,676	16.0%
Asia Pacific	11,826	25.7%	10,264	24.6%
Central and South America	2,677	5.8%	2,081	5.0%
Total	46,010	100.0%	41,762	100.0%

Sales by brand can be broken down as follows:

Sales of fragrances by brand (In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Ferragamo	38,481	83.6%	34,487	82.6%
Ungaro	7,529	16.4%	7,275	17.4%
Total	46,010	100.0%	41,762	100.0%

The following table shows the changes in sales in the Fragrances sector by geographic area in 2008 and 2007:

Fragrances

Change in sales by area

(In thousands of Euro)	Change	
	2008 vs 2007	2007 vs 2006
Europe	(35)	218
North America	1,431	531
Japan	694	761
Asia Pacific	1,562	4,209
Central and South America	596	239
Total	4,248	5,958

The business “Other”, as indicated above, consists of the rental income from investment properties in the United States, which are shown separately in the income statement, and the fees from Zefer, which are included under revenues from sales and services; the table below shows the position in 2008 compared to 2007:

(In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Rental income investment properties	6,944	79.7%	7,516	83.6%
Fees	1,764	20.3%	1,470	16.4%
Total	8,708	100.0%	8,986	100.0%

The fall in leases is due solely to the exchange rate effect. Fees reflect the solid performance of business volumes at Zefer.

For information on income, please refer to the section on segment reporting contained in the notes.

Income performance

The following table shows the income statement data for 2008 and 2007, highlighting a fall in operating profitability in 2008 compared to 2007 (EBITDA -14.0%; operating profit -17.6%) and a decrease in net profit of 17.5%.

(In thousands of Euro)	Year ended 31 December			
	2008	%	2007	%
Revenues from sales and services	683,886	99.0%	679,863	98.9%
Rental income investment properties	6,944	1.0%	7,516	1.1%
Revenues	690,830	100.0%	687,379	100.0%
Cost of goods sold	(271,878)	(39.4%)	(260,590)	(37.9%)
Gross profit	418,952	60.6%	426,789	62.1%
Other income and revenues	9,704	1.4%	6,825	1.0%
Style, product development and logistics costs	(30,189)	(4.4%)	(32,672)	(4.8%)
Sales & distribution costs	(221,348)	(32.0%)	(211,127)	(30.7%)
Marketing & communication costs	(47,696)	(6.9%)	(44,686)	(6.5%)
General and administrative costs	(55,966)	(8.1%)	(57,366)	(8.3%)
Other operating costs	(9,666)	(1.4%)	(10,373)	(1.5%)
Operating profit/(loss)	63,791	9.2%	77,390	11.3%
Financial charges	(26,373)	(3.8%)	(19,835)	(2.9%)
Financial income	25,968	3.8%	10,093	1.5%
Share of net profit/(loss) on investments accounted for using the Equity Method	840	0.1%	283	0.0%
Profit before taxes	64,226	9.3%	67,931	9.9%
Income taxes	(25,343)	(3.7%)	(20,785)	(3.0%)
Profit for the year from continuing operations	38,883	5.6%	47,146	6.9%
Net profit/(loss) from discontinued operations, net of taxes	0	-	0	-
Net profit/(loss) for the year	38,883	5.6%	47,146	6.9%
Profit/(Loss) – Group	29,787	4.3%	38,459	5.6%
Profit/(Loss) - minority interests	9,096	1.3%	8,687	1.3%

Earnings per share is shown later on at the foot of the consolidated income statement, to which reference should be made.

Here below is a restatement of the income statement data to show the trend in EBITDA.

EBITDA (*) (In thousands of Euro)	2008	2007	% change
Operating profit	63,791	77,390	(17.6%)
Depreciation of tangible assets	19,734	19,511	1.1%
Amortization of intangible assets	2,429	3,077	(21.1%)
EBITDA	85,954	99,978	(14.0%)

(*) *EBITDA is operating profit before amortization and depreciation. EBITDA so defined is a parameter used by the company management to monitor and assess the company's operating performance and is not identified as an accounting measurement under IFRS and, therefore, must not be considered as an alternative measurement to assess Group performance. Since the composition of EBITDA is not regulated by reference accounting standards, the determination criterion applied by the Group may not be the same as that adopted by others and therefore may not be comparable.*

Below is a reconciliation of the amortization and depreciation making up the total costs by function.

Reconciliation of the amortization and depreciation making up the total costs by function (In thousands of Euro)	2008	2007
Cost of goods sold	(508)	(641)
Style, product development and logistics costs	(644)	(945)
Sales & distribution costs	(15,709)	(15,209)
Marketing & communication costs	(50)	(36)
General and administrative costs	(5,252)	(5,757)
Total amortization and depreciation	(22,163)	(22,588)
of which		
Depreciation of tangible assets	19,734	19,511
Amortization of intangible assets	2,429	3,077

For details on **revenues** reference should also be made to the above comments on sales performance. The breakdown by type is as follows:

(In thousands of Euro)	Year ended 31 December		% change
	2008	2007	
Wholesale sales	243,546	237,393	2.6%
Retail sales	429,165	435,653	(1.5%)
Royalties	5,444	3,468	57.0%
Fees and services for third parties	3,852	1,880	104.9%
Fees and services for associated and jointly controlled companies	1,764	1,470	20.0%

Fees and services for related companies	115	-	
Total revenues from sales and services	683,886	679,864	0.6%

Wholesale revenues refer to sales to third party retailers of Core business products and all fragrances sales. Retail sales refer solely to the Core business. Royalties derive mainly from the license agreement with Luxottica for the production and distribution of glasses and from the contract with Timex for the production and distribution of watches.

Fees and services for third parties refer mainly to consultancy for the interior design of Ferragamo apartments, on which royalties are earned.

Fees and services for associated and related companies refer to the fees from Zefer for consultancy and technical assistance.

Rental income investment properties, which are shown in the following table, refer solely to American properties. The fall in 2008 was solely due to the deterioration in the dollar exchange rate. In local currency, revenues were unchanged at US\$ 10.2 million in 2008 compared to US\$ 10.3 million in 2007.

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Total	6,944	7,516	(7.6%)

The development of **cost of goods sold** was as follows:

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Change in inventories of finished, semi-finished products and work in progress	31,992	21,618	48.0%
Raw materials, accessories and consumables used	(172,760)	(163,800)	5.5%
Costs for services	(125,744)	(113,525)	10.8%
Personnel costs	(4,858)	(4,242)	14.5%
Amortization and depreciation	(508)	(641)	(20.7%)
Cost of goods sold	(271,878)	(260,590)	4.3%

In 2008, the **gross profit** percentage fell to 60.6% from 62.1% in 2007; this was in part due to the strengthening of the Euro against the main currencies, such as the US dollar and the Japanese yen.

Personnel costs, amortization and depreciation refer to indirect production costs, since production is outsourced, either on account for manufacture or selling raw materials to outsourcers and buying the finished product from them.

Other income and revenues, as shown below, refer to cost recovery from customers, insurance refunds, subleases of parts of stores which are surplus to operating needs, as well as extraordinary income and capital gains. The total in 2008 included a capital gain of 2.2 million Euro realized by the Parent company on the sale of furniture and furnishings to Palazzo Feroni Finanziaria S.p.A. (related party).

Other income and revenues

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Other income and revenues	6,811	6,273	
Gains on disposal of tangible/intangible assets	2,283	69	
Extraordinary income	610	483	
Total other income and revenues	9,704	6,825	42.2%

Style, product development and logistics costs, which are shown in the table below, refer to the costs of the creative departments and the costs of transporting products to their sales markets.

Style, product development and logistics costs

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Purchases	(2,341)	(3,285)	(28.7%)
Services	(14,491)	(14,178)	2.2%
Personnel costs	(12,713)	(14,264)	(10.9%)
Amortization and depreciation	(644)	(945)	(31.9%)
Other operating costs	-	-	
Total	(30,189)	(32,672)	(7.6%)

Sales & distribution costs, mainly relating to the management of direct stores, also include the costs of the wholesale activities of the Core and Fragrances businesses, as well as the costs for distribution logistics. Their breakdown by channel is as follows:

Sales & distribution costs by distribution channel

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Retail	(189,239)	(181,833)	4.1%
Wholesale	(26,738)	(23,575)	13.4%
Distribution logistics	(5,371)	(5,719)	(6.1%)

Sales & distribution costs	(221,348)	(211,127)	4.8%
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The limited rise in costs, given a significant enlargement of the sales network and a slight increase in volumes, is the result of the action taken to contain costs and of the appreciation of the Euro, the consolidation currency, against most currencies of the markets where the Group operates.

The breakdown by type is shown in the following table.

Sales & distribution costs by type

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Purchases	(5,921)	(5,500)	7.7%
Services	(124,806)	(120,310)	3.7%
Personnel costs	(74,912)	(70,108)	6.9%
Amortization and depreciation	(15,709)	(15,209)	3.3%
Other operating costs	-	-	
Sales & distribution costs	(221,348)	(211,127)	4.8%

Marketing & communication costs, which are set out in the table below, mainly consist of communication costs and include advertisement, media and event costs. It should be noted that in February Shanghai, PRC, hosted an event which received international media coverage and attention to celebrate the 80th anniversary of Ferragamo.

Marketing & communication costs

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Purchases	(3,282)	(2,403)	36.6%
Services	(38,353)	(37,413)	2.5%
Personnel costs	(6,011)	(4,834)	24.3%
Amortization and depreciation	(50)	(36)	38.9%
Other operating costs	-	-	
Marketing & communication costs	(47,696)	(44,686)	6.7%

General and administrative costs refer to general management, information systems, human resources, finance and audit as well as head office overheads and management costs for the property in the United States.

General and administrative costs

Year ended 31 December

(In thousands of Euro)	2008	2007	% change
Purchases	(753)	(882)	(14.6%)
Services	(28,656)	(30,158)	(5.0%)
Personnel costs	(21,305)	(20,570)	3.6%
Amortization and depreciation	(5,252)	(5,756)	(8.8%)
Other operating costs	-	-	
Total	(55,966)	(57,366)	(2.4%)

Other operating costs are set out below and refer to indirect taxes and duties, entertainment expenses and gifts. Provisions for risks refer to the estimate of future charges for legal actions, labor disputes and goods returned by customers.

Other operating costs

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Losses on disposal of fixed assets	(222)	(908)	(75.6%)
Extraordinary charges	(130)	(77)	68.8%
Provisions for risks and charges	(2,504)	(3,433)	(27.1%)
Write-down of current assets	(906)	(529)	71.3%
Other operating costs	(5,904)	(5,426)	8.8%
Total	(9,666)	(10,373)	(6.8%)

For ease of reference, **financial charges and income** are shown net; please refer to the notes for separate and detailed information on charges and income. The development in interest basically reflects the change in the consolidated net financial position and in interest rates. Net financial income for the purposes of adjusting derivatives to fair value mainly refers to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company.

Net financial charges

(In thousands of Euro)	Year ended 31 December		
	2008	2007	% change
Interest and other net (charges)/income	(5,309)	(1,782)	197.9%
Gains/(losses) on exchange rate differences	2,625	(6,563)	(140.0%)
Financial (charges)/income to adjust derivatives to fair value	2,328	(1,397)	(266.6%)
Losses)/gains on disposal of investments	-	-	
(Write-down / provisions)/revaluations of investments	(49)	-	
Net financial (charges)/income	(405)	(9,742)	(95.8%)

The **share of net profit/(loss) on investments accounted for using the Equity Method** refers to Zefer, the 50/50 joint venture created with the Zegna Group for the production of footwear and leather goods distributed by the partner under its own brand.

The change in **income taxes** was as follows:

Income taxes for the year	Year ended 31 December		
	2008	2007	% change
(In thousands of Euro)			
Current and deferred taxes	(15,343)	(20,785)	
Provision for previous years income taxes	(10,000)	-	-
Total	(25,343)	(20,785)	21.9%
Tax rate	39.5%	30.6%	

The tax rate worsening was negatively influenced by the provisions made, on a prudential basis, for previous years income taxes related to tax disputes against some foreign Group companies, and positively influenced by the effect from the deferred tax asset recorded for the Parent company and for some foreign subsidiaries, mainly Ferragamo USA, the deferred tax asset generated by the elimination of the profit unrealized in inventories as well as the reduction in tax rates on current taxes for the Parent company.

The development of **net profit/(loss)** was as follows.

Net profit/(loss) for the year	Year ended 31 December		
	2008	2007	% change
(In thousands of Euro)			
Net profit/(loss) for the year	38,883	47,146	(17.5%)
Profit/(Loss) - Group	29,787	38,459	(22.5%)
Profit/(Loss) - minority interests	9,096	8,687	4.7%

Investment and financial operations

The consolidated balance-sheet and financial position may be summarized as follows:

Summarized balance-sheet and financial position

(In thousands of Euro)	31 December		% change
	2008	2007	
Tangible assets, investment property, intangible assets with a finite useful life and goodwill	133,997	124,701	7.5%
Net working capital	163,965	110,063	49.0%
Other non current assets/(liabilities), net	(87)	1,110	(107.8%)
Other current assets/(liabilities), net	(18,307)	(3,978)	360.2%
Net Invested capital	279,568	231,896	20.6%
Group shareholders' equity	153,899	144,213	6.7%
Minority interests	41,624	33,747	23.3%
Shareholders' equity	195,523	177,960	9.9%
Net financial position	(84,045)	(53,936)	55.8%
Net financial debt/shareholders' equity	43.0%	30.3%	

Tangible assets, investment property, intangible assets with a finite useful life and goodwill are set out in the following table:

Tangible assets, investment property, intangible assets with a finite useful life and goodwill

(In thousands of Euro)	31 December		% change
	2008	2007	
Property, plant and equipment	111,958	105,251	6.4%
Investment property	7,821	7,677	1.9%
Goodwill and other intangible assets with an indefinite useful life	227	-	-
Intangible assets with a finite useful life	13,991	11,773	18.8%
Total	133,997	124,701	7.5%

The item "Property, plant and equipment" consists of:

- the industrial complex at Sesto Fiorentino, the parts of the American property used for operations and the property owned in Seoul, for an overall net value of approximately 41.9 million Euro;
- furnishings and restructuring work for the chain of direct stores amounting to 62.0 million Euro;
- other property, plant and equipment, mainly for IT equipment, amounting to 8.0 million Euro.

Investment property represents the part of the American property which is not used for operations and producing income through rental.

Intangible assets with a finite useful life mainly consist of costs incurred to acquire the right to enter into shop rental contracts (7.4 million Euro, net value to be amortized at 31.12.08), while the remainder includes capitalized costs for software development relating to business applications (SAP, ERP, reporting systems), registration expenses for trademarks and industrial patents and intellectual property rights (software licenses).

Goodwill refers to the purchase of 51% of the Indian company Nelia Retail Private Limited as already indicated in the section relating to changes to the Group structure. This value was calculated as the difference between the purchase price and the net assets of the newly acquired company at current values.

Investment was 28.2 million Euro in 2008 and 21.7 million Euro in 2007. Amortization and depreciation were respectively 22.2 million in 2008 and 22.6 million Euro in 2007.

Working capital consisted of:

Working capital			
(In thousands of Euro)	31 December		
	2008	2007	% change
Inventories	192,180	147,710	30.1%
Trade receivables	66,163	61,956	6.8%
Trade payables	(94,378)	(99,603)	(5.2%)
Total	163,965	110,063	49.0%

The increase in inventories, in particular of finished products, is partly justified both by the opening of new stores and by the weakening of the Euro against the US dollar and the Japanese yen between 31.12.2007 and 31.12.2008. Of course the unexpected fall in sales in the final part of the year contributed to the increase in the levels of stocks.

Trade receivables largely refer to wholesale sales. Trade payables are mainly due to purchases of production materials, products and manufacturing in outsourcing.

Other non current assets/(liabilities) are composed of the following items:

Other non current assets/(liabilities), net

(In thousands of Euro)	31 December		
	2008	2007	% change
Investments in associated and Jointly controlled companies	1,155	741	55.9%
Investments in related companies	-	-	-
Available-for-sale financial assets	74	45	64.4%
Other non current assets	6,713	7,800	(13.9%)
Other financial assets	6,888	3,574	92.7%
Derivatives	-	-	-
Deferred tax assets	50,955	38,351	32.9%
Total other non current assets	65,785	50,511	30.2%
Provisions for risks and charges	(22,985)	(11,591)	98.3%
Employee benefit liabilities	(9,699)	(9,247)	4.9%
Other non current liabilities	(26,848)	(21,632)	24.1%
Deferred tax liabilities	(6,340)	(6,931)	(8.5%)
Total other non current liabilities	(65,872)	(49,401)	33.3%
Net total	(87)	1,110	

Other non current assets consist of:

- the straight lining of rental income from the American real estate business for 5.0 million Euro (5.1 million Euro in 2007);
- the portion of receivables due after more than 12 months stemming in 2005 from the advance on fees for Ungaro fragrances amounting to 1.5 million Euro paid at the time of the sale of the Ungaro brand and the renewal of the license contract.

Other financial assets mainly consist of guarantee deposits and the fair value assessment of hedge derivatives due after more than 12 months (1.5 million Euro).

Deferred tax assets consist of taxes calculated on the reversal of the profits unrealized in inventories and those on temporary differences between the profit/(loss) pertaining to the year and the taxable income of the Group companies.

Other non current liabilities mainly refer to the straight lining of rental expense (26.2 million Euro).

Other current assets/(liabilities) were as follows:

Other current assets/(liabilities), net

(In thousands of Euro)	31 December		
	2008	2007	% change
Tax receivables	11,344	7,111	59.5%
Other receivables	28,377	26,465	7.2%
Assets of disposal group classified as held for sale	-	-	-

Total other current assets	39,721	33,576	18.3%
Provisions for risks and charges - current portion	-	(91)	-
Tax payables	(9,176)	(10,085)	(9.0%)
Other payables	(48,852)	(27,378)	78.4%
Liabilities directly associated with assets classified as held for sale	-	-	-
Total other current liabilities	(58,028)	(37,554)	54.5%
Net total	(18,307)	(3,978)	360.2%

Other receivables mainly include:

- the fair value assessment of hedge derivative contracts for 2.9 million Euro (10.3 million Euro in 2007) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro;
- other tax receivables for the payment by the Parent company of tax assessment notices for a total of 7.7 million Euro, following the provisional entry of taxes and interest relating to the tax assessment for the years 2001 and 2002, which is part of the tax dispute with the tax authorities, started in previous years and set out in detail in the section “Significant events occurred during the year”;
- advances to suppliers (449 thousand Euro), receivables from credit card management companies for retail sales (721 thousand Euro), receivables from Zefer for consultancy fees (1,764 thousand Euro), the current portion of the receivable from Ungaro (2 million) as mentioned previously, and accrued income and prepaid expenses.

At the end of 2008 there were no **assets of disposal group classified as held for sale**.

Other payables mainly consist of the fair value assessment of the hedge derivative contracts entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro, personnel costs accrued and not yet paid, payables due to social security institutions for contributions to be paid in the period immediately following the financial statements date, payables to suppliers for uninvoiced sales or services, and accrued expenses and deferred income. In addition, the item includes payables to the Parent company Ferragamo Finanziaria on the basis of the domestic fiscal unity regime.

The development in **shareholders’ equity** is summarized below:

Shareholders’ equity

31 December

(In thousands of Euro)	2008	2007	% change
Group shareholders' equity	153,899	144,213	6.7%
Minority interests	41,624	33,747	23.3%
Total	195,523	177,960	9.9%

The changes occurred in the Group shareholders' equity are due:

- for +29.8 million Euro to the profit for the year, -7.5 million Euro to the payment of the dividend by the Parent company, +6.5 million Euro to the effect of the depreciation of the Euro against the other currencies (mainly the yen and the dollar) in which the annual reports of the subsidiaries are expressed and -18.9 million Euro to the impact on shareholders' equity of the assessment of hedge derivatives in accordance with IAS/IFRS (cash flow hedge reserve), net of the related tax effect.

The **net financial position** at the end of the year was as follows:

Net financial position (summary) (In thousands of Euro)	2008	2007
Cash and cash equivalents	78,237	65,208
Current financial receivables	3,497	339
Current financial debt	(165,540)	(119,483)
Non current financial debt	(239)	-
Net financial receivables/(payables)	(84,045)	(53,936)

The increase in current net financial debt is due to the absorption of resources as a consequence of the increase in working capital and the significant investment incurred to expand the distribution network. Non current financial debt refers entirely to the fair value assessment of non-hedge derivatives falling due after more than 12 months.

Significant events occurred during the year

In relation to the tax dispute which was initiated in 2004 between Salvatore Ferragamo Italia SpA, Ferragamo International BV and the Florence Revenue Office, following an inspection by the Italian Tax Police (*Guardia di Finanza*), the following developments may be noted:

- Salvatore Ferragamo Italia SpA's appeals against the inspections for 2001 and 2002 are pending before the Provincial Tax Commission. During 2008 these appeals were merged and we are waiting for them to be discussed;

- Salvatore Ferragamo Italia SpA's appeals against the judgments issued in 2006 for the years 1999 and 2000 were merged and were heard before the Regional Tax Commission on 4.02.09. The Regional Tax Commission's judgment no. 28\8\09, which was filed on 8.04.09, accepted the company's defence and considered the assessment work undertaken by the Local Revenue Office as debarred, thus establishing that nothing was due on the assessments for 1999 and 2000;
- In October 2008 the Local Revenue Office notified Salvatore Ferragamo Italia SpA of minor VAT assessment notices for 2003 and 2004 relating to transactions within the EU. The company filed an appeal to the Provincial Tax Commission.
- the Provincial Tax Commission issued a judgment against Ferragamo International BV for 2000 and 2001. During 2008 the company appealed to the Regional Tax Commission, and the hearing was held on 4.02.09. Judgment no. 28\8\09, which was filed on 8.04.09, confirmed the first instance judgment against the company. Following this first instance judgment against Ferragamo International BV, the Local Revenue Office issued a tax bill for 2000 and 2001, which was duly challenged by the company and fully accepted by the Provincial Tax Commission. Following this judgment the Local Revenue Office issued an order to cancel the tax bill with total relief of the previous entry;
- the Regional Tax Commission, which is the highest body to hear the case on the merit, issued a judgment in favor of Ferragamo International BV in relation to the years from 1996 to 1999. During 2008 this judgment was challenged by the Local Revenue Office before the Court of Cassation. Ferragamo International B.V. joined the legitimacy proceedings filing counter and cross appeal. Currently the date of the hearing for this dispute is not known;
- In December 2008 the Firenze 3 Local Revenue Office notified Mr. Ferruccio Ferragamo (company director) and Mr. Claudio Alini, by means of registered letter, of assessment notices against Ferragamo International B.V. relating to 2002 and 2003. These notices were duly challenged before the Provincial Tax Commission of Florence.

The recent unfavorable judgment against Ferragamo International BV (for the years 2000 – 2001), which will be duly challenged before the Court of Cassation, has not changed the company's firm belief that it has operated correctly and therefore is convinced that it can resolve the entire dispute above detailed on just grounds, also in

light of the opinions expressed by the professional experts who are helping the companies concerned.

In 2007 a formal record of notice was issued against the subsidiary Ferragamo Parfums SpA on the basis of which two assessment notices were issued for 2004, the first regarding the Italian corporate income tax (IRPEG), the second for the purposes of the Italian regional production tax (IRAP) and VAT. As already indicated in the report for 2007 as a possible/probable outcome, the company ultimately considered it sensible to accept the conciliation proposal presented by the Local Revenue Office, thus recording in the 2008 annual report a tax payable of 1.4 million Euro.

Ferragamo France SAS was subject to a tax assessment relating to the transfer price, as a result of which extra taxes and withholdings were claimed amounting to 4,790 thousand Euro plus penalties and interest. During 2008 the company started the series of appeals provided for by the French law, albeit fruitlessly as the French tax authority maintained its position. Therefore, the company appealed to the “*Commission departimental des impots direct et des taxes sur le chiffre d'affaires*” and also to the Finance Ministry, office CF3. Before the procedure before the “*Commission departimental*” may start, the appeal to the Finance Ministry, office CF3, must be completed. The company has decided not to make any provision for risks arising from the dispute as they are judged remote.

Non-recurring transactions

Non-recurring transactions which occurred in the period and their impact on the income statement and balance sheet are summarized hereafter.

During 2008:

- Salvatore Ferragamo Italia SpA sold part of the furniture and furnishings of the offices and show-rooms leased by the company at Palazzo Feroni Spini, Via Tornabuoni 2, Florence, to Palazzo Feroni Finanziaria SpA, a related party and the owner of the property. The sale, amounting to a total of 2.4 million Euro, took place at market values on the basis of an assessment made by an independent expert in the sector. At the same time, these assets were granted on bailment to the Parent company

for the following three years (01.08.08 – 31.07.11) with a commitment to enter into a subsequent lease contract for the same assets for the following 8 years (01.08.11 – 30.04.19). This transaction enabled the Group to record a gain on disposal of tangible fixed assets of 2.2 million Euro;

- in reference to the project to list the company, the Parent company's Board of Directors, considering the changed conditions on stock markets, deemed it appropriate to delay the request for admission to listing, waiting for a more favorable period, albeit confirming the strategic orientation to the listing itself.

Human resources management and development

The Ferragamo Group places great importance on its human capital as represented by its employees and pays particular attention to their professional development by offering equal opportunities to everyone, regardless of their race, gender, religion, etc. The Group, through its training programs, offers, especially to younger staff, real growth and development opportunities and, at the same time, enhances people's sense of belonging to the company.

The pay system, as applied to a significant part of staff, provides for a correlation between individual pay incentives and the Group's results, thus encouraging team spirit and a sense of belonging.

Of course, Group employees are offered the possibility to share those Ferragamo values which over eighty years of activity have always been a reference point; in particular honesty, transparency, integrity and respect for others have always been underlying values.

These values are also reflected in the Code of Ethics, whose adoption and coming into force have already been formalized by the Parent Company and which is currently being disseminated to the whole Group.

Employee workplace safety is considered of utmost importance and the Group has therefore taken all the measures which it considers necessary to guarantee such safety, including making employees themselves aware of the issue, in part through specific training courses.

Environmental protection

The Group operates in a sector and in a way which give rise to limited environmental issues, but it has nonetheless always put environmental sustainability at the heart of its development policies by promoting awareness-raising aimed at reducing consumption and encouraging energy saving with in-house initiatives and campaigns.

Research and development

Within its creative and production studies, the Group incurred expenses for research and development on new products and the use of new materials; these expenses were entirely recognized in the income statement.

These costs totaled 18.6 million Euro in 2008 and 20.9 million Euro in 2007.

Intragroup relationships and transactions with related parties

Transactions with related parties are set out in detail in the specific section of the notes at the end of the comments on the income statement items.

Management of financial risks

The Group undertakes all its production in Italy, incurring the related costs in Euro, and earning most of its revenues in currencies other than the Euro. It is, therefore, exposed to exchange rate risks. For information relating to the management of these risks and for the other information provided for by IFRS 7, reference should be made to the specific section in the notes, at the end of the comments on balance sheet liabilities.

Significant post-balance-sheet events

In the first few months of 2009 there was no prejudicial effect to the profit for the current year originating from the financial statements valuations at 31 December 2008 and in particular from the changes which occurred in exchange rates.

On 6 May 2009 the Parent Company implemented its organization, management and control model pursuant to Leg. Decree 231/2001 and, at the same time, its Code of Ethics, which is going to be adopted by all other Group companies.

Following the Ministry of Economic Development circular of 16.04.09 relating to the application of tax credit to the textile and fashion sectors for pre-competitive research and development, introduced by art. 1, paragraphs 280 to 284, of Law no. 296 dated 27.12.2006 (2007 Finance Act) as amended, on 6 May 2009 the Parent Company requested a tax credit equal to 10% of the costs incurred for research and development activities, which are eligible for the tax credit, started prior to 28.11.2008 and after 28.11.2008 up to the end of the current tax period (31.12.2009). The request was sent online using the appropriate form (FRS module) duly filled in and presented as provided for by the Inland Revenue Office Director.

The Parent Company has not recorded the possible tax credit, since it has not yet made any tax offset, also considering that the current authorization procedure provides no guarantees regarding the effective fruition of the tax credit.

Outlook for 2009

Economic forecasts indicate a difficult situation and a recession for 2009 for all the main countries, while an improvement is expected for 2010, even if all the estimates on future economic performance are highly uncertain. To combat the effects of the crisis, the European and US Governments have introduced expansive fiscal policies, while the main Central Banks have cut official interest rates and are promoting action to facilitate access to credit.

The first few months of 2009 have been marked by a sharp slowdown in economy compared to 2008, with heightened difficulties for the most developed countries, in particular the United States, Japan and Europe (forecasts of negative GDP for 2009) and growth rates which are, in any case, likely to be lower than in previous years for Asian economies. As regards currencies, the Euro has continued to depreciate in the first few months of 2009, in particular against the Japanese yen and, to a lesser extent, against the US dollar, thus inverting a long-term trend, which had brought it to record highs, in the first six months of 2008, against the US currency.

On the basis of budget forecasts and the results for the first few months of 2009, sales, operating profit and net profit are likely to fall compared to 2008; this forecast is justified by the difficult financial and economic market situation.

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated financial statements

Consolidated balance sheet - assets

(In thousands of Euro)	Notes	31- December	
		2008	2007
NON CURRENT ASSETS			
Property, plant and equipment	4	111,958	105,251
Investment property	5	7,821	7,677
Goodwill and other intangible assets with an indefinite useful life	3 - 7	227	-
Intangible assets with a finite useful life	6	13,991	11,773
Investments in associated and jointly controlled companies	8	1,155	741
Investments in related companies		-	-
Available-for-sale financial assets	9	74	45
Other non current assets	10	6,713	7,800
Other non current financial assets	11	6,888	3,574
Derivatives		-	-
Deferred tax assets	12	50,955	38,351
TOTAL NON CURRENT ASSETS		199,782	175,212
CURRENT ASSETS			
Inventories	13	192,180	147,710
Trade receivables	14	66,163	61,956
Tax receivables	15	11,344	7,111
Other current assets	16	28,377	26,465
Other current financial assets	17 - 32	3,497	339
Cash and cash equivalents	18	78,237	65,208
TOTAL CURRENT ASSETS		379,798	308,789
Assets of disposal group classified as held for sale	19	-	-
Total assets of disposal group classified as held for sale		-	-
TOTAL ASSETS		579,580	484,001

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated balance sheet – liabilities and shareholders' equity

(In thousands of Euro)	Notes	31-December	
		2008	2007
SHAREHOLDERS' EQUITY			
GROUP SHAREHOLDERS' EQUITY			
Share capital	20	16,841	16,841
Reserves	20	107,271	88,913
Net profit/(loss) – Group		29,787	38,459
TOTAL GROUP SHAREHOLDERS' EQUITY		153,899	144,213
MINORITY INTERESTS			
Share capital and reserves – minority interests		32,528	25,060
Net profit/(loss) – minority interests		9,096	8,687
TOTAL MINORITY INTERESTS		41,624	33,747
TOTAL SHAREHOLDERS' EQUITY		195,523	177,960
NON CURRENT LIABILITIES			
Non current interest-bearing loans & borrowings		-	-
Provisions for risks and charges	21	22,985	11,591
Employee benefit liabilities	22	9,699	9,247
Other non current liabilities	23	26,848	21,632
Non current financial liabilities	24 - 32	239	-
Deferred tax liabilities	25	6,340	6,931
TOTAL NON CURRENT LIABILITIES		66,111	49,401
CURRENT LIABILITIES			
Trade payables	26	94,378	99,603
Interest-bearing loans & borrowings	27	165,227	118,340
Provisions for risks and charges - current portion		-	91
Tax payables	28	9,176	10,085
Other current liabilities	29	48,852	27,378
Other current financial liabilities	30 - 32	313	1,143
TOTAL CURRENT LIABILITIES		317,946	256,640
Liabilities directly associated with assets classified as held for sale		-	-
Total liabilities directly associated with assets classified as held for sale		-	-
TOTAL LIABILITIES		384,057	306,041
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		579,580	484,001

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated income statement

(In thousands of Euro)	Notes	31-December	
		2008	2007
Revenues from sales and services	33	683,886	679,863
Rental income investment properties	34	6,944	7,516
Cost of goods sold	35	(271,878)	(260,590)
Gross profit		418,952	426,789
Other income and revenues	36	9,704	6,825
Style, product development and logistics costs	37	(30,189)	(32,672)
Sales & distribution costs	38	(221,348)	(211,127)
Marketing & communication costs	39	(47,696)	(44,686)
General and administrative costs	40	(55,966)	(57,366)
Other operating costs	41	(9,666)	(10,373)
Operating profit		63,791	77,390
Financial charges	43	(26,373)	(19,835)
Financial income	44	25,968	10,093
Share of net profit/(loss) on investments accounted for using the Equity Method	45	840	283
Profit before taxes		64,226	67,931
Income taxes	46	(25,343)	(20,785)
Profit for the year from continuing operations		38,883	47,146
Net profit/(loss) from discontinued operations, net of taxes	47	-	-
Net profit/(loss) for the year		38,883	47,146
Profit/(Loss) - Group		29,787	38,459
Profit/(Loss) - minority interests		9,096	8,687

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Earnings per share	Notes	31-December	
		2008	2007
Basic earnings per share ordinary shares	48	1.74	1.66
Basic earnings per share preferred shares		1.79	1.71
Diluted earnings per share ordinary shares		1.74	1.65
Diluted earnings per share preferred shares		1.79	1.70

Earnings per share from continuing operations

Basic earnings from continuing operations per ordinary share	1.74	1.66
Basic earnings from continuing operations per preferred share	1.79	1.71
Diluted earnings from continuing operations per ordinary share	1.74	1.65
Diluted earnings from continuing operations per preferred share	1.79	1.70

Earnings per share from discontinued operations/operations to be discontinued

Net profit/(loss) from discontinued operations/non current assets classified as held for sale ordinary shares	-	-
Net profit/(loss) from discontinued operations/non current assets classified as held for sale preferred shares	-	-

Dividend per share

Basic dividend per share ordinary shares	0.42
Basic dividend per share preferred shares	0.47

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated cash flow statement

(In thousands of Euro)	31 December 2008	31 December 2007
NET INCOME	38,883	47,146
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization and depreciation	22,163	22,588
Deferred tax assets and liabilities	(4,827)	(2,247)
Provision for employee severance indemnities	4,201	2,183
Provision for obsolete inventory	12,942	10,652
Provision for bad debt	906	414
Loss(gain) on disposal of tangible assets	(2,061)	839
Share of net profit/(loss) on investments accounted for using the Equity Method	(414)	(133)
Other non-cash items	2,920	3,433
Changes in operating assets and liabilities:		
Receivables from customers	(3,720)	(4,109)
Inventories	(44,062)	(36,714)
Payables to suppliers	(6,665)	11,204
Tax receivables	(4,053)	(3,369)
Tax payables	(674)	2,593
Advance payments and settlements of employee severance indemnities	(4,764)	(2,393)
Other – net	4,698	6,465
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	15,473	58,552
Cash flow from investing activities:		
Purchase of tangible assets	(24,873)	(18,936)
Investment property	-	-
Purchase of intangible assets	(3,305)	(2,763)
Net change in financial assets	(1,774)	1,563
Cash from disposal of equity investments – other companies	-	-
Cash from disposal of tangible and intangible assets	2,833	590
Purchase of investments in jointly controlled companies	-	-
Acquisition of Nelia Retail Private Limited, net of cash acquired	57	-
(Increase)/decrease of other net assets due to changes in the consolidation area, net of cash movements	-	-
NET CASH USED IN (PROVIDED BY) INVESTING ACTIVITIES	(27,062)	(19,546)
Cash flow from financing activities:		
Net change in financial receivables	(3,317)	273

Net change in financial payables	33,478	5,568
Dividends paid	(8,043)	(18,803)
Other net changes to Group shareholders' equity	(30)	72
Monetary effect of demerger		(76,428)
Other net changes to minority interests	-	(3,696)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	22,088	(93,014)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,499	(54,008)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	64,827	124,172
Increase/(decrease) in cash and cash equivalents	10,499	(54,008)
Net effect of translation of foreign currencies on cash and cash equivalents	1,733	(5,338)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	77,058	64,827

Additional information

	31 December 2008	31 December 2007
Interest paid	5,937	5,846
Income taxes paid	21,348	21,034
Interest received	1,690	5,074
Dividends received	425	150

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Statement of changes in consolidated shareholders' equity

Changes in consolidated shareholders' equity (In thousands of Euro)	31 December								
	2007								
	Shareholders' equity at 31.12.2006	Allocation of results	Dividends	Translation differences	Consolidation differences and change in area	Increases	Decreases	Demerger	Shareholders' equity at 31.12.2007
Shareholders' equity									
Share capital	23,600	-	-	-	-	-	-	(6,759)	16,841
Share capital contributions	5,810	-	-	-	-	-	-	(2,815)	2,995
Legal reserve	6,209	-	-	-	-	-	-	(2,021)	4,188
Extraordinary reserve	321	17,548	(17,322)	-	-	-	-	(188)	359
Cash flow hedge reserve	6,560	-	-	-	-	1,325	-	-	7,885
Translation reserve	(35,877)	-	-	(12,146)	(1,437)	-	-	-	(49,460)
Retained earnings	173,437	10,556	-	(492)	1,289	614	(501)	(70,437)	114,466
Other reserves	14,338	-	-	-	(62)	263	-	-	14,539
Provision as per art. 55	2	-	-	-	-	-	-	(1)	1
Effect IAS 19 Equity	236	-	-	-	-	520	(1,273)	-	(517)
Effect IAS 28 (Common Control) Equity	(5,924)	-	-	-	-	-	-	-	(5,924)
Effect IFRS 2 (Stock Options)	16	-	-	-	-	364	-	-	380
Profit/(Loss) for the year	28,104	(28,104)	-	-	-	38,459	-	-	38,459
Group shareholders' equity	216,832	-	(17,322)	(12,638)	(210)	41,545	(1,774)	(82,221)	144,212
Reserves - minority interests	25,931	7,026	(1,481)	(2,918)	(3,486)	-	(11)	-	25,061
Profit/(Loss) for the year - minority interests	7,026	(7,026)	-	-	-	8,687	-	-	8,687
Minority interests	32,957	-	(1,481)	(2,918)	(3,486)	8,687	(11)	-	33,748
Total shareholders' equity	249,789	-	(18,803)	(15,556)	(3,696)	50,232	(1,785)	(82,221)	177,960

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Changes in consolidated shareholders' equity	31 December								
	2008								
	(In thousands of Euro)	Shareholders' Equity at 31.12.2007	Allocation of results	Dividends	Translation differences	Consolidation differences and change in area	Increases	Decreases	Shareholders' Equity at 31.12.2008
Shareholders' equity									
Share capital	16,841	-	-	-	-	-	-	-	16,841
Share capital contributions	2,995	-	-	-	-	-	-	-	2,995
Legal reserve	4,188	-	-	-	-	-	-	-	4,188
Extraordinary reserve	359	7,610	(7,477)	-	-	-	-	-	492
Cash flow hedge reserve	7,885	-	-	-	-	-	-	(18,861)	(10,976)
Translation reserve	(49,460)	-	-	6,538	-	-	-	-	(42,922)
Retained earnings	114,466	30,849	-	48	(20)	-	-	(85)	145,258
Other reserves	14,539	-	-	-	-	-	-	-	14,539
Provision as per art. 55	1	-	-	-	-	-	-	-	1
Effect IAS 19 Equity	(517)	-	-	-	-	-	-	(609)	(1,126)
Effect IAS 28 (Common Control) Equity	(5,924)	-	-	-	-	-	-	-	(5,924)
Effect IFRS 2 (Stock Options)	380	-	-	-	-	366	-	-	746
Profit/(Loss) for year	38,459	(38,459)	-	-	-	29,787	-	-	29,787
Group shareholders' equity	144,212	-	(7,477)	6,586	(20)	30,153	(19,555)	-	153,899
Reserves - minority interests	25,061	8,687	(2,278)	147	(11)	922	-	-	32,528
Profit/(Loss) for the year - minority interests	8,687	(8,687)	-	-	-	9,096	-	-	9,096
Minority interests	33,748	-	(2,278)	147	(11)	10,018	-	-	41,624
Total shareholders' equity	177,960	-	(9,755)	6,733	(31)	40,171	(19,555)	-	195,523

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Explanatory Notes

1. Corporate information

The publication of the consolidated annual report of Salvatore Ferragamo Italia S.p.A. for the year ended 31 December 2008 was authorized by a resolution of the Board of Directors on 12 May 2009. The Parent company is a legal entity organized under Italian law.

The Group's main activities are set out in the Board of Directors' report on operations in the section on operating performance.

1.1 Management and coordination

The Parent company Salvatore Ferragamo Italia S.p.A is part of the Ferragamo Finanziaria Group and is subject to the management and coordination of Ferragamo Finanziaria S.p.A. pursuant to art. 2497-bis of the Italian Civil Code.

In compliance with the provisions of art. 2497-bis, paragraph 4 of the Italian Civil Code, the key data from the annual report of the Parent company Ferragamo Finanziaria S.p.A. at 31 December 2007 is given below.

Ferragamo Finanziaria S.p.A		
(in Euro)		
BALANCE SHEET at 31.12.2007		
ASSETS	31.12.2007	31.12.2006
B) Fixed assets	73,508,917	73,389,712
C) Current assets	4,042,925	6,722,335
TOTAL ASSETS	77,551,842	80,112,047
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	8,484,433	716,968
- Retained earnings(losses)	-	(9,425,732)
- Profit (Loss) for the year	7,898,115	28,378,319
B) Provisions for risks and charges	67,344	-
D) Payables	10,847,370	10,054,371
E) Accrued expenses and deferred income	504,620	638,161
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	77,551,842	80,112,047
Guarantees, commitments and other risks	91,376	-
INCOME STATEMENT at 31.12.2007		
A) Value of production		

B) Costs of production	(927,760)	(663,675)
C) Financial income and charges	8,589,153	28,910,392
D) Adjustments to value of financial assets	(50,000)	(55,704)
E) Extraordinary income and charges	-	(210,700)
Income taxes for the year, current and deferred	286,722	398,006
PROFIT (LOSS) FOR THE YEAR	7,898,115	28,378,319

2. Accounting principles

General notes

The consolidated annual report has been prepared on the basis of the historic cost principle, except for derivatives and held-for-sale financial assets, which are recorded at fair value.

The consolidated annual report is presented in Euro and all values are rounded to the nearest thousand Euro, unless otherwise indicated.

The consolidated balance sheet classifies assets into non current and current, where:

- i) non current assets refer to positive balances to be realized after more than 12 months and include intangible, tangible and financial assets;
- ii) current assets refer to positive balances to be realized within 12 months;
- iii) non current liabilities refer to payables due after more than 12 months, including financial payables, provisions for risks and charges and employee severance indemnities;
- iv) current liabilities refer to payables due within 12 months, including the short-term portion of medium/long-term loans, provisions for risks and charges and employee severance indemnities.

The consolidated income statements for the years ended 31 December 2008 and 2007 are shown in accordance with a classification of costs by function, which is considered more representative than the so-called presentation of costs by nature. The cash flow statement has been prepared on the basis of the indirect method and is presented in compliance with IAS 7, breaking down financial flows into operating, investing and financing activities.

Statement of compliance with IFRS

The consolidated annual report of Salvatore Ferragamo Italia S.p.A. has been prepared in compliance with the International Financial Reporting Standards (IFRS). IFRS also include all the revised international accounting standards (“IAS”) and all the interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), including those previously issued by the Standing Interpretation Committee (“SIC”).

Discretionary valuations and significant accounting estimates

The preparation of the consolidated annual report and the notes has entailed the use of estimates and assumptions, both in determining some assets and liabilities, and in assessing contingent assets and liabilities. Effective results might not fully correspond to estimates.

The main estimated data refer to:

- the provisions for obsolete inventories of raw materials, accessories and finished products; since the Group, both in its Core and Fragrances businesses, deals in products which are subject to changes in fashion, product inventories at the end of the season or, in the case of fragrances, at the end of the life cycle of the individual item, which may be short, are subject to impairment;
- the provisions for bad debt relating to wholesale sales, which are linked to the solvency of customers with whom in general dealings are well-established and who rarely change;
- provisions for risks and charges, in particular expected future expenses and ongoing or foreseeable disputes, as well as for marginal cases relating to the return of goods by customers;
- amortization and depreciation rates for tangible and intangible assets;
- employee benefits, whose amounts are valued on an actuarial basis;
- receivables for deferred taxes, in particular the estimate of their recoverability in regard to future income;

- fair value of the stock option plans on the grant date, determined taking account of all features of the options granted, as well as the data used in the valuation model; these elements are detailed in the notes;
- fair value of financial instruments, in which derivatives are particularly important, and which the Group uses extensively to hedge exchange rate risks.

The estimates and the assumptions are made by directors with the assistance of company departments and, when appropriate, independent experts and are periodically reviewed, recognizing the impact of each change in the income statement.

Consolidation principles

The consolidated annual report as at 31 December 2008 and 2007 contains the balance-sheet and financial position as well as the operating performance of Salvatore Ferragamo Italia S.p.A and its Italian and foreign subsidiaries. These are identified collectively as the Ferragamo Group.

The consolidated annual report is prepared on the basis of the draft reports approved by the Boards of Directors or, in the absence of a Board, by the Sole Directors. In some cases the consolidated annual report has been prepared on the basis of the accounting records provided by Group companies. The annual reports of the subsidiaries are prepared using the same accounting principles as the Parent company. Subsidiaries are consolidated on a line-by-line basis as from the purchase date, or from the date in which the Group acquires control, and are excluded from consolidation from the date when control is transferred outside the Group.

All intragroup balances and transactions, including any unrealized profits and losses deriving from transactions between Group companies, are completely eliminated.

Acquisitions of subsidiaries are recognized using the purchase method, allocating the cost of the business combination at the fair values of assets, liabilities and contingent liabilities acquired at the acquisition date and including the Group result recorded from the acquisition date to the end of the year.

Minority interests represent the part of profits or losses and of net assets not held by the Group and are shown in a separate item of the income statement and in the balance sheet among shareholders' equity items, separately from Group shareholders' equity.

The following subsidiaries are included in the consolidation area at 31 December 2008:

Company name	Location	Currency	Share capital	Controlling interest		Notes
				Direct	Indirect	
Salvatore Ferragamo Italia S.p.A.	Florence	Euro	16,841,000			Parent company
Ferragamo International B.V.	Amsterdam	Euro	372,500	100%		
Ferragamo Retail Nederland B.V.	Amsterdam	Euro	500,000		100%	(1)
Ferragamo France SAS	Paris	Euro	4,334,094		100%	(1)
Ferragamo Deutschland GmbH	Munich	Euro	3,300,000		100%	(1)
Ferragamo Austria GmbH	Vienna	Euro	1,853,158	100%		
Ferragamo U K Ltd.	London	Gbp	6,172,735		100%	(1)
Ferragamo Suisse SA	Carouge	Chf	1,000,000		51%	(1)
Ferragamo Belgique SA	Brussels	Euro	750,000		100%	(1)
Ferragamo Monte-Carlo S.A.M.	Monte-Carlo	Euro	304,000		100%	(1)
Ferragamo Espana S.L.	Madrid	Euro	4,600,000		100%	(1)
M Mendrisio Moda SA	Mendrisio	Chf	500,000		100%	(1)
Ferragamo USA Inc.	New York	Usd	74,011,969		100%	(1)
SF Licensing Corporation	Wilmington, DE	Usd	1,000		100%	(2)
Ferragamo Canada Inc	Vancouver	Cad	430,000		100%	(2)
S-Fer International inc	New York	Usd	100,000		100%	(2)
Sator Realty Inc	New York	Usd	100,000		100%	(2)
Ferragamo Hawaii Inc.	Honolulu	Usd	4,500,000		100%	(2)
Ferragamo Parfums Usa Inc.	New York	Usd	200,000		100%	(2)
Ferragamo Latin America Inc.	Miami	Usd	300,000		100%	(1)
Ferragamo St. Thomas Inc.	St. Thomas USVI	Usd	301,000		100%	(6)
Ferragamo Mexico S. de R.L. de C.V.	Mexico City	Mxn	4,580,200	60%	40%	(1)
Ferragamo Chile SA	Santiago del Cile	Clp	585,470,000	5%	95%	(1)
Ferragamo Argentina SA	Buenos Aires	Ars	1,638,750	5%	95%	(1)
Ferragamo Hong Kong Ltd.	Hong Kong	Hkd	10,000		100%	(1)
Ferragamo Japan KK	Tokyo	Yen	305,700,000		71%	(1)
Ferragamo Australia PTY Ltd.	Sydney	Aud	10,536,004		100%	(1)
Ferrimag Limited	Hong Kong	Hkd	109,200,000		50%	(3)
Ferragamo Fashion Trading (Shanghai) Co. Ltd	Shanghai, PRC	Usd	200,000		50%	(4)
Ferragamo Moda (Shanghai) Co. Ltd	Shanghai, PRC	Usd	1,400,000		50%	(1)
Ferragamo Retail HK Limited	Hong Kong	Hkd	39,000,000		50%	(4)
Ferragamo Retail Taiwan Limited	Taipei	Twd	136,250,000		50%	(4)
Nelia Retail Private Limited	New Delhi	Inr	150,000,000		51%	(1)
Ferragamo Korea Limited	Seoul	Kwon	3,291,200,000		50%	(1)
Ferragamo (Singapore) Pte. Ltd.	Singapore	Sgd	4,600,000		50%	(1)
Ferragamo (Thailand) Limited	Bangkok	Thb	25,000,000		50%	(1)
Ferragamo (Malaysia) Sdn Bhd	Kuala Lumpur	Myr	1,300,000		50%	(1)
Ferragamo Parfums SpA	Florence	Euro	10,000,000	100%		
Ferragamo Parfums SA	Neuchatel	Chf	250,000		100%	(1)(7)

1 - Through Ferragamo International B.V.

2 - Through Ferragamo USA Inc.

3 - Through Ferragamo Hong Kong Ltd.

4 - Through Ferrimag Ltd.

5 - Through Ferragamo Singapore Pte. Ltd.

6 - Through Ferragamo Latin America Inc.

7 – Inactive company

There is only one jointly controlled company accounted for using the Equity Method:

Company name	Location	Currency	Share capital	Percentage of inv.		Notes
				Currency unit	Direct	
Zefer S.p.A.	Sesto Fiorentino	Euro	500,000	50%		

During 2008 the composition of the Group saw the following changes:

- in September, Ferragamo International BV purchased 51% of the Indian Nelia Retail Private Limited, a company based in Delhi, through the subscription of 7,650,000 shares with a nominal value of 10.0 rupees per share for a total value of 76,500,000 Indian rupees, corresponding to 51% of the share capital (value of the investment in Euro: 1.2 million);
- in July, Salvatore Ferragamo Italia SpA exercised the option to buy the remaining 1.64% of the share capital of Ferragamo Austria GmbH, held by third-party shareholders, and thus achieved 100% control of the company.

Translation of annual reports in currencies other than the Euro and of items denominated in foreign currency

The amounts contained in the consolidated annual report are shown in Euro, which is the functional and presentation currency adopted by the Parent Company. Each company in the Group establishes its own functional currency, which is used to value the items included in the individual annual reports. Transactions in foreign currency are initially recorded at the exchange rate in force at the transaction date (referred to the functional currency). Cash assets and liabilities, which are recorded in foreign currency, are translated into the functional currency at the exchange rate in force at the financial statements date.

All exchange rate differences are recorded in the income statement.

Non-cash items which are valued at historic cost and denominated in foreign currencies, are translated by using the exchange rates in force at the initial recognition of the transaction.

Translation differences are recorded directly under shareholders' equity and are shown separately in a specific reserve. On disposal of a particular foreign company, the

accumulated translation differences which have been recorded under shareholders' equity for that particular company are recorded in the income statement.

The exchange rates used to determine the value in Euro of subsidiaries' annual reports expressed in foreign currency were (to 1 Euro):

	Average rates		Year-end	Year-end exchange
	for the year ended 31 December		exchange rates	rates
	2008	2007	at 31 December	at 31 December
	2008	2007	2008	2007
US Dollar	1.47076	1.37048	1.3917	1.47210
Swiss Franc	1.58739	1.64272	1.4850	1.65470
Japanese Yen	152.45400	161.25300	126.1400	164.93000
Pound Sterling	0.796285	0.68434	0.9525	0.73335
Australian Dollar	1.74162	1.63484	2.0274	1.67570
Korean Won	1,606.09	1,272.99	1,839.13	1,377.96
Hong Kong Dollar	11.4541	10.69120	10.7858	11.48000
Mexican Peso	16.2911	14.97480	19.2333	16.05470
Taiwanese Dollar	46.2833	45.00980	45.66080	47.75210
Singaporean Dollar	2.07619	2.06355	2.0040	2.11630
Thai Baht	48.4753	44.21400	48.2850	43.80000
Malaysian Ringgit	4.88933	4.70757	4.8048	4.86820
Indian Rupee	63.73430	-	67.63600	-
Chinese Renminbi	10.22360	10.41780	9.49560	10.75240
Chilean Peso	762.847	714.9480	888.086	733.03201
Argentine Peso	4.63927	4.27073	4.80444	4.63693

Summary of the main accounting principles

Property, plant and equipment

Tangible assets are recorded at historic cost, including the additional costs directly attributable and necessary to use the asset for the purpose for which it has been bought. This cost includes the costs to replace part of the plant and equipment when incurred, if they comply with the recognition criteria.

Maintenance and repair expenses, which do not relate to creating value from and/or extending the residual life of the assets, are recognized in the income statement in the year in which they are incurred, otherwise they are capitalized.

Tangible assets are shown net of the related accumulated depreciation and any impairment determined in accordance with the method described below. Depreciation is calculated on a straight line basis according to the estimated useful life of the asset,

which is reviewed on an annual basis and any changes, if necessary, are applied on a prospective basis.

The useful lives of the main classes of tangible assets are as follows:

	Useful life
Buildings	33 years
Plant and Equipment	5-6 years
Industrial and commercial equipment	4-7 years
Other assets:	
- Office furniture and furnishings	5-8 years
- Electronic machines	3-5 years
- Historic collection	5 years
- Vehicles	3-4 years
	On the basis of the residual duration of the
- Improvements to third-party assets	asset lease

Should significant parts of these tangible assets have different useful lives, these components are accounted for separately. Land, whether it is free of construction or attached to buildings, is recorded separately and is not depreciated since it has an unlimited useful life.

The book value of tangible assets is subject to review to record any impairment, should events or changed situations indicate that the book value cannot be recovered. If there is an indication of impairment and, should the book value exceed the presumed realizable value, assets are written down to reflect their realizable value. The realizable value of tangible assets is the higher of the net sale price and the value in use.

In defining the value in use, the expected future cash flows are discounted using a pre-tax discount rate which reflects the current market estimate of the cost of money over time and the specific risks of the asset. The realizable value of an asset which does not generate broadly independent cash flows is determined in relation to the cash flow generating unit to which this asset belongs. Impairment is recognized in the income statement under amortization, depreciation and write-down costs. Impairment is restored should the reasons for it no longer exist.

At the time of its sale or when there are no future economic benefits expected from the use of the asset, the asset is eliminated from the balance sheet and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized on the income statement in the year of the elimination.

Investment property

Fixed assets held for income purposes and not for instrumental use are shown in a specific item called “Investment property”, in accordance with IAS 40, and are recognized at cost. The assets which fall under this category are represented by land and/or buildings (or parts of buildings) held by the owner or lessee under a financial or operating lease in order to lease them out.

These types of property are classified separately from other property assets held. The useful life of Group investment property is 33 years.

Leases

The definition of a contract as a lease transaction (or as containing a lease transaction) is based on the content of the agreement and requires an assessment as to whether the fulfillment of the agreement depends on the use of one or more specific assets and whether the agreement transfers the right to use this asset. A review is undertaken after the beginning of the contract only if one of the following conditions occurs:

- a) change in the contract conditions other than a renewal or extension of the contract;
- b) exercise of a renewal option or grant of an extension, unless the terms of the renewal or extension were not initially included in the terms of the lease transaction;
- c) change in the condition under which fulfillment depends on the use of a specific asset; or
- d) substantial change in the asset.

In case of a review, the recognition of the lease will start or end on the date on which there is a change in the circumstances which gave rise to the review for scenarios a), c) or d) and on the date of renewal or extension for scenario b).

For contracts signed prior to 1 January 2005, the start date is taken to be 1 January 2005 in accordance with the transition provisions of IFRIC 4.

Financial lease contracts, which substantially transfer to the Group all the risks and benefits deriving from ownership of the leased asset, are capitalized at the start date of the lease at the fair value of the leased asset, or, if lower, at the present value of the lease payments. Lease payments are divided proportionally between capital and

interest so as to ensure the application of a constant interest rate on the residual balance of the amount due. Financial charges are carried directly to the income statement.

Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset and the duration of the lease contract, if there is no reasonable certainty that the Group will obtain ownership of the asset at the end of the contract.

Leases in which the lessor largely maintains all the risks and benefits linked to ownership of the assets are classified as operating leases and the related costs are recognized in the income statement over the duration of the contract.

Business combinations and goodwill

Business combinations are accounted for using the purchase method. This requires the fair value recognition of the identifiable assets (including previously unrecognized intangible assets) and liabilities (including potential liabilities and excluding future restructurings) of the company which is purchased.

The goodwill acquired in a business combination is the positive difference between the cost of the business combination and the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities (of the purchased company). To analyze its suitability, the goodwill acquired in a business combination is allocated, at the purchase date, to the Group's individual cash flow generating units, or to groups of cash flow generating units which should benefit from the synergies of the combination, regardless of the fact that other Group assets or liabilities are allocated to these units or groups of units.

Each unit or group of units to which goodwill is allocated:

- a) represents the lowest level, within the Group, at which goodwill is monitored for the purposes of internal management; and
- b) is no broader than the segments identified on the basis of either the primary or secondary format of the Group's segment reporting, determined on the basis of the indications of IAS 14 - Segment reporting.

When goodwill is part of a cash flow generating unit (or group of cash flow generating units) and part of the asset within this unit is sold, the goodwill associated with the asset sold is included in the book value of the asset to determine the profit or loss deriving from the sale. The goodwill transferred in those circumstances is measured on

the basis of the relative values of the sold asset and of the outstanding portion of the unit which is kept.

When the sale concerns a subsidiary, the difference between the sale price and the net assets plus accumulated translation differences is recognized in the income statement.

Intangible assets

Intangible assets are recorded among assets at purchase cost when the use of the asset is likely to generate future income and when the cost of the asset can be reliably established. Intangible assets acquired through business combinations are recorded at fair value as established at the purchase date, if this value can be reliably established. Intangible assets with a finite useful life are amortized on a straight line basis over their estimated useful life; the useful life is reviewed on an annual basis and any changes, where necessary, are applied on a prospective basis.

The useful lives of the main categories of intangible assets with a finite useful life are the following:

	Useful life
Software development costs	3-5 years
Industrial patents and intellectual property rights	2-5 years
Concessions, licenses and trademarks	10 years
Key-money (*)	On the basis of the residual duration of the asset's lease contract

(*) this is the main component of the category "Other intangible assets with a finite useful life"

Development costs

Research costs are charged to the income statement when they are incurred.

Development costs incurred in relation to a particular project are capitalized only when the Group can demonstrate the technical possibility of completing the intangible asset in such a way as to make it available for use or for sale, as well as its intention to complete the asset in order to use it or sell it, the means by which it will generate probable future income, the availability of technical, financial or other resources to complete the development and its ability to make a reliable assessment of the cost attributable to the asset during its development.

During the development period, the asset is reviewed annually to record any impairment. Following the initial recognition, development costs are assessed at cost

less any accumulated amortization or loss. Amortization of the asset starts when the development is completed and the asset is available for use. It is amortized in reference to the period in which the project is likely to generate revenues for the Group. During the period in which the asset is not yet being used, it will be reviewed annually to record any impairment.

Industrial patents and intellectual property rights

Industrial patents and intellectual property rights refer to costs for software licenses and to costs for the deposit and registration of trademarks and patents relating to Group products.

Concessions, licenses, trademarks and similar rights

This item refers to costs for the deposit and registration of the Salvatore Ferragamo trademark. Purchase costs are amortized over the useful life of the right purchased.

Other intangible assets with a finite useful life

This item mainly refers to the sums paid to lease property by taking over existing contracts or by obtaining the withdrawal of lessees so as to be able to enter into new contracts with the lessors (key-money). These charges are amortized over the duration of the lease contract.

Investments in associated and jointly controlled companies

An associated company is a company over which the Group exercises significant influence and which cannot be classified as a subsidiary or a joint venture.

A joint venture is a contract agreement under which one or more parties undertake business subject to joint control; a jointly controlled company is a joint venture which entails the establishment of a distinct company in which each participant has an investment.

The Group accounts its investments in associated companies and joint ventures for using the Equity Method.

The application of this principle entails the recognition in the balance sheet of the cost increased by changes occurred after the acquisition, in the Group's share of the associated company's net assets. Goodwill is included in the book value of the

investment and is not subject to amortization. Following the application of the Equity Method, the Group determines whether it is necessary to record any additional impairment in relation to the net investment. The income statement reflects the Group's share of the company's profit for the year. Should a company record adjustments directly attributable to shareholders' equity, the Group recognizes its share and, where applicable, shows it in the statement of changes in shareholders' equity. Any unrealized gains or losses arising from transactions between the Group and the investee company are eliminated in proportion to the investment.

The accounting year-end date for associated companies and joint ventures is aligned with that for the Group; the accounting principles used comply with those used by the Group for similar transactions and events occurring in similar circumstances.

Available-for-sale financial assets

Available-for-sale financial assets are those financial assets, excluding derivatives, which have been designated as such or which are not classified in another financial instrument category. After their initial recognition, available-for-sale financial assets are valued at fair value and the gains and losses are recorded in a separate heading under shareholders' equity. Investments in other companies, representing non current financial assets which are not held for trading (so-called "available for sale" investments), are initially recognized at fair value. Subsequently, gains and losses deriving from changes in fair value are charged directly to shareholders' equity until the assets are sold or impaired; in that moment overall gains or losses which have been previously recognized under shareholders' equity are charged to the income statement for the period. Investments in other smaller companies for which no market price is available, are recognized at cost, possibly written down for impairment.

Financial assets and other non current assets

These assets are valued based on amortized cost, using the effective interest rate method, net of any provision for impairment.

The amortized cost is calculated by considering all purchase discounts or premiums and includes fees, which are an integral part of the effective discount rate and of the transaction costs.

Inventories

Inventories are valued at the lower of purchase and/or production cost, determined using the weighted average cost method, and the net realizable value. Purchase cost includes ancillary charges; production cost includes direct costs and a share of indirect costs which may be reasonably attributable to products. The presumed net realizable value is the normal estimated sale price less the estimated costs to complete the product and the estimated costs to complete the sale.

Trade receivables

Receivables are initially recognized at fair value, which generally corresponds to the nominal value and subsequently at amortized cost and are written down for impairment. In addition, they are adjusted to their presumed realizable value by recording a specific adjustment provision.

Receivables denominated in a currency other than the accounting currency are recorded at the exchange rate in force on the date of the transaction and, subsequently, are converted at the year-end exchange rate. The translation profit or loss is charged to the income statement.

Other receivables and other financial assets

They are initially recognized at fair value and are subsequently valued using the amortized cost method.

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the balance sheet when:

- the rights to receive cash flows from the asset have expired;
- the Group maintains the right to receive cash flows from the asset, but has entered into a contract obligation to pay them in full and immediately to a third party;
- the Group has transferred the right to receive the cash flows from the asset and (a) has transferred substantially all the risks and benefits relating to the ownership of the financial asset or (b) has not transferred substantially all the risks and benefits relating to the asset, but has transferred control of the asset.

When the Group has transferred the rights to receive cash flows from an asset and has neither transferred nor maintained substantially all the risks and benefits or has not lost control over the asset, the asset is recorded in the Group's financial statements to the extent of the Group residual involvement in the asset itself. Residual involvement which takes the form of a guarantee over the transferred asset is valued at the lower of the initial book value of the asset and the maximum amount which the Group might be required to pay.

When the residual involvement takes the form of an option which has been issued and/or acquired in relation to the transferred asset (including cash-settled or similar options), the Group's involvement corresponds to the amount of the transferred asset which the Group may repurchase; however, in the case of a put option issued over an asset measured at fair value (including cash-settled or similar options), the Group's residual involvement is limited to the lower of the fair value of the transferred asset and the exercise price of the option.

Cash and cash equivalents

Cash and short-term deposits refer to cash in hand and sight/short-term deposits, in the latter case originally expiring in no more than three months.

Assets of disposal group classified as held for sale

This item includes non current assets, whose book value will be recovered mainly through their sale rather than through their continued use. Assets classified as held for sale are valued at the lower of their net book value and their present value net of sale costs.

Interest-bearing loans & borrowings

Loans are initially recognized at cost, corresponding to the fair value of the amount received, net of ancillary charges to take out the loan. Following initial recognition, loans are valued at amortized cost, using the effective interest method.

Provisions for risks and charges

Provisions for risks and charges are allocated when the Group must meet a current (legal or implicit) obligation resulting from a past event, whose occurrence is deemed as likely and whose amount can be reasonably estimated.

When the Group believes that an allocation to the provision for risks and charges will be partly or fully reimbursed, for example in the case of risks covered by insurance policies, the compensation is recorded separately among assets if, and only if, it is certain. In this case, in the income statement the cost of any allocation is shown net of the amount recorded for the compensation.

If there is a significant effect from discounting the value of money, the allocations are discounted using a pre-tax discount rate which reflects, where appropriate, the specific risks of the liabilities. When the discounting is carried out, the increase in the allocation due to the passing of time is recorded as a financial charge.

Employee benefit liabilities

The Group's net obligation deriving from defined-benefit plans is calculated separately for each plan by estimating the amount of the future benefit which employees have accrued in return for the service provided in the current and previous years; this benefit is discounted in order to calculate the present value. Actuarial gains and losses are charged to shareholders' equity, as allowed by IAS 19.

As from 1 January 2007, for Italian companies, the Finance Bill 2007 and the related implementation decrees introduced important changes to the regulation of employee severance indemnities, including the worker being able to choose the destination of his or her accruing indemnities, to either complementary pension funds or to the fund (*Fondo di Tesoreria*) managed by INPS (Italian Social Security Agency).

It, therefore, follows that the obligation to INPS and contributions to complementary pensions, pursuant to IAS 19, become "Defined-contribution plans", while the amounts recorded in the provision for employee severance indemnities accrued until 31.12.2006 are still "Defined-benefit plans". The legislative changes which have occurred as from 2007 have, in addition, entailed a recalculation of the actuarial assumptions and the consequent calculations used to determine employee severance indemnities, whose effects are directly charged to the income statement.

The actuarial assessment of the liabilities has been entrusted to an independent actuary.

Financial instruments

Financial instruments are initially recorded at fair value and, following their initial recognition, are valued in relation to their classification, pursuant to International Accounting Standard 39.

For financial assets, this treatment is differentiated among the following categories:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets.

In reference to financial liabilities, just two categories are available:

- Financial liabilities at fair value through profit or loss
- Liabilities at amortized cost.

The methods for determining fair value in reference to these financial instruments, for accounting or disclosure purposes, are summarized below in reference to the main financial instrument categories, to which they have been applied:

- Derivatives: adequate pricing models have been adopted, based on the market values of interest and exchange rates;
- Receivables and payables and unlisted financial assets: for financial instruments expiring after more than 1 year, the discounted cash flow method has been applied, i.e. the discounting of expected cash flows given current interest rate and creditworthiness conditions;
- Listed financial instruments: the market value at the reference date is used.

Derivatives

Derivatives are used solely with the intent of hedging financial risks relating to exchange rate changes affecting commercial transactions in foreign currency.

In keeping with the provisions of IAS 39, hedge derivatives can be accounted for in accordance with the methods established for hedge accounting only when:

- a) at the start of the hedge, there is formal designation and documentation of the hedge itself;
- b) the hedge is likely to be highly effective;
- c) the effectiveness can be reliably measured; and

- d) the hedge itself is highly effective during the various accounting periods for which it is designated.

All derivatives are measured at fair value. When derivatives possess the features to be accounted for in accordance with hedge accounting, the following accounting treatments are applied:

- a) Fair value hedge – if a derivative is designated as a hedge against changes in the present value of an asset or a liability which may have an impact on the income statement, the gain or loss arising from subsequent valuations of the present value of the hedging instrument is recorded in the income statement, as is the gain or loss on the item being hedged.
- b) Cash flow hedge – if a derivative is designated as a hedge against the changes in cash flows from an asset or liability or from a transaction which is considered as highly likely and which could affect the income statement, the effective portion of the gains or losses on the derivative is recorded under shareholders' equity; the accumulated gain or loss is reversed from shareholders' equity and charged to the income statement in the same period in which the hedged transaction is recorded; the gain or loss associated with a hedge or that part of the hedge which has become ineffective, is recorded in the income statement when its ineffectiveness is recognized.

Should the conditions to apply hedge accounting not exist, the effects arising from the fair value assessment of the derivative are charged directly to the income statement.

Revenues and costs

Revenues and costs are shown in accordance with the accruals principle. Revenues and income are recorded net of returns, discounts, allowances and premiums.

Revenues for product sales are recognized when ownership is transferred, which generally corresponds to the shipment of goods.

Revenues for royalties are recorded on an accrual basis in accordance with contract conditions.

The costs of advertising and research, in accordance with IAS 38, are charged in full to the income statement.

Share-based payment plans - stock option

The Group recognizes additional benefits to some employees with particular positions, through stock options which are part of the “equity-settled” category, since they provide for the physical delivery of shares. In accordance with the provisions of IFRS 2 – Share-based payments – stock options in favor of employees are valued at fair value when they are granted, and this value is determined using the binomial model. This model takes account of all the features of the options (duration of the option, exercise price and conditions, etc.), as well as the value of the underlying shares at the grant date and their expected volatility.

If the options can be exercised after a certain period (vesting period) and on the occurrence of specific performance conditions, the overall value of the options is divided pro rata temporis over this period and is recorded in a separate item under shareholders’ equity.

At the end of each year, the fair value of the options which has been determined previously is not reviewed, but on this date the estimate of the number of options which will vest up to the expiry is updated.

If the right to exercise the options is cancelled or settled during the vesting period (unless it is an award which is revoked for cancellation when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as if vesting occurred previously and therefore the cost which would otherwise have been recorded for the services received in the residual vesting period, is recorded immediately.

Interest

Financial income and charges are recorded on an accrual basis according to the interest accrued on the net value of the related financial assets and liabilities, using the effective interest rate.

Dividends

Dividends are recorded when the shareholders’ right to receive payment arises.

Income taxes

Current taxes

Taxes reflect a realistic estimate of the tax burden, determined by applying the law in force in the countries where the Ferragamo Group operates; the amount payable for current taxes is recognized in the balance sheet net of any tax advances paid.

Deferred taxes

Deferred taxes are calculated on the temporary differences between the fiscal values taken as a reference for assets and liabilities and the values shown on the financial statements existing at the financial statements date.

Deferred tax liabilities are recorded for all taxable temporary differences, except:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or a liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no effect on the profit/(loss) for the year calculated for financial statement purposes or on the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences associated with investments in subsidiaries, associated companies and joint ventures, when the reversal of temporary differences may be managed and it is not likely to occur in the foreseeable future.

Deferred tax assets are recorded against all deductible temporary differences and for tax assets and liabilities which are carried forward, to the extent that adequate future tax profits are likely to exist which make it possible to use the deductible temporary differences and the tax assets and liabilities which have been carried forward, except when:

- the deferred tax asset connected to deductible temporary differences arises from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, does not affect profit/(loss) for the year calculated for financial statement purposes or the profit or loss calculated for tax purposes;
- in reference to taxable temporary differences associated with investments in subsidiaries, associated companies and joint ventures, deferred tax assets are only recorded to the extent that the deductible temporary differences are likely to be reversed in the immediate future and there are adequate tax profits against which the temporary differences may be used.

The value to be recorded for deferred tax assets is reviewed at each financial statements date and is reduced to the extent that it is no longer likely that sufficient tax profits will be available in the future so as to allow all or part of this credit to be used. Unrecognized deferred tax assets are reviewed annually at the financial statements date and are recorded to the extent that it has become likely that the tax profit is sufficient to ensure that these deferred tax assets can be recovered.

Deferred tax assets and liabilities are measured on the basis of the tax rates which are expected to be applied in the year in which the assets are realized or the liabilities are extinguished, taking into account the rates in force and those already issued or basically issued at the financial statements date.

Income taxes relating to entries recorded directly under shareholders' equity are charged directly to shareholders' equity and not to the income statement.

Deferred tax assets and liabilities are offset, when there is a legal right to offset current tax assets against current tax liabilities and the deferred taxes refer to the same fiscal entity and the same tax authority.

Value added tax

Revenues, costs and assets are recorded net of valued added tax except when:

- this tax, applied to the purchase of goods or services, is non-deductible, in which case it is recognized as part of the purchase cost of the asset or part of the cost item charged to the income statement;
- it refers to trade receivables and payables for which the invoice has already been issued or received and which are shown including the tax amount.

The net amount of indirect taxes on sales and purchases which may be recovered from or paid to the Inland Revenue Office is recorded among other receivables or payables depending on the nature of the balance.

Earnings per share

Basic earnings per share is calculated by dividing the Group net result by the weighted average number of shares in circulation during the year. For the purposes of calculating the diluted earnings per share, the weighted average number of the shares in circulation is modified by assuming the conversion of all the potential shares with a diluting effect. The net result is also adjusted to take account of the impact, net of taxes, of the conversion.

Changes in international accounting standards

The accounting standards adopted are the same as those used in the previous year, except for the following new or revised IFRS and IFRIC interpretations adopted by the Group during the year. The adoption of these revised standards and interpretations has not had any significant impact on the Group's annual report, but they have given rise to additional disclosure.

IFRIC 12 – Service concession arrangements.

This interpretation was issued in November 2006; it is applied to service concession operators and defines the methods for recognizing the obligations entered into and the rights received under a concession contract. No Group company operates under this type of contract; consequently the interpretation has no impact on the Group.

IFRIC 14 (an interpretation of IAS 19) – Assets for defined-benefit plans and minimum hedging criteria

This interpretation provides a guide on how to determine the limit on the highest value of a defined-benefit plan which can be recognized in accordance with the provisions of IAS 19 - Employee benefits. The Group's defined-benefit plans have had no impact on the consolidated annual report due to the adoption of the interpretation.

IFRS and IFRIC interpretations not yet in force

During 2008 the IASB issued a series of new standards, interpretations and amendments to the existing standards that will become applicable for annual reports beginning on or after 01.01.2009.

The Group has not yet early adopted the following new standards and interpretations and believes that their adoption will have no significant impact on the annual report.

IFRS not yet in force

IFRS 8 Operating segments

IFRS 8 – Operating segments will be applicable as from 1 January 2009 in place of IAS 14 – Segment reporting. This standard requires disclosure of information regarding the Group’s operating segments and replaces the requirements for the determination of the Group’s primary (business) and secondary (geographic) sectors. The new accounting standard requires the company to base segment information on the elements which the management uses to take its operating decisions, and therefore requires the identification of the operating segments on the basis of internal reporting which is regularly reviewed by management to allocate resources to the various segments and to analyze performance. The adoption of this standard does not produce any effect on the valuation of the annual report items.

IAS 1 Presentation of financial statements

Revised IAS 1 - Presentation of financial statements was approved in September 2007 and will come into force in the first accounting period following 1 January 2009. This standard separates the changes in shareholders’ equity relating to shareholders and non-shareholders. The statement of changes in shareholders’ equity will only include the breakdown of transactions with shareholders, while all changes relating to transactions with non-shareholders will be shown in a single item. In addition, the standard introduces the statement of comprehensive income, which contains all the revenue and cost items for the period recorded in the income statement, as well as every other revenue and cost item recorded. The statement of comprehensive income may be presented as a single statement or in two related statements. The Group is still evaluating whether to use one or two statements.

IAS 23 Capitalization of borrowing costs

On 29 March 2007 the IASB issued a revised IAS 23 – Capitalization of borrowing costs, which will be applicable as from 1 January 2009. The new version of the standard removes the options allowing companies to immediately recognize in the income statement financial charges incurred in relation to assets which usually need a certain period of time to be ready for use or sale. The standard will be applicable on a prospective basis to financial charges relating to assets capitalized as from 1 January 2009.

IFRS 2 – Share-based payment – Vesting conditions and cancellations

This change to IFRS 2, Share-based payment, was published in January 2008 and will come into force in the first accounting period following 1 January 2009. This standard restricts the definition of “vesting conditions” to a condition which includes an explicit or implicit obligation to provide a service. All other conditions are “non-vesting conditions” and must be taken into consideration to determine the fair value of the instrument representing the awarded share capital.

Should the bonus not vest as a consequence of the fact that it does not satisfy a “non-vesting condition” which is under the control of the entity or of the counterparty, this must be recognized as a cancellation.

The Group has not undertaken share-based payments with “non-vesting” conditions and, consequently, does not expect a significant impact in recognizing payment agreements based on options.

IFRS 3R Business combinations and IAS 27/R Consolidated and separate financial statements

The two revised standards were approved in January 2008 and will come into force from the first financial period following 1 July 2009. IFRS 3R introduces some changes in accounting for business combinations which will affect the amount of goodwill recorded, the profit/(loss) for the year in which the acquisition occurs and the profit/(loss) for subsequent years. IAS 27R requires that a change in the ownership of an investment held in a subsidiary be accounted for as a equity transaction. Consequently, this change will not affect goodwill, and will not give rise to either profits or losses.

In addition, the revised standards introduce changes in the accounting of a loss incurred by a subsidiary and also of the loss of control of the subsidiary. The changes introduced by IFRS 3R and IAS 27R must be applied on a prospective basis and will affect future acquisitions and transactions with minority shareholders.

Changes to IAS 32 and IAS 1 Puttable financial instruments

The changes to IAS 32 and IAS 1 will come into force in the first financial period after 1 January 2009. The change to IAS 32 requires some puttable financial instruments and obligations which arise on liquidation to be classified as equity instruments if particular conditions occur. The change to IAS 1 requires information on puttable options classified as equity to be provided in the notes.

Changes to IFRS 1 – First-time adoption of international accounting standards and IAS 27 Consolidated and separate financial statements.

The changes to IFRS 1 enable the entity to determine, in its first opening IFRS financial statements, the “cost” of the investments in associated companies, subsidiaries and joint ventures on the basis of IAS 27 or using the deemed cost.

The change to IAS 27 requires all dividends arising from subsidiaries, associated companies and joint ventures to be recorded in the income statement in the separate financial statements. Both changes will be effective for financial periods starting on or after 1 January 2009. The change to IAS 27 must be applied on a prospective basis.

IAS 39 Financial instruments: recognition and measurement – Instruments qualifying for hedge accounting

These changes to IAS 39 were issued in August 2008 and are effective for financial periods starting on or after 1 July 2009. The change addresses the designation of the unilateral risks of a hedged instrument and the designation of inflation as a hedged risk or part of a hedged risk in particular situations. The change clarifies that the entity has the option of designating part of the fair value changes or of the change in cash flows of the financial instrument as a hedged instrument. The Group has concluded that the change will have no impact on the Group’s financial position or operating performance since it does not have any current transactions of this type.

Improvements to IFRS

In May 2008 the Board issued its first overall amendment to the standards, mainly to remove inconsistencies and to clarify its tone. Various transitional provisions are recognizable for each of the standards. The Group has not yet adopted the following changes and believes that they will not have a significant impact on the annual report.

IFRS 7 Financial instruments - disclosure:

This eliminates the reference to overall interest income as a part of financial costs.

IAS 8 Accounting policies, changes in accounting estimates and errors:

This clarifies that, when choosing an accounting policy, the application of the guide to implementation is obligatory only when this is an integral part of the international accounting standard (IFRS) involved.

IAS 10 Post-balance-sheet events:

This clarifies that dividends declared after the end of the year must not be recorded as liabilities since there is no obligation at the financial statements date.

IAS 16 Property, plant and equipment:

Elements of property, plant and equipment held to be leased and which, at the end of the lease contract, are systematically sold, must be classified among inventories at the end of the lease contract, when they become available for sale.

IAS 18 Revenues:

Replacement of the term “direct costs” with “transaction costs” as defined by IAS 39.

IAS 19 Employee benefits:

Change in the definition of “past service cost”, “returns on plan assets”, “short-term benefits” and “other long-term benefits”. Changes to a plan which result in a cut in benefits for future services are accounted for as a reduction. The reference to the recognition of contingent liabilities has been eliminated to ensure consistency with IAS 37.

IAS 20 Government grants:

Loans granted in the future which are either interest free or bearing interest below market rates will not be exempt from the requirement to charge interest. The difference between the amount received and the amount shown is accounted for as a government grant. In addition, terminology has been revised to ensure consistency with the other IFRS.

IAS 27 Consolidated and separate financial statements:

When a parent company accounts for its subsidiaries at fair value in accordance with IAS 39 in its separate financial statements, this treatment also continues when the subsidiary is classified as held for sale.

IAS 29 Financial reporting in hyperinflationary economies:

There has been a change in the reference to the exception which enables the measurement of assets and liabilities at historic cost, specifying that property, plant and equipment are an example and not an exhaustive list. In addition, terminology has been revised to ensure consistency with the other IFRS.

IAS 34 Interim financial reporting:

Earnings per share in the interim financial reports is part of the application of IAS 33.

IAS 39 Financial instruments: recognition and measurement:

Changes in the circumstances relating to derivatives are not a reason for reclassification and therefore derivatives cannot be removed from or included in the category “at fair value through profit or loss”. The reference to “segment” in IAS 39 has been eliminated in determining whether an instrument qualifies as a hedge. It is necessary to use the effective rate of return in remeasuring a debt instrument when it ceases to apply hedge accounting for fair value hedges.

IAS 40 Investment property:

Its scope has been redefined so that investment property under construction or development to be subsequently held as investment property are classified as investment property.

If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until fair value can be determined or until construction completion.

In addition, it has been clarified that the fair value of the investment property held through lease reflects the expected cash flows (including the potential rent which is likely to be collected). Consequently, if a valuation made for a property is net of all expected payments, it will be necessary to add back any liabilities accounted for as arising from the lease in order to calculate the fair value of the investment property for accounting purposes.

Finally, the conditions have been revised for a voluntary change in accounting policies in order to be consistent with IAS 8.

IAS 41 Agriculture:

The reference to the pre-tax discount rate for the determination of fair value, as well as the ban on considering cash flows deriving from any subsequent transformation in estimating the fair value, have been eliminated. Finally, the term “point-of-sale costs” has been replaced with “selling costs”.

IFRIC Interpretations not yet in force

It should be noted that the following interpretations have been issued and are not yet in force:

IFRIC 13 – Customer loyalty programmes (applicable as from 1 January 2009)

IFRIC 15 Agreements for the construction of real estate (applicable as from 1 January 2009 and not yet endorsed by the European Union).

- *IFRIC 16 Hedges of a net investment in a foreign operation* (applicable as from 1 January 2009 and not yet endorsed by the European Union).

3. Business combinations and purchases of minority interests

Acquisition of 51% of Nelia Retail Private Limited, an Indian company based in New Delhi

On 12 September 2008, the Group, through the subsidiary Ferragamo International B.V., acquired control of the Indian company Nelia Retail Private Limited by subscribing 51% of the shares with voting rights following the increase in the share capital wholly destined to the Ferragamo Group. Minority interests (49%) are held by DLF Retail Brands Pvt. Ltd. The company is engaged in developing the Ferragamo Core business in the Indian market. It should be noted that in the period from the acquisition to the end of the year the company arranged to open 3 new stores and restructure the store already managed by the franchisee which existed prior to the creation of the joint venture with the minority partner DLF.

The data for the transaction may be summarized as follows:

(In thousands of Euro)	Value prior to combination	Fair value adjustments	Fair value on acquisition
Property, plant and equipment	1,317		1,317
Intangible assets with a finite useful life	937		937
Guarantee deposits	258		258
Deferred tax assets	80		80
Inventories	1,163		1,163
Trade receivables	25		25
Other receivables	167		167
Cash and cash equivalents	1,268		1,268
	5,215		5,215
Deferred tax liabilities	(320)		(320)
Trade payables	(1,032)		(1,032)
Interest-bearing loans & borrowings	(1,784)		(1,784)
Other payables	(215)		(215)
	(3,351)		(3,351)
Net assets	1,864		1,864
Minority interests (49%)			(913)
Net assets acquired			951
Goodwill			260
Total cost of acquisition			1,211

From the date of acquisition (12.09.08) to the year end, Nelia Retail Private Limited contributed a loss of 486 thousand Euro to the Group's year-end result.

The goodwill recorded at the date of acquisition (260 thousand Euro) refers to the commercial and organizational know-how of the company purchased.

This acquisition determined a cash outflow of 1,211 thousand Euro; the cash and cash equivalents acquired amounted to 1,268 thousand Euro; the net cash outflow was positive for 57 thousand Euro.

Comments on the main balance sheet and income statement items

NOTES TO THE BALANCE SHEET

4. Property, plant and equipment

The historic cost, the accumulated depreciation and the net book value of the item “Property, plant and equipment” at 31 December 2008 and 2007 are shown in the following table:

Property, plant and equipment		31 December 2008		
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Land	17,395	-	17,395	
Buildings	35,414	10,885	24,529	
Plant and equipment	12,435	10,665	1,770	
Industrial and commercial equipment	68,874	39,841	29,033	
Other assets	28,079	21,857	6,222	
Improvements to third-party assets	62,518	33,819	28,699	
Fixed assets in progress and payments on account	4,310	-	4,310	
TOTAL	229,025	117,067	111,958	

Property, plant and equipment		31 December 2007		
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Land	19,338		19,338	
Buildings	35,574	10,024	25,550	
Plant and equipment	11,016	10,250	766	
Industrial and commercial equipment	58,098	32,274	25,824	
Other assets	30,660	24,708	5,952	
Improvements to third-party assets	55,260	27,595	27,665	
Fixed assets in progress and payments on account	156		156	
TOTAL	210,102	104,851	105,251	

The following tables show the change in tangible assets for the year ended 31 December 2008 and 2007:

Property, plant and equipment		31 December 2007						
(In thousands of Euro)	Value 31.12.2006	Translation difference	Additions	Disposals	Depreciation	Reclassifications	Demerger	Value 31.12.2007
Land	26,642	(1,271)	-	(258)	-	18	(5,793)	19,338
Buildings	28,425	(1,430)	167	-	1,406	(206)	-	25,550
Plant and equipment	928	(6)	363	-	519	-	-	766
Industrial and commercial equipment	28,304	(1,089)	7,623	(265)	6,813	(1,936)	-	25,824
Other assets	5,740	(338)	2,671	(719)	3,156	1,754	-	5,952
Improvements to third-party assets	29,640	(2,961)	7,369	(71)	7,310	998	-	27,665
Fixed assets in progress and payments on account	79	(11)	743	-	-	(655)	-	156
TOTAL	119,758	(7,106)	18,936	(1,313)	19,204	(27)	(5,793)	105,251

Property, plant and equipment		31 December 2008						
(In thousands of Euro)	Value 31.12.2007	Translation difference	Additions	Disposals	Depreciation	Reclassifications	Change in consolidation area	Value 31.12.2008
Land	19,338	(1,943)	-	-	-	-	-	17,395
Buildings	25,550	(5)	255	49	1,320	-	-	24,529
Plant and equipment	766	(3)	1,496	(64)	467	42	-	1,770
Industrial and commercial equipment	25,824	2,170	8,490	(61)	7,127	(265)	2	29,033
Other assets	5,952	(93)	3,911	(629)	2,704	(229)	14	6,222
Improvements to third-party assets	27,665	464	8,387	(67)	7,832	-	82	28,699
Fixed assets in progress and payments on account	156	135	4,463	(2,560)	-	883	1,233	4,310
TOTAL	105,251	725	27,002	(3,332)	19,450	431	1,331	111,958

The addition:

- in the item “Buildings” refers to improvements to the property owned in the USA and the facility at Osmanoro;
- in industrial and commercial equipment relates to the opening and restructuring of stores (7.8 million Euro) and moulds (0.7 million Euro) for the Fragrances business;

- in other assets mainly concerns IT equipment (1.3 million Euro) and furniture and furnishings (1.7 million Euro);
- in improvements to third-party assets refers mainly to work carried out for the opening or restructuring of stores.

The reference to a change in the consolidation area relates to the value of the tangible assets of the Indian company Nelia Retail Private Limited as determined at the purchase date.

Decreases refer largely to the disposal of assets in restructured or closed stores and, as regards the item “Other assets”, to the sale of furniture and furnishings by the Parent company to Palazzo Feroni Finanziaria SpA (related party) as indicated in the section “non-recurring transactions” in the Board of Directors’ report on operations.

5. Investment property

The historic cost, the accumulated depreciation and net book value of investment property at 31 December 2008 and 2007 are shown in the following table:

Investment property	31 December					
	2008			2007		
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE
Land	4,022	-	4,022	3,802	-	3,802
Buildings	9,465	5,666	3,799	8,948	5,073	3,875
Improvements to third-party assets	-	-	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-	-	-
TOTAL	13,487	5,666	7,821	12,750	5,072	7,677

Investment property refers wholly to the buildings located in the United States of America. Their residual useful life at 31 December 2008 is estimated at approximately 30 years.

The following tables show the change in investment property for the years ended 31 December 2008 and 2007:

Investment property	31 December 2007			
	Value 31.12.2006	Translation difference	Depreciation	Value 31.12.2007
(In thousands of Euro)				

Land	4,250	(448)	-	3,802
Buildings	4,651	(469)	307	3,875
Improvements to third-party assets	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-
TOTAL	8,901	(917)	307	7,677

Investment property		31 December 2008		
(In thousands of Euro)				
	Value 31.12.2007	Translation difference	Depreciation	Value 31.12.2008
Land	3,802	220	-	4,022
Buildings	3,875	208	284	3,799
Improvements to third-party assets	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-
TOTAL	7,677	428	284	7,821

6. Intangible assets with a finite useful life

The breakdown of intangible assets with a finite useful life at 31 December 2008 and 2007 is shown in the following table:

Intangible assets with a finite useful life		31 December 2008		
(In thousands of Euro)				
		HISTORIC COST	ACCUMULATED AMORTISATION	NET VALUE
Software development costs		864	17	847
Industrial patents and intellectual property rights		8,576	7,690	886
Concessions, licenses and trademarks		6,036	4,465	1,571
Others		21,846	12,254	9,592
Intangible assets with a finite useful life in progress and payments on account		1,095	-	1,095
TOTAL		38,417	24,426	13,991

Intangible assets with a finite useful life		31 December 2007		
(In thousands of Euro)				
		HISTORIC COST	ACCUMULATED AMORTISATION	NET VALUE
Software development costs				
Industrial patents and intellectual property rights		7,778	6,956	822
Concessions, licenses and trademarks		8,038	6,479	1,559

Others	18,907	10,397	8,510
Intangible assets with a finite useful life in progress and payments on account	882		882
TOTAL	35,605	23,832	11,773

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2008 and 2007:

Intangible assets with a finite useful life		31 December 2007					
(In thousands of Euro)							
	Value 31.12.2006	Translation difference	Additions	Disposals	Amortization	Reclassifications	Value 31.12.2007
Software development costs	-	-	-	-	-	-	-
Industrial patents and intellectual property rights	389	(9)	1,410	-	995	27	822
Concessions, licenses and trademarks	1,618	-	343	-	402	-	1,559
Others	10,689	(562)	63	-	1,680	-	8,510
Intangible assets with a finite useful life in progress	121	(70)	947	(116)	-	-	882
TOTAL	12,817	(641)	2,763	(116)	3,077	27	11,773

Intangible assets with a finite useful life		31 December 2008						
(In thousands of Euro)								
	Value 31.12.2007	Translation difference	Additions	Disposals	Amortization	Reclassifications	Change in consolidation area	Value 31.12.2008
Software development costs	-	-	864	-	17	-	-	847
Industrial patents and intellectual property rights	822	36	752	-	731	7	-	886
Concessions, licenses and trademarks	1,559	-	396	-	384	-	-	1,571
Others	8,510	356	631	-	1,297	445	947	9,592
Intangible assets with a finite useful life in progress	882	2	2,116	(1,023)	-	(883)	1	1,095
TOTAL	11,773	394	4,759	(1,023)	2,429	(431)	948	13,991

At 31 December 2008, the amortization rate for the cost of software licenses included in the category “Industrial patents and intellectual property rights” was adjusted from 50% to 33% in light of the redetermination of the average useful life of the income benefits at 3 years. This change in the useful life has a limited impact.

The item “Software development costs” relates to the capitalization of expenses (mainly IT consultancy) for the development of business software applications (SAP, ERP, reporting systems).

The change in the consolidation area refers to the value of the intangible assets of the Indian company Nelia Retail Private Limited determined at the purchase date.

Other intangible assets refer mainly to the sums paid to obtain the use of leased property by taking over existing contracts or by obtaining the withdrawal of the lessees in such a way as to be able to enter into new contracts with the lessors (key-money). In relation to the Asia region, it also includes compensation paid by the Indian company Nelia Retail Private Limited (834 thousand Euro) for the early termination of the previous franchise contract.

In the following table the total amount and distribution by geographic area are shown:

Key - money	31.12.2008	31.12.2007
(In thousands of Euro)		
Italy	-	-
Europe (excluding Italy)	3,029	3,618
North America	3,469	3,472
Japan	-	-
Asia and Oceania	867	15
Central and South America	-	-
Total	7,365	7,105

7. Goodwill and intangible assets with an indefinite useful life

Goodwill and other intangible assets with an indefinite useful life	31 Dec. 2008			31 Dec. 2007		
(In thousands of Euro)						
	GROSS VALUE	WRITEDOWNS	NET VALUE	GROSS VALUE	WRITEDOWNS	NET VALUE
Goodwill	227	-	227	-	-	-
TOTAL	227	-	227	-	-	-

Goodwill and other intangible assets with an indefinite useful life	31 December 2008
(In thousands of Euro)	

	Value 31.12.2007	Additions	Disposals	Impairment	Translation difference	Value 31.12.2008
Goodwill	-	260	-	-	(33)	227
TOTAL	-	260	-	-	(33)	227

The value of goodwill deriving from the acquisition of 51% of the Indian company Nelia Retail Private Limited, as shown in Note 3 on business combinations and purchases of minority interests, has been adjusted to the period-end exchange rate, as required by the relevant standards, since it is denominated in an accounting currency other than the Euro (INR Indian rupees).

8. Investments in associated and jointly controlled companies

On 29 September 2006, the purchase was made of 50% of Zefer S.p.A., a 50/50 joint venture with the ZEGNA Group, on behalf of which the company handles the production of footwear and leather goods, making use of the consultancy and technical support of the Parent company (Salvatore Ferragamo Italia). The company has been valued using the Equity Method as from the purchase date.

9. Available-for-sale financial assets

The breakdown of available-for-sale financial assets at 31 December 2008 and at 31 December 2007 is set out in the following table:

Available-for-sale financial assets	31 December 2007					
(In thousands of Euro)	Investment percentage	Value 31.12.2006	Translation difference	Increases	Decreases	Value 31.12.2007
Polimoda srl	2.45%	20				20
Fondo Amphora	2.8%	28	(3)			25
TOTAL		48	(3)	-	-	45

Available-for-sale financial assets	31 December 2008				
(In thousands of Euro)					

	Investment percentage	Value 31.12.2007	Translation difference	Reclassifications	Increases	Write- downs	Value 31.12.2008
Polimoda srl	2.45%	20					20
Fondo Amphora	2.8%	25	2				27
Other assets		-	5	46	-	(24)	27
TOTAL		45	7	46	-	(24)	74

10. Other non current assets

The breakdown of the item “Other non current assets” at 31 December 2008 and 31 December 2007 is set out in the following table:

Other non current assets	31 December		Change
	2008	2007	
(In thousands of Euro)			
Advances to suppliers	1,500	1,500	-
Other	5,213	6,300	(1,087)
TOTAL	6,713	7,800	(1,087)

Advances to suppliers relate to royalty advances paid by Ferragamo Parfums S.p.A. to the owner of the Ungaro fragrances brand, as provided for by the license contract signed in November 2005. These advances will be recovered with the accrual of royalties as from 1.1.2010.

The item “Other” includes 5.0 million Euro for the impact relating to the straight line charging of rental income from the investment property in the USA, as provided for by the relevant standards.

11. Other non current financial assets

The breakdown of the item “Other financial assets” at 31 December 2008 and 31 December 2007 is set out in the following table:

Other non current financial assets	31 December		Change
	2008	2007	
(In thousands of Euro)			

Financial receivables from third parties due after 12 months	21	192	(171)
Guarantee deposits from third parties	5,348	3,382	1,966
Other receivables for long-term hedge derivatives	1,519	-	1,519
TOTAL	6,888	3,574	3,314

Guarantee deposits from third parties refer to guarantee deposits for existing rental contracts and is accounted for at amortized cost; the item “Other receivables for hedge derivatives” relates the fair value assessment of hedge derivatives (forward contracts) entered into by the Parent company to manage exchange rate risk and falling due after more than 12 months.

12. Deferred tax assets

The balances for deferred tax assets are shown in the following table; for details on the breakdown of the item please refer to note 46 *income taxes*.

Deferred tax assets	31 December		
	2008	2007	Change
(In thousands of Euro)			
Total	50,955	38,351	12,604

13. Inventories

Final inventories refer to the following categories:

Inventories	31 December		
	2008	2007	Change
(In thousands of Euro)			
Raw materials, accessories and consumables	34,605	37,386	(2,781)
Provision for obsolete inventory	(6,564)	(8,462)	1,898
Raw materials, accessories and consumables	28,041	28,924	(883)
Finished products and goods for resale	179,175	123,601	55,574
Provision for obsolete inventory	(15,036)	(4,815)	(10,221)
Finished products and goods for resale	164,139	118,786	45,353
TOTAL	192,180	147,710	44,470

The change in raw materials, compared to 2007, depends on production volumes; the provision reflects the obsolescence of raw materials (leathers and accessories) which

are no longer suitable for the company's production plans. The change in inventories of finished products is above all the consequence of the fall in sales volumes in the final part of the year and the exchange rate effect. The increase (+27.9%, net of the exchange rate effect) was +33.2 million Euro (exchange rate effect +12.2 million, in particular the Yen and US\$).

Provisions for obsolete inventory were as follows:

Provisions for obsolete inventory	31 December		Change
	2008	2007	
(In thousands of Euro)			
Raw materials	2,024	3,481	(1,457)
Finished products	10,918	7,171	3,747
Total	12,942	10,652	2,290

14. Trade receivables

The breakdown of the item is set out in the following table:

Trade receivables	31 December		Change
	2008	2007	
(In thousands of Euro)			
Trade receivables from third parties	69,217	64,767	4,450
Provision for bad debt	(3,076)	(2,943)	(133)
Trade receivables from related parties	22	132	(110)
TOTAL	66,163	61,956	4,207

For the terms and conditions on receivables from related parties please refer to the Section on transactions with related parties below.

Trade receivables for approximately 15.4 million Euro relate to the Fragrances business and the remainder to the Core business, essentially for wholesale sales. They are interest-free and are generally due in 90 days or less. The related provision for bad debt is considered adequate to meet any cases of insolvency. The changes in the provision during 2008 were as follows:

Provision for bad debt	31 December 2008
(In thousands of Euro)	

	Value 31.12.2007	Translation difference	Additions	Uses	Value 31.12.2008
Total	2,943	53	735	(655)	3,076

For an analysis of overdue trade receivables which have not been written down please refer to the section “Management of financial risks – Credit risk”.

15. Tax receivables

The breakdown of the item is set out in the following table:

Tax receivables	31 December		Change
	2008	2007	
(In thousands of Euro)			
- Due from tax authorities for VAT and other taxes	6,287	4,780	1,507
- Due from tax authorities for income taxes	4,994	2,330	2,664
- Withholding taxes	63	1	62
TOTAL	11,344	7,111	4,233

The increase in tax receivables can be broken down as follows: the increase in VAT receivables is due to higher volumes in the Fragrances business, while the increase in income taxes is due to the payment of tax advances during the year.

16. Other current assets

The breakdown of other current assets is set out in the following table:

Other receivables	31 December		Change
	2008	2007	
(In thousands of Euro)			
Other receivables from third parties within 12 months	16,717	10,907	5,810
Other receivables from associated and jointly controlled companies within 12 months	1,764	1,764	-
Other receivables from related parties	18	24	(6)
Accrued income	1,034	834	200
Prepaid expenses	5,932	2,661	3,271
Other receivables for short-term hedge derivatives	2,912	10,275	(7,363)
TOTAL	28,377	26,465	1,912

Other receivables from third parties refer to:

- receivables from tax authorities for the payment by the Parent company of tax assessment notices for a total of 7.7 million Euro following the provisional entry of taxes and interest relating to the tax assessment for 2001 and 2002, which is part of the tax dispute with tax authorities, started in previous years and set out in detail in the section “Significant events occurred during the year”;
- advances to suppliers (449 thousand Euro), receivables from credit card management companies for retail sales (721 thousand Euro);
- the current and overdue portion of the receivable from Ungaro (1 million Euro) which expires on 17.11.2009 and 1 million Euro which expired on 17.11.08, representing the balance of the payment for the sale of the Ungaro fragrances brand which occurred in 2005;
- receivables from lessees of the American property for 0.8 million Euro.

Receivables from jointly controlled companies relate to Zefer SpA, for the payment of technical consultancy/assistance services.

Accrued income refers to rents and contributions from customers, while prepaid expenses refer to rents for 2.9 million Euro and insurance premiums for 0.5 million Euro.

Other receivables for hedge derivatives of 2.9 million Euro (10.3 million in 2007) refer to the fair value assessment at year-end of outstanding derivative contracts (hedging component) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

17. Other current financial assets

The values were as follows:

Other current financial assets	31 December		Change
	2008	2007	
<small>(In thousands of Euro)</small>			
Derivatives	3,294	322	2,972
Other financial assets	203	17	186
TOTAL	3,497	339	3,158

18. Cash and cash equivalents

The breakdown of the item is set out in the following table:

Cash and cash equivalents	31 December		Change
	2008	2007	
<small>(In thousands of Euro)</small>			
Time deposits	46,791	28,976	17,815
Bank and post office deposits	31,058	35,855	(4,797)
Checks	-	-	-
Cash and values on hand	388	377	11
TOTAL	78,237	65,208	13,029

Time deposits at banks expire in no more than 90 days. Bank and post office deposits represent temporary cash holdings mainly to meet imminent payments.

At 31 December 2008 the Group had unused lines of credit for approximately 203 million Euro. At 31 December 2007 unused lines of credit totaled approximately 208 million Euro.

For the purposes of the consolidated cash flow statement, the item “Cash and cash equivalents” at 31 December was made up as follows:

Cash and cash equivalents net of bank overdrafts	31 December		Change
	2008	2007	
<small>(In thousands of Euro)</small>			
Cash and bank sight deposits	31,446	36,232	(4,786)
Short-term bank deposits	46,791	28,976	17,815
Bank overdrafts	(1,179)	(381)	(798)
TOTAL	77,058	64,827	12,231

19. Assets of disposal group classified as held for sale

At 31 December 2008 there were no assets of disposal group classified as held for sale.

20. Share capital and reserves

At 31 December 2008, share capital totaled 16,841 thousand Euro, was fully paid up and consisted of 16,841,000 shares with a par value of one Euro each, of which 8,757,320 were ordinary shares and 8,083,680 preferred shares, on the basis of the

provisions of art. 4 of the by-laws with limited voting rights pursuant to art. 2351, par. 2 of the Italian Civil Code. The ordinary shares, amounting to 52% of the share capital, are entirely held by Ferragamo Finanziaria S.p.A.

The changes in shareholders' equity items, occurred in 2008 and 2007, are shown in the related statements.

The reserves made up of profits refer to amounts relating to the legal reserve of the Italian companies belonging to the Group, which at 31 December 2008 totaled 4,331 thousand Euro, while that for the Parent company totaled 4,188 thousand Euro.

Italian law requires that 5% of net profit for the year is allocated to the legal reserve, until this reaches 20% of the share capital. This reserve may not be distributed.

Here below is a breakdown of all the other reserves and retained earnings:

Other reserves and retained earnings				
<i>OTHER RESERVES AND RETAINED EARNINGS</i>	<i>Reserves made up of profits</i>	<i>Translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
<i>(In thousands of Euro)</i>				
At 31 December 2008				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	492	-	-	492
Cash flow hedge reserve	-	-	(10,976)	(10,976)
Translation reserve	-	(42,922)	-	(42,922)
Retained earnings	145,258	-	-	145,258
Provision as per art. 55	-	-	1	1
Other reserves	-	-	8,235	8,235
TOTAL	149,938	(42,922)	255	107,271

Other reserves and retained earnings				
<i>OTHER RESERVES AND RETAINED EARNINGS</i>	<i>Reserves made up of profits</i>	<i>Translation reserve</i>	<i>Other reserves</i>	<i>Total</i>
<i>(In thousands of Euro)</i>				
At 31 December 2007				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	359	-	-	359
Cash flow hedge reserve	-	-	7,885	7,885
Translation reserve	-	(49,460)	-	(49,460)
Retained earnings	114,466	-	-	114,466
Provision as per art. 55	-	-	1	1
Other reserves	-	-	8,479	8,479

TOTAL	119,013	(49,460)	19,360	88,913
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Share capital contributions, which refer entirely to the Parent company, were paid in one amount in 2003 by Ferragamo Finanziaria S.p.A. and were reduced in 2007, due to demerger, by 2,815 thousand Euro.

The legal reserve is commented on above.

The extraordinary reserve, which refers entirely to the Parent company, was made up with retained earnings; the increase recorded in the year relates to the residual profit of the previous year, net of the dividend distribution, for 7,477 million Euro made during the year.

The cash flow hedge reserve is recorded against exchange rate hedge transactions carried out by the Parent company, with regard to exports in currencies other than the Euro.

The translation reserve reflects value changes in the Group share of shareholders' equity of the consolidated companies, due to changes in the exchange rates of the companies' functional currencies compared to the presentation currency. This change was caused largely by the fluctuation of the exchange rate of the US dollar, then the yen and, finally, other currencies.

Retained earnings include the capitalization of the profits realized in the years, taking due account of the consolidation adjustments, in particular unrealized profit on inventories. In 2008 this item increased by 30.8 million Euro due to the capitalization of the 2007 profit.

The item "Other reserves" refers to the values recorded for valuation differences required by IAS compared to the local standards adopted by Group companies.

The reconciliation statement between the Parent company's profit/(loss) for the year and shareholders' equity and the corresponding consolidated values is given below:

Reconciliation statement between the Parent company's profit/(loss) for the year and shareholders' equity and the corresponding consolidated values		Shareholders' equity	Profit/(Loss) for the year
31 December 2008			

(In thousands of Euro)

Statutory annual report of the Parent company	74,147	24,151
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Difference between the shareholders' equity of the consolidated investments and the book value of the investee companies	169,520	
Profit/(Loss) recorded by the investee companies		14,761
Valuation of associated companies using the Equity Method	599	415
Dividends distributed among Group companies		(5,300)
Elimination of write-downs on consolidated investments		10,704
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(41,544)	(13,732)
Effect of IAS 39 - cash flow hedge reserve, net of deferred tax effect	(10,976)	
Other consolidation entries	3,777	7,884
Total consolidated shareholders' equity	195,523	38,883
Minority interests - shareholders' equity and profit/(loss)	41,624	9,096
Total Group shareholders' equity and profit/(loss)	153,899	29,787

Here below is an analysis of the items which make up the shareholders' equity of the Parent company Salvatore Ferragamo Italia S.p.A. with reference to their availability and possibility of being distributed, as well as their use in the previous three years:

Shareholders' equity	Value at 31.12.08	Possibility of use	Amount available	Summary of uses made in the previous three years	
				For demerger	For dividends
Share capital	16,841			(6,759)	
<u>Share capital reserves</u>					
Revaluation reserve L.342/00	4,592	A - B	4,592	(2,217)	
Revaluation reserve L.350/03	7,421	A - B	7,421	(3,581)	
Revaluation reserve L.266/05	13,465	A - B	13,465	(6,499)	
Share capital contributions	2,995	A - B	2,995	(2,815)	
Provision as per Art. 55	1.4	A - B - C	1.4	(0.9)	
<u>Net profit reserves</u>					
Legal reserve	4,188	B	820	(2,021)	
Extraordinary reserve	492	A - B - C	492	(188)	(73,112)
Profit/(Loss) for the year	24,151		24,151		
Total	74,146.4		53,937.4	(24,080.9)	(73,112)

Key

- A - for share capital increase
- B - to cover losses
- C - for distribution to shareholders

The amount available in the extraordinary reserve excludes the part deriving from the portion of gains on exchange rate differences included in the profit/(loss) for the year, as provided for by art. 2426 of the Italian Civil Code.

The Parent company shareholders' equity includes the following revaluation reserves:

- Revaluation reserve as per L. 342/00 amounts to 4,592,671 Euro and shows the net positive balance at 31.12.2008 of the revaluation of assets under art. 10, Law 342/2000.
 - Revaluation reserve as per L. 350/03 amounts to 7,420,277 Euro and shows the net positive balance at 31.12.2008 of the revaluation of assets under Law 350/2003.
 - Revaluation reserve as per L. 266/05 amounts to 13,465,242 Euro and shows the net positive balance at 31.12.2008 of the revaluation of assets under Law 266/2005.
- No deferred taxes have been allocated to the revaluation reserves based on the assumption that full taxation for these reserves will be indefinitely deferred. Indeed, no transactions are likely to be carried out which would cause their distribution.

21. Provision for risks and charges

Here below is the breakdown and changes in the item:

Provisions for risks and charges	31 December 2007						
	Value 31.12.2006	Translation difference	Additions	Uses	Reclassifications	Change in consolidation area	Value 31.12.2007
Legal disputes	2,401	-	1,358	(59)		-	3,700
Opposition charges	5,442	-	1,000	(148)			6,294
Other operating charges	468	(1)	1,075	(100)	155	-	1,597
TOTAL	8,311	(1)	3,433	(307)	155	-	11,591

Provisions for risks and charges	31 December 2008						
	Value 31.12.2007	Translation difference	Additions	Uses	Reclassifications	Change in consolidation area	Value 31.12.2008
Legal disputes	3,700	-	10,599	(490)	(261)	-	13,548
Opposition charges	6,294	-	-	(502)	-	-	5,792
Other operating charges	1,597	4	1,930	(225)	339	-	3,645
TOTAL	11,591	4	12,529	(1,217)	78	-	22,985

Legal disputes mainly refer to legal proceedings against the Parent Company and some tax proceedings regarding foreign companies as well as labor disputes.

Labor disputes refer both to litigations and to estimates of settlement amounts which the Group companies might pay for settlement in the pre-litigation stage.

Future costs reflect the estimate of opposition charges in regard to irregularities notified by the Italian tax authorities to Ferragamo International BV, whose residence for tax purposes is claimed to be in Italy. The amount is considered suitable for the expenses to be incurred at all levels of judgment.

The provision for other risks includes allocations made against likely future costs of various kinds as well as to cover any charges for goods returned by our wholesale customers for collections delivered during 2008. This amount includes the additional allowance set aside by Ferragamo Parfums SpA and Salvatore Ferragamo Italia SpA for agents operating in Italy.

22. Employee benefit liabilities

The following table shows the breakdown of employee benefits at 31 December 2008 and 31 December 2007:

Employee benefit liabilities	31 December	
	2008	2007
(In thousands of Euro)	Value	Value
	31.12.2008	31.12.2007
Employee benefit liabilities (severance indemnities)	7,790	8,098
Employee benefit liabilities (other)	1,909	1,149
TOTAL	9,699	9,247

Employee severance indemnities

Employee severance indemnities refer to employees of the two Italian companies (the Parent company and Ferragamo Parfums SpA). The following table sets out the changes occurred during the year:

Employee severance indemnities	31 December	
	2008	2007
(In thousands of Euro)	Value	Value
	31.12.2008	31.12.2007
Present value of the obligation at the beginning of the period	8,098	9,382

Reduction in the plan due to law changes (curtailment)		(1,140)
Cost relating to current employment	102	675
Financial charge	317	451
Benefits paid	(1,579)	(1,298)
Withholding tax		(37)
Actuarial loss (gain) recorded	852	65
Present value of the obligation at the end of the period	7,790	8,098

Following the adoption of IFRS, employee severance indemnities are considered a defined-benefit obligation to be accounted for in accordance with IAS 19 and, consequently, the related liability is valued on the basis of actuarial techniques. As noted in the summary of the main accounting principles, in 2007 Italian companies were affected by a legislative change, on the basis of which the provisions of IAS 19 regarding the treatment of employee liabilities for defined benefits are applied solely to those benefits which accrued up to 31 December 2006 for companies with more than 50 employees (Parent company), while the full application of IAS 19 continues for the assessment of employee severance indemnities of the Italian companies with fewer than 50 employees (Ferragamo Parfums SpA).

The main assumptions used in determining the present value of employee severance indemnities are set out below:

	31.12.2008	31.12.2007
Annual rate of pay increase	4.72%	4.72%
Annual discount rate	3.92%	4.98%
Inflation rate	2%	2%

Of the non-Italian companies in the Group, Ferragamo Japan KK, Ferragamo Retail Taiwan Ltd., Ferragamo France SAS, Ferragamo Montecarlo SAM, Ferragamo Mexico S.L.de C.V., Ferragamo Korea Ltd and Nelia Retail Private Ltd have adopted defined-benefit plans for their employees.

The value of the obligation at the end of the period for these companies was as follows:

Other defined-benefit plans	31 December	
	2008	2007
(In thousands of Euro)		
Present value of the obligation at the end of the period	1,600	704

The main assumptions used in determining the present value of employee severance indemnities were as follows:

	31.12.2008	31.12.2007
Annual rate of pay increase	2.50% - 9.00%	3.41%-3.50%
Annual discount rate	2.00% - 8.16%	2.00%-2.75%
Inflation rate	0% - 2.00%	0%-2.00%

The average number of employees by category was characterized by the following changes:

Average staff	31 December	
	2008	2007
Managers	392	278
Middle managers, white collars etc.	2,138	2,069
Blue collars	182	198
TOTAL	2,712	2,545

Staff at 31 December	2008	2007
Italy	723	694
Abroad	2,033	1,824
TOTAL	2,756	2,518

The net increases are mainly due to the staff required by the expansion of the retail network.

23. Other non current liabilities

Other liabilities and their changes compared to the previous year were as follows:

Other non current liabilities	31 December 2007				
	(In thousands of Euro)				
	Value	Translation	Increases	Decreases	Value
	31.12.2006	difference			31.12.2007
Payables for deferred rents	18,582	(2,278)	4,769	(120)	20,953
Other payables	502		237	(60)	679
TOTAL	19,084	(2,278)	5,006	(180)	21,632

Other non current liabilities	31 December 2008				
	(In thousands of Euro)				
	Value	Translation	Increases	Decreases	Value

	31.12.2007	difference		31.12.2008	
Payables for deferred rents	20,953	1,406	3,866	-	26,225
Other payables	679	7	63	(130)	619
Other payables for hedge derivatives	-	-	4	-	4
TOTAL	21,632	1,413	3,933	(130)	26,848

Payables for deferred rents refer almost entirely to the straight lining of rents over the contract period for the property leased in the United States, including the building on Fifth Avenue, next to the building owned by the company, where a significant part of the New York store is situated.

24. Non current financial liabilities

At 31.12.2008, the Group had non current financial liabilities of 239 thousand Euro relating to the valuation of hedge derivatives, forward contracts, falling due after more than 12 months, for the management of exchange rate risk. For details please refer to note 32.

At 31.12.2007 the Group had no non current financial liabilities.

25. Deferred tax liabilities

Deferred taxes were:

Deferred tax liabilities	31 December		change
	2008	2007	
(In thousands of Euro)			
TOTAL	6,340	6,931	(591)

For further details on the breakdown of the item please refer to note 46 *income taxes*.

26. Trade payables

The breakdown of trade payables was as follows:

Trade payables	31 December		Change
	2008	2007	
(In thousands of Euro)			

Trade payables to third parties	93,864	99,235	(5,371)
Advances from customers	322	233	89
Trade payables to related parties	192	135	57
TOTAL	94,378	99,603	(5,225)

Trade payables do not bear interest and usually become due after 60/90 days.

This item includes payables relating to the normal commercial activity carried out by Group companies, in particular the purchase of raw materials, parts and manufacturing in outsourcing for both the Core and the Fragrances businesses.

27. Interest-bearing loans & borrowings

A breakdown of interest-bearing loans & borrowings is given below:

Interest-bearing loans & borrowings	31 December		Change
	2008	2007	
<i>(In thousands of Euro)</i>			
Financial payables to banks	162,398	117,453	44,945
Bank and postal current accounts	1,179	381	798
Payables to others	1,650	506	1,144
Payables to related parties	-	-	-
TOTAL	165,227	118,340	46,887

As described in more detail in the section on the Management of financial risks, financial payables to banks consist of the use of a revolving credit line with an original duration of 5 years and residual life of 3 years, short-term umbrella credit lines expiring in 2009, and uncommitted local credit lines. The interest rates applied are equivalent to the interbank reference rate increased by a spread largely included between 0.20 and 0.50 percentage points, depending on the type of credit line.

In more detail, financial payables to banks and the related used credit lines were as follows:

<i>(In thousands of Euro)</i>	Agreed		Used		Agreed		Used	
	2008		2008		2007		2007	
Stand-by (Club deal)	Eur	100,000	Eur	49,376	Eur	100,000	Eur	40,537
Committed credit lines	Eur	120,000	Eur	60,343	Eur	120,000	Eur	64,633
Revolving credit lines	Eur	145,510	Eur	52,679	Eur	105,170	Eur	12,283

Total	Eur 365,510	Eur 162,398	Eur 325,170	Eur 117,453
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Payables to others refer to a loan from third-party shareholders to Ferragamo Suisse SA (0.5 million Euro) and from third-party shareholders to the Indian company Nelia Retail Private Ltd (1.1 million Euro).

The Group net financial debt at 31 December 2008 and 2007 was as follows:

Net financial position	31 December		Change
	2008	2007	
<i>(In thousands of Euro)</i>			
A. Cash	388	377	11
B. Other cash equivalents	77,849	64,831	13,018
C. Cash and cash equivalents (A)+(B)	78,237	65,208	13,029
Derivatives – non-hedge component	3,294	322	2,972
Other financial assets	203	17	186
D. Current financial receivables	3,497	339	3,158
E. Current bank payables	(162,398)	(117,453)	(44,945)
F. Derivatives – non-hedge component	(313)	(1,143)	830
G. Other current financial payables	(2,829)	(887)	(1,942)
H. Current financial debt (E)+(F)+(G)	(165,540)	(119,483)	(46,057)
I. Current financial receivables/(payables), net (C)+(D)+(H)	(83,806)	(53,936)	(29,870)
J. Non current bank payables	-	-	-
K. Derivatives – non-hedge component	(239)	-	(239)
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	(239)	-	(239)
O. Net financial debt (I)+(N)	(84,045)	(53,936)	(30,109)

Limitations on use of financial resources

Pursuant to the committed, revolving, multicurrency and multiborrower stand-by loan agreement, which was renegotiated on 15 December 2006 and expiring in December 2011, the Group is required to comply with the following financial covenants, defined in section 19 of the contract:

Year ended 31 December	
Gearing	Interest cover
(Net financial position /EBITDA)	(EBITDA/Net financial charges)
higher than 2.75 to 1	higher than 4 to 1

The above covenants are checked within 180 days after the end of the year to which they refer and are subject to audit by the independent auditors.

At 31 December 2008 and 2007 these covenants were complied with on the basis of the provisions of the loan agreement.

28. Tax payables

The breakdown of the item is set out in the following table:

Tax payables	31 December		Change
	2008	2007	
(In thousands of Euro)			
TOTAL	9,176	10,085	(909)

The amounts relate to payables for income taxes for the year and other taxes owed by Group companies.

29. Other current liabilities

The breakdown of the item “Other current liabilities” is set out in the following table:

Other payables	31 December		change
	2008	2007	
(In thousands of Euro)			
Other payables to third parties within 12 months	22,674	18,907	3,767
Payables to social security institutions within 12 months	3,743	3,205	538
Payables to related parties	1,435	3,909	(2,474)
Accrued expenses	1,491	1,316	175
Deferred income	3	3	-
Other payables for short-term hedge derivatives	19,506	38	19,468
TOTAL	48,852	27,378	21,474

The item “Other payables to third parties” mainly refers to Group payables to employees for amounts accrued but not yet paid at the financial statements date; it also includes payables to suppliers/service providers which were not yet invoiced at the financial statements date. The item “Payables to social security institutions” refers to payables to social security institutions paid in the month following the year end and relating to amounts due to employees. Payables to related parties consist of the payables to Ferragamo Finanziaria SpA under the domestic fiscal unity regime. The

item “Other payables for hedge derivatives” shows the fair value valuation at the end of the year of outstanding derivative contracts (hedging component) entered into by the Parent company to manage exchange rate risk.

30. Other current financial liabilities

This item mainly refers to the fair value of derivatives with a negative mark to market at the year end date. For further details see note 32 below.

31. Financial instruments

The classification of financial instruments under IAS 39 involves various financial statement items. The following table sets out the book value of outstanding financial instruments, divided by category, compared to the corresponding fair values, at 31 December 2008 and 31 December 2007.

Classification of financial instruments and representation of their fair value

	Book value at 31 Dec. 2008		Fair Value at 31 Dec. 2008	Book value at 31 Dec. 2007		Fair Value at 31 Dec. 2007
	Current portion	Non current portion		Current portion	Non current portion	
<i>(Amounts in thousands of Euro)</i>						
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss						
Derivatives – non-hedge component	3,294		3,294	322		322
Securities held for trading	20		20	17		17
Available-for-sale financial assets	-	47	47	-	45	45
Receivables and loans						
Medium/long-term receivables from others	2,000	1,500	3,395	2,000	2,500	4,222
Trade Receivables	66,163		66,163	61,956		61,956
Guarantee deposits		5,348	5,082		3,382	2,836
Cash and cash equivalents	78,237		78,237	65,208		65,208
Derivatives – hedge component	4,430		4,430	10,275		10,275
Total	154,144	6,895	160,668	139,778	5,927	144,881
	Book value at 31 Dec. 2008		Fair Value at 31 Dec. 2008	Book value at 31 Dec. 2007		Fair Value at 31 Dec. 2007
<i>(Amounts in thousands of Euro)</i>	Current portion	Non current portion		Current portion	Non current portion	

FINANCIAL LIABILITIES						
Liabilities at amortized cost						
Trade Payables and payments on account	94,378	-	94,378	99,604	-	99,604
Interest-bearing loans & borrowings	165,227	-	165,227	118,340	-	118,340
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedge component	552	-	552	1,143	-	1,143
Derivatives – hedge component	19,510	-	19,510	37	-	37
Total	279,667	-	279,667	219,124	-	219,124

The table shows that most outstanding financial assets and liabilities are represented by short-term financial items; for most of these items, in consideration of their nature, the book value is considered a reasonable approximation of their fair value.

Net gains and losses on financial instruments

	31 Dec.-08	31 Dec.-07
<i>(Amounts in thousands of Euro)</i>		
Net gains/(net losses) on financial instruments recognized in profit & loss:		
Financial assets/liabilities held for trading	2,328	(1,397)
Derivatives - hedge component	12,282	16,494
Net gains/(net losses) on financial instruments recognized in shareholders' equity:		
Derivatives - hedge component	(26,015)	1,085
Interest income/expense (calculated using the effective interest method) accrued on financial assets/liabilities not at FVTPL		
Interest income	1,850	5,262
Interest expense	6,090	6,008
Expenses and fees not included in determining the effective interest rate		
Financial liabilities	232	228
Interest income accrued on financial instruments	-	-
Provisions for impairment on financial assets		
Receivables/loans	735	414

The table summarizes the effects on the income statement and shareholders' equity in reference to each category of outstanding financial instruments of the Group in the period 2008-2007.

32. Derivatives

Total derivatives at the year end were as follows.

Derivatives with a positive fair value:

Derivatives (assets)	31 December		Change
	2008	2007	
(In thousands of Euro)			
Long-term derivatives	-	-	-
Short-term derivatives	3,294	322	2,972
TOTAL	3,294	322	2,972

Derivatives with a negative fair value:

Derivatives (liabilities)	31 December		Change
	2008	2007	
(In thousands of Euro)			
Long-term derivatives	239	-	239
Short-term derivatives	313	1,143	(830)
TOTAL	552	1,143	(591)

Derivatives originate exclusively from the management of exchange rate risk on transactions in foreign currency carried out by Group companies. For further details please refer to the section on the management of financial risks.

NOTES TO THE INCOME STATEMENT

For a better understanding of the development in income statement items, reference should also be made to the comments in the Board of Directors' report on operations relating to the comparison between the annual data for 2008 and those for 2007.

33. Revenues from sales and services

In the years ended 31 December 2008 and 31 December 2007 net revenues totaled 683,886 thousand Euro and 679,863 thousand Euro respectively and can be broken down as shown in the following table:

Revenues from sales and services	31 December	
	2008	2007
(In thousands of Euro)		

Wholesale sales	243,546	237,393
Retail sales	429,165	435,653
Royalties	5,444	3,468
Fees and services for third parties	3,852	1,880
Fees and services for associated and jointly controlled companies	1,764	1,470
Fees and services for related companies	115	-
Total net revenues	683,886	679,863

Royalties refer mainly to the license contract with Luxottica for the production and distribution of glasses and to the contract with Timex for the production and distribution of watches.

Fees and services for third parties refer, as mentioned previously, mainly to consultancy for the interior design of Ferragamo branded penthouses.

Fees and services for associated and jointly controlled companies refer wholly to technical consultancy for Zefer SpA.

34. Rental income investment properties

In 2008 and 2007 rental income investment properties totaled 6,944 thousand Euro and 7,516 thousand Euro respectively and were wholly due to Ferragamo USA for the lease of space in owned and leased property. The change was due almost exclusively to the Euro/US\$ exchange rate effect.

35. Cost of goods sold

The increase in the cost of goods sold is shown below:

Cost of goods sold	31 December	
	2008	2007
(In thousands of Euro)		
Change in inventories of finished, semi-finished products and work in progress	31,992	21,618
- Purchases of raw materials, accessories and consumables	(192,447)	(189,660)
- Sales of raw materials	20,570	21,416
- Change in inventories of raw materials, accessories and consumables	(883)	4,444
Raw materials, accessories and consumables used	(172,760)	(163,800)
- Manufacturing in Outsourcing	(118,096)	(105,443)
- Other services	(7,648)	(8,082)

Costs for services	(125,744)	(113,525)
Personnel costs	(4,858)	(4,242)
Amortization and depreciation	(508)	(641)
Cost of goods sold	(271,878)	(260,590)

The increase in the cost of goods sold in the year (4.33%) was greater than the rise in Group revenues as a consequence of the unfavorable trend in exchange rates. Purchases mainly refer to the materials needed for production, as well as all finished products in the Fragrances business and some limited categories in the Core business.

The Core business production cycle generally entails the purchase of raw materials and accessories which are subsequently sent to third parties on account for manufacture; the related costs are shown in the specific item.

The Fragrances business buys whatever is necessary for production, and resells it to an external specialist for the treatment and packaging of the finished product, which is then purchased for resale. The item "Sales of raw materials" largely refers to this production cycle.

36. Other income and revenues

Other income and revenues	31 December	
	2008	2007
(In thousands of Euro)		
- Cost recovery	1,365	1,589
- Rental income	1,266	1,355
- Advertising contributions	754	609
- Others	<u>3,328</u>	<u>2,627</u>
Other income and revenues	6,713	6,180
Other income and revenues - related parties	98	93
Gains on disposal of tangible/intangible assets	95	69
Gains on disposal of tangible assets - related parties	2,188	-
Extraordinary income	610	483
Total other income and revenues	9,704	6,825

Cost recovery refers to costs charged back to third party wholesale customers. Rental income refer largely to the parts of property leased for stores, which are in excess to requirements and which are sublet to third parties. Advertising contributions are paid to the Group by wholesale customers.

For the analysis of transactions with related parties please refer to the paragraph “Transactions with related parties”.

37. Style, product development and logistics costs

The item was made up as follows:

Style, product development and logistics costs	31 December	
	2008	2007
(In thousands of Euro)		
Purchases	(2,341)	(3,285)
Services	(14,491)	(14,178)
Personnel costs	(12,713)	(14,264)
Amortization and depreciation	(644)	(945)
Other operating costs	-	-
Style, product development and logistics costs	(30,189)	(32,672)

The item shows the costs of the creative departments. It also includes transport costs for the supply of products to customers, third parties and group commercial companies.

38. Sales & distribution costs

The item was made up as follows:

Sales & distribution costs	31 December	
	2008	2007
(In thousands of Euro)		
Purchases	(5,921)	(5,500)
- Rents	(82,033)	(80,459)
- Others	<u>(42,773)</u>	<u>(39,851)</u>
Services	(124,806)	(120,310)
Personnel costs	(74,912)	(70,108)
Amortization and depreciation	(15,709)	(15,209)
Other operating costs	-	-
Sales & distribution costs	(221,348)	(211,127)

The item refers to the costs of the direct retail network of the Core business, of retail and wholesale sales departments of the head office and of group companies. It also includes the costs of the sales departments of the Fragrances business and of distribution logistics on foreign markets where the Group has a direct presence.

The breakdown of the item by business was as follows:

Sales & distribution costs	31 December	
	2008	2007
(In thousands of Euro)		
Retail	(189,239)	(181,833)
Wholesale	(26,738)	(23,575)
Distribution logistics	(5,371)	(5,719)
Sales & distribution costs	(221,348)	(211,127)

39. Marketing & communication costs

The item was made up as follows:

Marketing & communication costs	31 December	
	2008	2007
(In thousands of Euro)		
Purchases	(3,282)	(2,403)
Services	(38,353)	(37,413)
Personnel costs	(6,011)	(4,834)
Amortization and depreciation	(50)	(36)
Other operating costs	-	-
Marketing & communication costs	(47,696)	(44,686)

The item refers to costs for communication, the departments which manage it and the marketing departments. Communication costs refer to advertising – creation and media – public relations and costs for events (fashion shows, openings of stores and other events for the presentation and launch of products). A very important event organized in 2008 was the event held in Shanghai in February to celebrate the 80th anniversary of the foundation of Ferragamo.

40. General and administrative costs

The item was made up as follows:

General and administrative costs	31 December	
	2008	2007
(In thousands of Euro)		
Purchases	(753)	(882)
- Rental and hire costs	(8,591)	(8,629)
- Others	(20,065)	(21,529)
Services	(28,656)	(30,158)
Personnel costs	(21,305)	(20,570)

Amortization and depreciation	(5,252)	(5,756)
Other operating costs	-	-
General and administrative costs	(55,966)	(57,366)

Personnel costs refer to general management, information systems, administrative departments, and human resources; the item also includes costs relating to the property business in the United States.

41. Other operating costs

The item was made up as follows:

Other operating costs	31 December	
	2008	2007
(In thousands of Euro)		
Losses on disposal of fixed assets	(214)	(908)
Losses on disposal of tangible assets - related parties	(8)	-
Extraordinary charges	(130)	(77)
Provisions for future operating risks and charges	(2,504)	(3,433)
Write-down of current assets	(906)	(529)
- Entertainment expenses, gratuities and gifts	(904)	(989)
- Indirect taxes, duties and dues	(3,683)	(3,249)
- Other operating costs	<u>(1,317)</u>	<u>(1,188)</u>
Other operating costs	(5,904)	(5,426)
Other operating costs	(9,666)	(10,373)

Losses on disposal of fixed assets largely arise from the restructuring or closure of some stores.

For the item “Provisions for future operating risks and charges” reference should be made to the analysis of the provision for other future operating risks and charges in the balance sheet.

The write-down of current assets reflects allocations to the provision for bad debt and losses on receivables.

Other operating costs mainly consist of non-deductible taxes and entertainment expenses.

Breakdown by nature of income statement cost items

The breakdown by nature of income statement cost item is set out in the following table:

Costs by type	31 December		Change 2008-2007
	2008	2007	
(In thousands of Euro)			
Raw materials, finished products and consumables used	(153,065)	(154,250)	1,185
Costs for services	(332,050)	(315,584)	(16,466)
Personnel costs	(119,799)	(114,018)	(5,781)
Amortization and depreciation	(22,163)	(22,588)	425
Other charges	(9,666)	(10,373)	707
Operating costs	(636,743)	(616,813)	(19,930)

42. Research and development costs

As part of its creative and production studies, the Group incurred costs for research and development for the study of new products and the use of new materials, which were wholly charged to the income statement.

In 2008 these costs totaled 18.6 million Euro compared to 20.9 million Euro in 2007.

43. Financial charges

Financial charges	31 December	
	2008	2007
(In thousands of Euro)		
Interest expense - loans from third parties	(5,937)	(5,846)
Discount charges and other financial charges – third parties	(1,222)	(1,198)
Write-down of investments in other companies	(24)	-
Provisions for risks on investments in other companies	(25)	-
Losses on exchange rate differences	(14,296)	(10,184)
Financial charges for fair value adjustment of derivatives	(4,869)	(2,607)
Financial charges	(26,373)	(19,835)

Interest expense derives wholly from short-term bank loans.

The item “Discount charges and other financial charges” refers mainly to bank and financial charges on employee benefits in relation to the valuation of defined-benefit plans pursuant to IAS 19; it includes residual charges deriving from the discounting of receivables for 1.5 million Euro for the long-term advance of royalties due from the Fragrances business in reference to the Ungaro brand, paid in 2005. Gains and losses on exchange rate differences were recorded mainly by the Parent company Salvatore

Ferragamo Italia, and derive from foreign sales, both intercompany and to third parties. The year under review was characterized by a net impact of gains on exchange rate differences amounting to 2.6 million Euro compared to a net impact of losses on exchange rate differences amounting to 6.6 million Euro recorded in 2007. Write-downs of investments and also provisions for risks on investments refer to losses on investments and other assets shown in the balance sheet under available-for-sale financial assets (note 9).

44. Financial income

Interest income arises from short-term uses of available liquidity at banks and from temporary positive balances on current accounts.

Financial income	31 December	
	2008	2007
(In thousands of Euro)		
Interest income	1,690	5,074
Other financial income	160	188
Gains on exchange rate differences	16,921	3,621
Financial income for fair value adjustment of derivatives	7,197	1,210
Financial income	25,968	10,093

45. Share of net profit/(loss) on investments accounted for using the Equity

Method

The only investment accounted for using the Equity Method is the Joint Venture in Zefer S.p.A., which was purchased in 2006.

Share of net profit/(loss) on investments accounted for using the Equity Method	31 December	
	2008	2007
(In thousands of Euro)		
Zefer S.p.A.	840	283

46. Income taxes

The taxes recorded in the income statement were as follows:

Income taxes	31 December	
	2008	2007
(In thousands of Euro)		
Current taxes	(20,170)	(23,032)
Deferred taxes	4,827	2,247
Provision for previous years income taxes	(10,000)	-
Income taxes	(25,343)	(20,785)

The provision made, on a prudential basis, for previous years income taxes is closely related to tax disputes in which some foreign companies are involved, as detailed in the section “Significant events occurred during the year” of the Board of Directors’ report on consolidated operation.

Deferred tax assets and liabilities

The following table shows the receivables and payables components for deferred taxes at 31 December 2008 and 31 December 2007:

Receivables/payables for deferred taxes	31 December	
	2008	2007
(In thousands of Euro)		
Deferred tax assets	50,955	38,351
Deferred tax liabilities	6,340	6,931
Total	44,615	31,420

Deferred taxes reflect the net tax effect of temporary differences between the book value and the taxable base of the assets and liabilities.

The accounting of receivables for deferred taxes was duly adjusted to take account of the effective possibility of realizing the receivables.

The breakdown of net receivables for deferred taxes at 31 December 2008 and 31 December 2007 is shown in the following table by type, listing the entries which show underlying temporary differences:

Deferred tax assets and liabilities	31.12.08	31.12.07	31.12.08	31.12.07	2008	2007
(In thousands of Euro)						
	Balance sheet		Shareholders’ equity		Income statement	
Deferred tax assets						
- on employee benefits	827	622	438	196	94	123
- on tangible assets	8,838	10,724			(2,356)	2,499
- on intangible assets	491	(103)			126	126
- on cash flow hedge reserve/derivative contracts IAS 39	4,104	128	4,163	(2,991)	(128)	(772)
- for postponement of revenues under IAS 18	120	41			(19)	(48)
- on the valuation of inventories	5,616	2,600			1,404	100
- on the elimination of the profit unrealized in inventories	21,995	14,861			7,134	(448)

- on tax losses	226	746		(677)	222
- on taxed provisions	1,662	987		668	549
- on investments	12	-		10	(789)
- for other temporary differences	7,064	7,745		233	1,351
Total deferred tax assets	50,955	38,351	4,601	(2,795)	6,489
Deferred tax liabilities					
- on employee benefits	310	531		(57)	(173)
- on tangible assets	1,194	1,306		(69)	(43)
- on leased assets	367	(103)		57	9
- on intangible assets	294	-		(9)	-
- on cash flow hedge reserve/derivative contracts IAS 39	1,439	3,050		1,439	12
- on valuation of inventories	2,466	1,514		(5)	(471)
- for other temporary differences	270	633		306	-
Total deferred tax liabilities	6,340	6,931		1,662	(666)
Income/charge on deferred taxes				4,827	2,247
<i>Net effect on shareholders' equity</i>			4,601	(2,795)	
Represented in financial statements as follows					
<i>Deferred tax assets</i>	50,955	38,351			
<i>Deferred tax liabilities</i>	6,340	6,931			
Net result for deferred taxes	44,615	31,420			

Tax losses of the Group companies at 31 December 2008 and 31 December 2007 on which deferred taxes have not been calculated and the related expiries are shown in the following table:

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS HAVE NOT BEEN CALCULATED					
(In thousands of Euro)					
Total at 31 December 2008	Expiry				
	Without time limits	within 1 year	1 to 3 years	3 to 5 years	over 5 years
59,201	44,461	240	147	813	13,540

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS HAVE NOT BEEN CALCULATED					
(In thousands of Euro)					
Total at 31 December 2007	Expiry				
	Without time limits	within 1 year	1 to 3 years	3 to 5 years	over 5 years
54,955	43,053	1,059	318	2,860	7,665

Deferred tax assets on previous losses recorded in 2008 and 2007 were as follows:

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS

HAVE BEEN CALCULATED (IN THE INCOME STATEMENT) /		Situation at 31-12-08	
(In thousands of Euro)			
Expiry	Previous tax losses	Tax rate	Deferred tax assets
Without time limits	245	27.50%	67
2012	123	35.00%	43
2017	340	33.99%	116
Total	708	31.92%	226

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS		Situation at 31-12-07	
HAVE BEEN CALCULATED (IN THE INCOME STATEMENT) /			
(In thousands of Euro)			
Expiry	Previous tax losses	Tax rate	Deferred tax assets
2008	2,625	27.50%	722
2012	68	35.00%	24
Total	2,693	27.70%	746

The reconciliation between recognized income taxes and theoretical taxes resulting from the application to the profit before taxes of the tax rate in force for the Parent company in the years ended 31 December 2008 and 2007 is as follows:

Reconciliation of taxes	31 December 2008	31 December 2007
(In thousands of Euro)		
Profit before taxes	64,226	67,931
<i>IRES rate in force for the year</i>	<i>27.50%</i>	<i>33.00%</i>
Theoretical tax charge	17,662	22,417
IRAP effect	3,070	2,944
Non-deductible costs	347	674
Differences arising from different rates – foreign countries	(5,377)	(6,120)
Other effects	(359)	869
Provision for previous years income taxes	10,000	-
Total differences	7.681	(1,633)
Total taxes from the income statement	25,343	20,785
Effective tax rate	39.46%	30.60%

47. Net profit/(loss) from discontinued operations, net of taxes

At 31 December 2008 and 31 December 2007 the Group did not have any discontinued operations.

48. Earnings per share

As required by IAS 33 information is provided on the data used to calculate the earnings per share and the diluted earnings per share.

The earnings per share is calculated by dividing the net profit for the year attributable to the shareholders of the Parent company by the weighted average number of shares in circulation during the year.

For the purposes of calculating the basic earnings per share, the profit/(loss) for the period less minority interests is used as a numerator.

Here below are the profit and number of ordinary shares used to calculate the earnings per share, determined in accordance with the method provided for by IAS 33.

BASIC EARNINGS PER SHARE	2008	2007
Net profit - shareholders of the Parent company	29,787,000	38,459,000
Less: increase of dividend for preferred shares (5% of par value)	(404,184)	(404,184)
	<u>29,382,816</u>	<u>38,054,816</u>
Average number of ordinary and preferred shares	16,841,000	22,958,927
Basic earnings per share ordinary shares	1.74	1.66
Plus: increase of dividend for preferred shares	0.05	0.05
Basic earnings per share preferred shares	1.79	1.71
DILUTED EARNINGS PER SHARE	2008	2007
Average number of ordinary and preferred shares	16,841,000	22,958,927
Plus: effect of stock options	58,787	124,681
Diluted average number of ordinary and preferred shares	<u>16,899,787</u>	<u>23,083,608</u>
Diluted earnings per share ordinary shares	1.74	1.65
Plus: increase of dividend for preferred shares	0.05	0.05
Diluted earnings per share preferred shares	1.79	1.70
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		

Net profit from continuing operations	29,787,000	38,459,000
Less: increase of dividend for preferred shares (5% of par value)	(404,184)	(404,184)
	<u>29,382,816</u>	<u>38,054,816</u>
Average number of ordinary and preferred shares	16,841,000	22,958,927
Plus: effect of stock options	58,787	124,681
Diluted average number of ordinary and preferred shares	16,899,787	23,083,608
Basic earnings from continuing operations per ordinary share	1.74	1.66
Plus: increase of dividend for preferred shares	0.05	0.05
Basic earnings from continuing operations per preferred share	1.79	1.71
Diluted earnings from continuing operations per ordinary share	1.74	1.65
Plus: increase of dividend for preferred shares	0.05	0.05
Diluted earnings from continuing operations per preferred share	1.79	1.70
EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS/ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE		
Net profit/(loss) from discontinued operations/assets of disposal group classified as held for sale		-
Average number of ordinary and preferred shares	16,841,000	22,958,927
Plus: effect of stock options	58,787	124,681
Diluted average number of ordinary and preferred shares	16,899,787	23,083,608
Net profit/(loss) from discontinued operations/assets of disposal group classified as held for sale ordinary shares	-	-
Net profit/(loss) from discontinued operations/assets of disposal group classified as held for sale preferred shares	-	-
Average number of ordinary shares	8,757,320	11,938,180
Average number of preferred shares	8,083,680	11,020,747
	<u>16,841,000</u>	<u>22,958,927</u>

Award of stock options

The cost recorded for services received in 2008 was 366 thousand Euro, while the cost recorded during the previous year was 364 thousand Euro.

As provided for by IFRS 2, the stock option plan reflected in the Group consolidated annual report and related to the payment in shares of the Parent company Salvatore Ferragamo Italia S.p.A. is set out below.

On 14 December 2006, the company shareholders' meeting passed a resolution to grant a stock option in favor of a director for the purchase of company's ordinary shares or, should the company in the next 3 years resolve to increase the share capital servicing the stock option, the subscription of new ordinary shares to be issued in execution of this share capital increase.

In particular, the shareholders' meeting of 14 December 2006 resolved to award the right to buy 236,000 shares.

The aforementioned plan is to be divided into 3 tranches, offered for subscription between 15 December and 15 January of the three-year period between 15 December 2009 and 15 January 2012:

1st tranche) vesting from 14 December 2006 to 15 December 2009, exercise period from 15 December 2009 to 15 January 2010;

2nd tranche) vesting from 14 December 2006 to 15 December 2010, exercise period from 15 December 2010 to 15 January 2011;

3rd tranche) vesting from 14 December 2006 to 15 December 2011, exercise period from 15 December 2011 to 15 January 2012.

The subscription price was set at 30.66 Euro per share and was calculated on the basis of a valuation of the company at the grant date, carried out by an independent expert.

The actuarial assessment of the stock option plan approved on 16 December 2006, in accordance with the provisions of IFRS 2, was carried out by an independent actuary by applying the binomial method.

The application of this method set the value of the stock option, at 16 December 2006 (the plan issue date), at 5.1218 Euro per option for the first tranche, 5.7206 Euro per option for the second, and 6.6158 Euro per option for the third.

Here below is the data used in the models to assess the fair value of the plan at the grant date and which was still valid at the end of the year:

	2006
Dividend yield (%)	2.77%
Expected volatility (%)	24.80%
Risk free interest rate	3.99%
Estimated duration of options (years)	4
Weighted average rate of shares (€)	30.66
Model used	Binomial

Volatility reflects the average estimated level of volatility over the daily historic series of prices for similar entities on different estimated time horizons linked to the duration of the various tranches. Expected volatility is indicative of future trends which might differ from actual results.

The “risk free” discount rate used is estimated on the basis of the IRS rate curve at the grant date, corresponding to the expiries of the various tranches under consideration.

The right to buy shares is dependent on the circumstance that, at the time of exercise of the option, the company is listed on a regulated market; should for any reason the company not be admitted to a regulated market or should the company itself not request such listing, the option right will be converted into a right to receive, at the date of expiry and for the above prices, an amount equal to the difference between the value per share resulting from the independent survey of 16 December 2006 and the value per share assessed at the grant date.

In choosing the accounting model, management considered that this plan structure can be referred to a share-based payment settled in cash and cash equivalents, with the option to settle in favor of the company. It was also considered that there was no current obligation for settlement in cash, given that this option would be applicable only where the company was not listed on a stock market at the first window date (end of 2009) and at the grant date the intention was already clear to undertake purchase of the investment.

For this reason, this stock option plan has been accounted for as a share-based payment transaction settled with equity instruments.

The changes in the stock option plan are shown in the following table:

	31 Dec.-08		31 Dec.-07	
	Number of options	Average subscription price	Number of options	Average subscription price
Unexercised options at the beginning of the year	236,000		236,000	
Granted during year	-		-	
Options exercised during year	-		-	
Options expired during year	-		-	
Unexercised options at the beginning of the year	236,000		236,000	

EXERCISE PRICE (Euro)	OPTIONS ALLOCATED AT 31.12.2008 (granted)				OF WHICH EXERCISABLE (vested)	
	Residual contract life				TOTAL	TOTAL
	<1 year	1-2 years	>2 years	TOTAL		
30.66	78,000	79,000	79,000	236,000	0	2 years
TOTAL	78,000	79,000	79,000	236,000	0	

Segment reporting

In application of IAS 14, here below are the tables relating to segment reporting according to the primary format. The Group primary segment reporting format is by business sector, which is broken down into Core business, Fragrances and Other. Each business unit is separately identifiable and is subject to different risks and benefits from those of the other sectors.

The Core business is the traditional activity and includes the creation, development and production of items of footwear, leather goods, clothing and accessories for men and women, distributed mainly through the direct retail network, and, to a lesser extent, through qualified resellers.

The Fragrances business consists of the creation, development and production of fragrances and related products under the Ferragamo brand and, on license, the Ungaro brand; sales are handled by a network of selected, mainly multibrand, distributors.

The segment Other consists of residual activities, in particular the profitable management of some property and the technical consultancy related to the 50/50 joint venture with the Zegna Group.

The Group's financial operations (including charges and income on loans) and income taxes are not allocated to the operating sectors.

Transfer prices between operating sectors are defined at the same conditions applied to transactions with third parties.

31 December					
2008					
Segment reporting – income statement data					
(In thousands of Euro)					
	Core business	Fragrances	Other	Eliminations	Consolidated figure
Revenues					
Net revenues from third parties	636,112	46,010	1,764	-	683,886
Inter-segment sales	1,684	278	-	(1,962)	-
Rental income investment properties	-	-	6,944	-	6,944
Total revenues	637,796	46,288	8,708	(1,962)	690,830
Sector profit/(loss)	60,118	3,038	635		63,791
Unallocated charges/income					
Net financial (charges)/income					(405)
Share of net profit/(loss) of associated					840

companies	
Profit before taxes	64,226
Income taxes	(25,343)
Profit for the year from continuing operations	38,883
Net profit/(loss) from discontinued operations, net of taxes	-
Net profit	38,883

Segment reporting – income statement data	31 December 2007				
(In thousands of Euro)					
	Core business	Fragrances	Other	Eliminations	Consolidated figure
Revenues					
Net revenues from third parties	636,631	41,762	1,470	-	679,863
Inter-segment sales	1,288	217		(1,505)	-
Rental income investment properties			7,516		7,516
Total revenues	637,919	41,979	8,986	(1,505)	687,379
Sector profit/(loss)	73,793	3,463	134		77,390
Unallocated charges/income					
Net financial (charges)/ income					(9,742)
Share of net profit/(loss) of associated companies					283
Profit before taxes					67,931
Income taxes					(20,785)
Profit for the year from continuing operations					47,146
Net profit/(loss) from discontinued operations, net of taxes					-
Net profit					47,146

Discontinued operations are shown separately in the income statement as a single item “Net profit/(loss) from discontinued operations, net of taxes”.

Inter-segment revenues are eliminated during consolidation.

For an analysis of the change in the turnover and profitability of business sectors, please refer to the Board of Directors’ report on operations.

The balance sheet data broken down by business sector is shown in the following tables:

Segment reporting - balance sheet data	31 December 2008				
(In thousands of Euro)					
	Core business	Fragrances	Other	Eliminations	Consolidated figure
Sector assets	437,532	40,611	22,045		500,188

Investments in associated companies	-	-	1,155		1,155
Unallocated assets (Cash and cash equivalents)					78,237
Total assets	437,532	40,611	23,200	-	579,580
Sector liabilities	189,225	15,650	13,955		218,830
Unallocated liabilities (Financial Payables)					165,227
Total liabilities	189,225	15,650	13,955	-	384,057
Other sector information					
Investment in tangible assets	26,187	711	104		27,002
Investment property	-	-			-
Goodwill and other intangible assets with an indefinite useful life	260	-			260
Investment in intangible assets with a finite useful life	4,310	375	74		4,759
Depreciation of tangible assets	(18,149)	(551)	(1,034)		(19,734)
Amortization of intangible assets with a finite useful life	(2,000)	(150)	(279)		(2,429)
Impairment recognized in the income statement	-	-	-		-
Employee benefits costs	(4,098)	(103)	-		(4,201)

Segment reporting - balance sheet data					31-12-2007
(In thousands of Euro)					
	Core business	Fragrances	Other	Eliminations	Consolidated figure
Sector assets	356,827	39,134	22,091		418,052
Investments in associated companies			741		741
Unallocated assets (Cash and cash equivalents)					65,208
Total assets	356,827	39,134	22,832	-	484,001
Sector liabilities	158,205	17,249	12,247		187,701
Unallocated liabilities (Financial Payables)					118,340
Total liabilities	158,205	17,249	12,247	-	306,041
Other sector information					
Investment in tangible assets	18,091	780	65		18,936
Investment property					
Investment in intangible assets with a finite useful life	2,353	218	192		2,763
Amortization of intangible assets with a finite useful life	(2,597)	(183)	(297)		(3,077)
Depreciation of tangible assets	(17,669)	(738)	(1,105)		(19,512)
Impairment recognized in the income statement					
Employee benefits costs	(2,099)	(84)			(2,183)

Information by geographic area

The secondary segment reporting is by geographic area: revenues are allocated to the customer's geographic area, while assets are based on their location.

Information by geographic area	Europe	North America	Japan	Asia - Pacific	Central and South America	Consolidated figure
(In thousands of Euro)						
31 December 2008						
Revenues						
Sales to customers	178,498	159,614	124,426	201,995	26,297	690,830
Less - sales attributable to discontinued operations						
Sector revenues	178,498	159,614	124,426	201,995	26,297	690,830
Other sector information						
Sector assets	189,021	151,097	71,880	152,328	14,099	578,425
Unallocated assets	-	-	-	-	-	-
Investments in associated companies	1,155	-	-	-	-	1,155
Total assets	190,176	151,097	71,880	152,328	14,099	579,580
Investments:						
Tangible assets	6,904	10,408	961	7,749	980	27,002
Goodwill and other intangible assets with an indefinite useful life	-	-	-	260	-	260
Intangible assets	3,830	600	178	151	-	4,759
31 December 2007						
(In thousands of Euro)						
31 December 2007						
Revenues						
Sales to customers	169,798	184,202	134,404	176,205	22,770	687,379
Less - sales attributable to discontinued operations						
Sector revenues	169,798	184,202	134,404	176,205	22,770	687,379
Other sector information						
Sector assets	190,531	128,929	47,579	104,940	11,281	483,260
Unallocated assets	-	-	-	-	-	-
Investments in associated companies	741	-	-	-	-	741
Total assets	191,272	128,929	47,579	104,940	11,281	484,001
Investments:						
Tangible assets	3,446	7,327	507	6,498	1,158	18,936
Intangible assets	1,320	998	346	98	-	2,763

Management of financial risks

The Ferragamo Group is exposed in different measure to the various financial risks: market risks (interest rate risk, price risk and exchange rate risk), liquidity risk and credit risk.

Derivatives are used only for hedging purposes. Some derivatives have been classified as held for trading, although they have been entered into for hedging purposes. Against this background the Ferragamo Group oversees the control and management of the Group's financial risks.

Interest rate risk

The Ferragamo Group is exposed to interest rate changes.

The Group's sensitivity to interest rate risk is managed by keeping the overall exposure in due consideration as part of the general policy of optimizing financial resources. The cost of bank debt is benchmarked to the Euribor/Libor rate for the period increased by a spread which depends on the type of line of credit used and in any case is the same for each type of credit line. Uses of the lines range from a few days to a maximum of one year. The margins applied are comparable to the best market standards.

The interest rate risk to which the Group companies are exposed mainly originates from outstanding financial payables.

Interest rate risk sensitivity analysis

<i>(Amounts in thousands of Euro)</i>		Increase/ reduction in underlying interest rates	Impact on the income statement
December 31, 2008			
POSITIVE CHANGE	EURO	0.30%	(192)
	USD	0.50%	9
	JPY	0.10%	(33)
Total			(216)
NEGATIVE CHANGE	EURO	-0.30%	192
	USD	-0.50%	(9)
	JPY	-0.10%	33
Total			216

December 31, 2007

POSITIVE CHANGE	EURO	0.60%	(69)
	USD	1.30%	408
	JPY	0.30%	(32)
		Total	307
NEGATIVE CHANGE	EURO	-0.60%	69
	USD	-1.30%	(408)
	JPY	-0.30%	32
		Total	(307)

The sensitivity analysis of the interest rate risk to which the Group is exposed was undertaken by considering the financial statement items which give rise to floating rates and by assuming parallel increases or decreases in the reference interest rate curves by individual currency in proportion to the respective observed annual volatility.

The result of the analysis undertaken on risk factors which generate significant exposure (interest rate curves in Euro, US dollars and Yen, whose effects are indicated separately in the above table) showed potential gains or losses in the income statement of 216 thousand Euro for 2008 compared with potential gains or losses of 307 thousand Euro for 2007.

The impact of interest rates changes on the income statement in the two years is mainly explained by the fall in interest rates on the Dollar and the Euro, which started at the end of 2008, and by a broad balance between assets and liabilities in dollars during the year under review compared to a prevalence of assets in dollars over liabilities in the same currency in 2007.

The possible upward or downward change in reference market interest rates has a minor impact on the Group income statement.

Exchange rate risk

The Ferragamo Group is exposed to changes in the exchange rates of the currencies in which sales are recorded. This takes the form of the risk that the corresponding value in Euro of revenues is insufficient to cover production costs and to achieve the desired profit. This risk is heightened during the significant period between the moment when the sale prices of a collection are set and the moment when revenues are converted into Euro.

In order to limit the exposure to exchange rate risk deriving from its commercial business, in keeping with the provisions of the exchange rate risk management policies and the exchange rate risk management objectives which are periodically defined, the Parent company (as a manufacturing company) enters into currency forward exchange contracts or options, to establish the conversion rate in advance, or a predefined range of conversion rates at future dates. Depending on market expectations and conditions, hedges are arranged before establishing price lists for a total of between 50% and 90% of the Parent company's expected sales, which is supplemented in the period immediately following the definition of the price list, in relation to orders that have actually been received and are in production. In this way the company limits the commercial risk just to the risk arising from sales volumes excluding the risk arising from the exchange rate.

The hedges of the future transactions in foreign currencies (which can be classified as Cash Flow Hedges) are accounted for in accordance with hedge accounting rules.

Cash flow analysis
(hedged items)

December 31, 2008

(Amounts in currency/000)

<u>Cash flow analysis</u> <u>(hedged items)</u>	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	256,000	35,000	65,000	80,000	43,000	33,000
Sales expected in JPY	4,800,000	700,000	1,000,000	1,500,000	1,200,000	400,000
Sales expected in GBP	3,700	1,400	1,600	700		
Sales expected in MXN	145,000	20,000	45,000	45,000	25,000	10,000
Sales expected in CHF	7,950	1,500	1,250	1,850	1,950	1,400
Sales expected in AUD	3,550	1,000	1,000	1,000	500	50

December 31, 2007

(Amounts in currency/000)

<u>Cash flow analysis</u> <u>(hedged items)</u>	Expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	194,000	57,000	58,500	58,500	20,000	
Sales expected in JPY	3,000,000	1,500,000	1,000,000	500,000		
Sales expected in GBP	3,945	2,045	1,050	850		
Sales expected in MXN	89,000	14,000	23,000	17,000	30,000	5,000
Sales expected in CHF	4,407	1,000	1,257	1,350	800	
Sales expected in AUD	2,500	500	1,250	500	250	

The above table sets out the average time horizon and the extent by risk factor of exchange rate hedges which the Group held at the end of 2008 and 2007.

The most important hedge, in terms of notional volume of the currency being hedged, is aimed at mitigating the risk generated by fluctuations in the exchange rate between the Euro and the following currencies: US dollar, Yen, Pound sterling and the Mexican peso.

From a time viewpoint, the exchange rate hedges expiring after 2009 all expire in the 1st quarter of 2010.

The date of occurrence of the underlying assets basically corresponds to the date on which the impact on the income statement is recognized. This is determined at the time of the invoicing of the estimated flows, which are the object of the exchange rate hedge.

Statement of cash flow hedge reserve

	Cash flow hedge reserve (currency risk)	
	<i>31 Dec.-08</i>	<i>31 Dec.-07</i>
<i>(Amounts in thousands of Euro)</i>		
Opening balance *	10,876	9,791
+ increases for recognition of new positive effectiveness	10,256	17,923
- decreases for recognition of new negative effectiveness	(23,989)	(344)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in the profit & loss	(16,388)	(16,610)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in the profit & loss	4,106	116
Closing balance *	(15,139)	10,876
<i>* Gross of tax effect</i>		

The cash flow hedge reserve, which consists of the value changes in hedges for expected transactions in foreign currency, fell by 26,015 thousand Euro during 2008, while it had risen by 1,085 thousand Euro at the end of 2007.

The decrease reflects the changes occurred in 2008 in the exchange rates being hedged, which were highly volatile, especially in terms of the exchange rate between the Euro and the dollar, reaching a peak of over 1.60 in the first part of the year to then reaching a low of below 1.24 towards the end of the year, and the exchange rate between the

Euro and the Japanese yen which reached a maximum of over 169 to then fell to a low of less than 115 in October 2008.

The effectiveness transferred directly to the income statement from the reserve during the two years on occasion of the occurrence of the underlying flows was 12,282 thousand Euro in 2008 and 16,494 thousand Euro in 2007.

During 2008-2007 there were no hedge interruptions deriving from the cancellation of the forecast underlying asset nor were there any hedges of forecast foreign currency flows linked to future non-financial items.

Sensitivity analysis on currency risk

<i>(Amounts in thousands of Euro)</i>		Increase/ decrease in foreign exchange rates	Items	Impact on profit & loss	Impact on shareholders' equity	
December 31, 2008						
POSITIVE CHANGE	EUR/JPY	21.2%	Derivatives	415	6,647	
			Non-derivatives	13		
	EUR/USD	19.5%	Derivatives		30,046	
			Non-derivatives	(736)		
	USD/JPY	15.1%	Derivatives			
			Non-derivatives	(486)		
	EUR/MXN	30.7%	Derivatives	61	1,647	
			Non-derivatives			
				Total	(733)	38,340
	NEGATIVE CHANGE	EUR/JPY	-21.2%	Derivatives	(639)	(10,216)
Non-derivatives				(21)		
EUR/USD		-19.5%	Derivatives		(44,624)	
			Non-derivatives	1,093		
USD/JPY		-15.1%	Derivatives			
			Non-derivatives	659		
EUR/MXN		-30.7%	Derivatives	(115)	(3,102)	
			Non-derivatives			
			Total	977	(57,942)	
December 31, 2007						
POSITIVE CHANGE	EUR/JPY	11.1%	Derivatives		1,519	
			Non-derivatives	(4)		
	EUR/USD	8.4%	Derivatives	61	9,707	
			Non-derivatives	(292)		
	USD/JPY	9.8%	Derivatives			
			Non-derivatives	(565)		
	EUR/MXN	7.9%	Derivatives	22	397	
			Non-derivatives			

				Total	(778)	11,623
			Derivatives			(1,900)
			Non-derivatives	5		
NEGATIVE CHANGE	EUR/USD	-8.4%	Derivatives	(55)	(11,492)	
			Non-derivatives	345		
	USD/JPY	-9.8%	Derivatives			
			Non-derivatives	687		
	EUR/MXN	-7.9%	Derivatives	(8)	(465)	
			Non-derivatives			
			Total	974	(13,857)	

The sensitivity analysis carried out in order to assess the Group's exposure to exchange rate risk was undertaken on the basis of percentage increases and decreases in the exchange rates of the various currencies which generate significant exposure to risk proportional to their annual volatility. The results of the analysis are significantly affected by the market volatility in the exchange rates considered, which almost doubled in the two years.

A positive change in the identified exchange rates (EUR/JPY, EUR/USD, USD/JPY and EUR/MXN, as shown in the above table) would have produced a loss of 733 thousand Euro at 31 December 2008 and 778 thousand Euro at 31 December 2007; in the same way, a negative movement in exchange rates would have produced a gain of 977 thousand Euro at 31 December 2008 and a gain of 974 thousand Euro at 31 December 2007.

The increase in shareholders' equity generated from the hedge derivatives as a consequence of the estimated rises in exchange rates would have been 38,340 thousand Euro at 31 December 2008 and 11,623 thousand Euro at 31 December 2007; the reduction in shareholders' equity as a consequence of the estimated decreases in exchange rates would have been 57,942 thousand Euro at 31 December 2008 and 13,857 thousand Euro at 31 December 2007.

The sensitivity analysis carried out as described above, shows a significant impact only on Group shareholders' equity, as a consequence of the possible change in the value of hedge derivatives, which is suspended in the cash flow hedge reserve and whose impact on the income statement will occur in the following year, on the actual occurrence of the forecast sales.

Liquidity risk

Liquidity risk, i.e. the risk that the Group cannot meet its obligations within the set deadlines at current market price conditions, is managed, in regard to the Group's needs, mainly through investing liquidity in short-term transactions, which generally last from one to three months.

The company has an existing stand-by revolving, committed, multicurrency and multiborrower line of credit with several banking counterparties. This has a residual life of three years (term: 5 years) for a total of 100 million Euro, as well as committed, multicurrency and multiborrower lines for a total of 120 million Euro, with a duration of eighteen months less a day, which will expire in 2009, and revocable hot money lines on the Parent company for 100 million Euro. Local cash lines for a corresponding value of approximately 45 million Euro are allocated to the main Group companies. There are no uses of lines over more than twelve months.

The financial position of each company and that of the Group overall is measured every month, and compared with the latest Budget/Forecast.

Maturity analysis for financial liabilities

December 31, 2008

(Amounts in thousands of Euro)

Maturity Analysis	< 3 months	3-12 months	1-5 years	>5 years	Total
Trade payables	94,056	-	-	-	94,056
Financial liabilities due to banks	163,659	357	-	-	164,016
Payables to shareholders for loans	-	1,819	-	-	1,819
Payables to other lenders	-	8	-	-	8
Derivatives – non-hedge component	-	93	-	-	93
Derivatives – hedge component	5,034	11,320	-	-	16,354
Total	262,749	13,597	-	-	276,346

December 31, 2007

(Amounts in thousands of Euro)

Maturity Analysis	< 3 months	3-12 months	1-5 years	>5 years	Total
Trade payables	99,372	-	-	-	99,372
Financial liabilities due to banks	73,731	45,116	-	-	118,847
Payables to shareholders for loans	-	310	-	-	310
Payables to other lenders	-	204	-	-	204
Derivatives – non-hedge component	70	60	-	-	130
Derivatives – hedge component	21	66	-	-	87
Total	173,194	45,756	-	-	218,950

The analysis carried out on the balance sheet entries relating to financial liabilities shows a concentration of expiry dates within three months, with nil values at 31 December 2008 and 2007. The financial assets recorded on the balance sheet mainly have a similar residual life.

Credit risk

The Group's exposure to credit risk refers almost exclusively to trade receivables and, to a lesser extent, to other receivables.

Exposure to credit risk refers to wholesale sales, which represent around 36% of total turnover: the remaining refers to retail sales with spot payment.

The Group only works with well-known, trustworthy customers. It is the Group's policy to check credit ratings of customers who ask for extended payment terms. In addition, the total amount of receivables is monitored during the year so that the amount of exposure to loss is not significant. Trade receivables are recognized on the balance sheet net of the write-down calculated on the basis of the risk of counterparty default. This is determined by considering the information available on the customer's solvency and its past history.

The credit risk regarding the Group's other financial assets, consisting of cash and cash equivalents, available-for-sale financial assets and some derivatives, has a maximum risk equal to the book value of these assets, in case of insolvency of the counterparty.

Maximum credit risk exposure

<i>(Amounts in thousands of Euro)</i>	Book value at 31 Dec. 2008		Book value at 31 Dec. 2007	
	<i>Current portion</i>	<i>Non current portion</i>	<i>Current portion</i>	<i>Non current portion</i>
Financial assets at fair value through profit or loss				
Other financial assets	20		17	-
Receivables and loans				
Receivables from others (M/L term)	2,000	1,500	2,000	2,500
Trade receivables	66,163		61,956	-
Cash and cash equivalents	78,237		65,208	-
Guarantee deposits		5,348		3,382
Derivatives	2,730	1,281	9,466	-

Total	149,150	8,129	138,647	5,882
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The table shows how the Group's exposure to credit risk is limited to the book value of the items representing outstanding financial assets at 31 December 2008 and at 31 December 2007, and almost exclusively limited to the current portion.

Concentrations of credit risk

<i>(Amounts in thousands of Euro)</i>	Book value at 31 Dec. 2008	Percentage	Book value at 31 Dec. 2007	Percentage
Italy	11,462	17.3%	8,446	13.6%
Europe	12,225	18.5%	8,484	13.7%
North-America	6,221	9.4%	10,976	17.7%
East Asia	32,812	49.6%	28,511	46.0%
Others	3,443	5.2%	5,539	8.9%
Total	66,163	100.0%	61,956	100.0%

The table shows the concentration of credit risk by geographic area of the Group activity.

Trade receivables analysis

(Amounts in thousands of Euro)

	Book value							Total
	Receivables neither past due nor impaired		Receivables past due but not impaired					
	<i>renegotiated</i>	<i>non-renegotiated</i>	<30 days	30-60 days	60-90 days	90-120 days	>120 days	
2008	-	44,359	13,035	5,129	1,344	1,003	1,293	66,163
2007	-	35,884	22,593	2,021	201	134	1,123	61,956
Percentage								
2008	-	67.0%	19.7%	7.8%	2.0%	1.5%	2.0%	100.0%
2007	-	57.9%	36.5%	3.3%	0.3%	0.2%	1.8%	100.0%

The analysis carried out on the expiry dates of receivables which are overdue but not written down shows they are concentrated within thirty days for the years ended 31 December 2008 and 31 December 2007.

Market risks

The Group operates in the fashion and luxury market and therefore presents new collections every season which must win the approval of consumers. The strength of

the fashion team and the constant monitoring of international fashion markets should enable the early identification of possible key trends for the development of new products. In addition, the broad range of articles of clothing, accessories and footwear for both men and women enables the Group to cover several key sector segments and thus reduce the risk deriving from the different developments in each segment.

As for distribution, the Group is expanding the number of direct stores. On the one hand, this serves to enhance the brand image and direct contact with customers, and on the other implies the taking on of an investment risk, an increase in fixed costs and the signing of long-term lease contracts. The risk arising from this distribution policy is factored in when selecting the location, by involving several company departments in the decision-making process, and, subsequently, constantly monitoring the performance of each individual store, in order to act on the mix of products offered and on the management of the store.

The concentration of sales to the main customers is shown in the table below; for the concentration of sales by geographic area, reference should be made to the contents in the specific section above:

Concentration of market risk	2008	2007
Percentage of revenues with the biggest customer	2.1%	2.3%
Percentage of revenues with the 3 biggest customers	4.6%	6.0%
Percentage of revenues with the 10 biggest customers	10.7%	12.5%

Capital management activity

The main objective of the Group's capital management activity is to ensure that a solid credit rating as well as adequate levels of share capital indicators are maintained in order to support business and optimize value for shareholders. The Group manages the capital structure and modifies it in relation to changes in economic conditions. To maintain or adjust the capital structure, the Group can adjust the dividends paid to shareholders, repay the capital or issue new shares. No change was made to the objectives, policies or procedures during 2008 and 2007.

The Group includes under net debt, interest-bearing loans, trade and other payables, net of cash and cash equivalents.

Capital management	31 December	
	2008	2007
(In thousands of Euro)		
Interest-bearing loans	165,227	118,340
Trade and other payables	143,230	126,981
Cash and cash equivalents	78,237	65,208
Net debt	230,220	180,113
Group shareholders' equity	153,899	144,213
Minority interests	41,624	33,747
Total shareholders' equity	195,523	177,960
Share capital and net debt	425,743	358,073
Debt/shareholders' equity	118%	101%

Transactions with related parties

The following table shows the overall values of transactions with related parties:

Transactions with related parties	31 December 2008			
(In thousands of Euro)				
	Revenues and income	Costs and charges	Receivables	Payables
Company with significant influence on the Group:				
Ferragamo Finanziaria S.p.A.	10	-	18	(1,435)
Associated/related companies:				
Palazzo Feroni Finanziaria S.p.A.	2,256	(4,466)	18	(30)
Lungarno Alberghi S.p.A.	52	(625)	4	(5)
Zefer S.p.A.	1,764	-	1,764	-
Group directors:				
Caretti & Associati S.p.A.	-	(263)	-	(91)
Il Borro S.r.l.	25	(91)	-	(60)
Wanda Miletto Ferragamo	-	(75)	-	-
Fulvia Ferragamo Visconti	5	(36)	-	-
Bacco S.r.l.	-	(3)	-	-
The Nautor Group	45	-	-	-
Rubino S.r.l.	-	(77)	-	(6)

Transactions with related parties	31 December 2007			
(In thousands of Euro)				
	Revenues and income	Costs and charges	Receivables	Payables

Company with significant influence on the Group:

Ferragamo Finanziaria SpA	-	-	8	(3,909)
Associated/related companies:				
Palazzo Feroni Finanziaria SpA from SFI	17	(4,169)	16	-
Lungarno Alberghi SpA from SFI	69	(556)	47	(3)
FP Design SpA	-	-	77	(10)
Zefer SpA	1,470	-	1,764	-
Group directors:				
Caretti & Associati Spa	-	(282)	-	(67)
Il Borro srl	6	(64)	8	(55)
Wanda Miletto Ferragamo	-	(73)	-	-
Fulvia Ferragamo Visconti	-	(15)	-	-
Bacco Srl	-	(2)	-	-
The Nautor Group	1	-	-	-

Sales and purchases between related parties are carried out at normal market prices. The outstanding balances at the end of the year are not backed by guarantees, nor do they generate interest and are settled in cash. There are no guarantees, given or received, relating to receivables and payables with related parties. The Group has not set aside any provision for bad debts in relation to amounts due from related parties.

Specifically:

- Ferragamo Finanziaria is the holding of the Parent company Salvatore Ferragamo Italia SpA; revenues refer to services rendered, payables to the balance for the domestic fiscal unity regime;
- Palazzo Feroni Finanziaria is owned by the same shareholders who directly and indirectly own Salvatore Ferragamo Italia SpA; revenues refer to IT and administrative services rendered and for the year 2008 include the gain, from fixed asset sales, for 2.2 million Euro as indicated in detail in these notes; payables refer to rents for the premises of the headquarters in Florence and for some stores of the Italian chain;
- Lungarno Alberghi is a subsidiary of Palazzo Feroni Finanziaria; revenues refer to product sales, costs refer largely to rents;
- Zefer SpA is a 50/50 joint venture with the Zegna Group, which Salvatore Ferragamo Italia purchased on 30 September 2006 from ACV; revenues refer largely to fees for technical assistance services for the company;
- Caretti & Associati SpA is a company in which Francesco Caretti (company director) holds an investment; fees refer to consultancy;

- Il Borro Srl is a company in which Ferruccio Ferragamo (company director) holds an investment; revenues refer to administrative services, costs to the purchase of goods and services;
- The Nautor Group is a company in which the director Leonardo Ferragamo holds an investment; revenues refer to product sales;
- Rubino Srl and Bacco srl are companies in which Massimo Ferragamo (company director) holds an investment; costs refer to rents.

Fees paid to Directors and Statutory Auditors

The Directors of the Parent company (Salvatore Ferragamo Italia SpA) do not receive any fees from any other company included in the consolidation area, therefore their fees, amounting to 1.1 million Euro, are paid by the Parent company and are indicated in the statutory annual report of Salvatore Ferragamo Italia SpA.

As indicated in detail in the paragraph “Award of stock options” in these notes, the right to exercise stock options has also been granted to the Managing Director.

The members of the Board of Statutory Auditors, besides the fees paid by the Parent company (Salvatore Ferragamo Italia SpA), amounting to 58 thousand Euro, receive 12 thousand Euro from the other companies included in the consolidation area for the same position.

The table below sets out the impact of the costs of the related parties and directors on the balance sheet and income statement:

Balance sheet	31 December 2008	Related parties	%
(In thousands of Euro)			
Non current assets			
Trade receivables	66,163	22	0.03%
Other receivables	28,377	1,782	6.28%
Total current assets	379,798	1,804	0.47%
Total assets	579,580	1,804	0.31%
Trade payables	94,378	192	0.20%
Other payables	48,852	1,435	2.94%
Total current liabilities	317,946	1,627	0.51%
Total liabilities and shareholders' equity	579,580	1,627	0.28%

Balance sheet	31 December 2007	Related parties	%
(In thousands of Euro)			
Trade receivables	61,956	132	0.23%
Other receivables	26,465	1,788	6.73%
Total current assets	308,789	1,920	0.62%
Total assets	484,001	1,920	0.39%
Trade payables	99,603	135	0.14%
Other payables	27,378	3,909	14.28%
Total current liabilities	256,640	4,044	1.58%
Total liabilities and shareholders' equity	484,001	4,044	0.83%

Income statement	31 December 2008	Related parties	Directors	Total	%
(In thousands of Euro)					
Revenues from sales and services	683,886	1,879	-	1,879	0.27%
Rental income investment properties	6,944	-	-	-	-
Cost of goods sold	(271,878)	-	-	-	-
Gross profit	418,952	1,879	-	1,879	0.45%
Other income and revenues	9,704	2,286	-	2,286	23.56%
Style, product development and logistics costs	(30,189)	-	-	-	-
Sales & distribution costs	(221,348)	(3,336)	-	(3,336)	1.51%
Marketing & communication costs	(47,696)	-	-	-	-
General and administrative costs	(55,966)	(2,300)	(2,874)	(5,174)	9.24%
Other operating costs	(9,666)	(8)	-	(8)	0.08%

Operating profit	63,791	(1,479)	(2,874)	(4,353)
Financial charges	(26,373)			-
Financial income	25,968			-
Share of net profit/(loss) on investments accounted for using the Equity Method	840			-
Profit before taxes	64,226	(1,479)	(2,874)	(4,353)
Income taxes	(25,343)			
Profit for the year from continuing operations	38,883	(1,479)	(2,874)	(4,353)
Net profit/(loss) from discontinued operations, net of taxes	-			-
Net profit for the year	38,883	(1,479)	(2,874)	(4,353)
Profit/(Loss) – Group	29,787	(1,479)	(2,874)	(4,353)
Profit/(Loss) – minority interests	9,096			-

Income statement	31 December 2007	Related parties	Directors	Total	%
(In thousands of Euro)					
Revenues from sales and services	679,863	1,470		1,470	0.22%
Rental income investment properties	7,516			-	-
Cost of goods sold	(260,590)			-	-
Gross profit	426,789	1,470		- 1,470	0.34%
Other income and revenues	6,825	93		93	1.36%
Style, product development and logistics costs	(32,672)			-	-
Sales & distribution costs	(211,127)	(3,379)		(3,379)	1.60%
Marketing & communication costs	(44,686)			-	-
General and administrative costs	(57,366)	(1,782)	(2,654)	(4,436)	7.73%
Other operating costs	(10,373)			-	-
Operating profit	77,390	(3,598)	(2,654)	(6,252)	
Financial charges	(19,835)			-	-
Financial income	10,093			-	-
Share of net profit/(loss) on investments accounted for using the Equity Method	283			-	-
Profit before taxes	67,931	(3,598)	(2,654)	(6,252)	
Income taxes	(20,785)			-	
Profit for the year from continuing operations	47,146	(3,598)	(2,654)	(6,252)	
Net profit/(loss) from discontinued operations, net of taxes	-	-		-	
Net profit for the year	47,146	(3,598)	(2,654)	(6,252)	
Profit/(Loss) – Group	38,459	(3,598)	(2,654)	(6,252)	
Profit/(Loss) – minority interests	8,687				

Commitments and risks

The breakdown of risks, commitments and other memorandum accounts is as follows:

	2008	2007
(In thousands of Euro)		

Bank sureties provided by third parties in the interests of Group companies	23,751	31,199
Guarantees provided by third parties in the interests of Group companies	1,176	1,111
Guarantees provided by Group companies in the interests of third parties	8,818	8,418
TOTAL	33,745	40,728

Bank sureties provided by third parties in the interests of Group companies mainly consist of: sureties issued by banks in favor of VAT authorities for reimbursements requested by Italian Group companies, a bank surety in favor of the Florence Revenue Office relating to the outstanding tax dispute with Ferragamo International B.V., sureties for 1.3 million Euro issued in favor of third parties on lease contracts entered into by Group companies.

Guarantees provided by third parties in the interests of Group companies relate to lease contracts.

Guarantees provided by Group companies refer to a guarantee for US\$ 6 million (4.3 million Euro) relating to a lease contract of the Ferragamo USA Group and the remainder is in favor of banks to guarantee lines of credit which may be used locally.

The Group's other medium and long-term commitments are largely limited to lease contracts for properties, in particular for the direct sales network.

The following table shows the future payments due at 31 December 2008 and 2007, broken down by expiry date:

Operating lease contracts Minimum payments	31 December	
	2008	2007
Within 1 year	52,427	47,410
1 to 5 years	135,285	110,954
Over 5 years	162,436	148,205
Total	350,148	306,569

Research and development costs

As for research and development costs, please refer to the contents in the Directors' report on consolidated operations.

Subsidiaries highlights

Subsidiaries highlights are shown in the table below.

(Figures in local currency/000)		2008			2007		
Company	Currency	Net revenues	Net profit/(loss)	Shareholders' equity	Net revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Ltd	AUD	9,313	(948)	6,083	7,011	(469)	3,031
M Mendrisio Moda SA	CHF	4,714	(220)	2,141	4,443	71	2,361
Ferragamo Japan KK	JPY	16,504,721	(26,100)	2,911,950	18,794,609	410,493	3,145,350
Ferragamo Korea Ltd	KWON	65,176,661	12,140,487	37,362,754	54,040,220	8,834,477	30,722,267
Ferragamo Espana S.L.	Euro	6,805	(304)	2,650	6,446	(636)	2,954
Ferragamo Latin America Inc	USD	2,856	864	2,015	2,131	483	1,151
Ferragamo St. Thomas Inc	USD	557	(256)	(15)	33	(60)	(59)
Ferrimag Limited	HKD	73,884	(3,330)	128,892	152,853	51,047	136,155
Ferragamo Retail HK Ltd	HKD	333,194	35,613	145,115	296,069	43,758	109,502
Ferragamo Retail Taiwan Ltd	TWD	558,327	31,953	225,350	508,688	20,847	193,397
Ferragamo Mexico SL de CV	MXN	237,058	(1,849)	24,855	194,164	4,674	26,704
Ferragamo Retail Nederland BV	Euro	1,670	(625)	(125)	1,702	(469)	31
Ferragamo Fashion Trading Shanghai Ltd	CNY	346,462	66,092	149,284	245,778	52,576	83,192
Ferragamo Singapore	SGD	17,181	1,477	7,787	16,433	1,049	6,310
Ferragamo Thailand	THB	78,929	(12,930)	(1,594)	84,695	(13,683)	11,336
Ferragamo Malaysia	MYR	20,653	1,893	13,865	18,246	2,444	11,972
Ferragamo HK Ltd	USD	270,542	33,463	74,538	203,764	28,428	41,075
Ferragamo USA Inc	USD	204,600	(4,041)	70,246	217,112	4,114	74,412
Ferragamo Deutschland GmbH	Euro	5,172	(1,055)	2,246	4,680	(1,042)	2,258
Ferragamo Belgique SA	Euro	1,498	(2)	140	1,127	(70)	142
Ferragamo Montecarlo SAM	Euro	1,449	7	9	1,004	(59)	1
Ferragamo Suisse SA	CHF	7,551	8	781	6,940	8	773
Ferragamo UK Ltd	GBP	7,748	(459)	2,245	5,623	(942)	2,704
Ferragamo France SAS	Euro	16,768	(1,381)	8,748	15,376	(643)	10,129
Ferragamo Parfums SpA	Euro	45,677	802	11,446	41,979	1,826	12,876
Ferragamo International BV	Euro	130	(18,899)	56,866	123	7,216	75,766
Ferragamo Chile SA	CLP	414,124	(188,846)	77,293	354,455	(102,269)	294,014
Ferragamo Austria GmbH	Euro	2,008	14	798	1,783	(19)	784
Ferragamo Parfum SA	CHF	-	1	671	-	173	670
Ferragamo Nelia Retail Private Ltd	INR	62,105	(30,955)	89,003	-	-	-
Ferragamo Moda Shangai Ltd	CNY	136,526	4,061	15,541	97,780	641	11,480
Ferragamo Argentina SA	ARS	1,232	(3,267)	(3,175)	977	(1,318)	92

Post-balance-sheet events

In the first months of 2009 there was no detrimental impact on the income for the current year arising from the financial statements valuations at 31 December 2008, and in particular from the changes in exchange rates.

On 6 May 2009 the Parent Company implemented its organization, management and control model pursuant to Leg. Decree 231/2001 and, at the same time, its Code of Ethics, which is going to be adopted by all other Group companies.

Following the Ministry of Economic Development circular of 16.04.09 relating to the application of tax credit to the textile and fashion sectors for pre-competitive research and development, introduced by art. 1, paragraphs 280 to 284, of Law no. 296 dated 27.12.2006 (2007 Finance Act) as amended, on 6 May 2009 the Parent Company requested a tax credit equal to 10% of the costs incurred for research and development activities, which are eligible for the tax credit, started prior to 28.11.2008 and after 28.11.2008 up to the end of the current tax period (31.12.2009). The request was sent online using the appropriate form (FRS module) duly filled in and presented as provided for by the Inland Revenue Office Director.

The Parent Company has not recorded the possible tax credit, since it has not yet made any tax offset, also considering that the current authorization procedure provides no guarantees regarding the effective fruition of the tax credit.

SALVATORE FERRAGAMO ITALIA SpA
Signed: Michele Norsa – Managing Director