

**Independent auditors' report
pursuant to Article 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, 2009, comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these consolidated 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 and procedures issued by the Italian Accounting Profession (CNDCEC) and recommended by the Italian Stock Exchange Regulatory Agency (CONSOB). In accordance with such standards and procedures, 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 9,3% of consolidated total assets and approximately 10,5% of consolidated total revenues, are the responsibility of other auditors.

With respect to the consolidated financial statements of the prior year, presented for comparative purposes, which have been restated to apply IAS 1, reference should be made to our report dated May 13, 2009.

3. In our opinion, the consolidated financial statements of the Salvatore Ferragamo Italia Group as of December 31, 2009 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 Report on Operations in accordance with the applicable laws. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under auditing standard 001 issued by the Italian Accounting Profession (CNDCEC). In our opinion the Report on Operations is consistent with the consolidated financial statements of the Salvatore Ferragamo Italia Group as of and for the year ended 31 December 2009.

Florence, April 6, 2010

Reconta Ernst & Young S.p.A.

signed by: Fulvio Favini, partner

Salvatore Ferragamo

CONSOLIDATED ANNUAL REPORT AS AT 31 DECEMBER 2009 and 2008

(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
REA (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 statement of financial position
- Separate consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated cash flow statement
- Consolidated statement of changes in shareholders' equity
- Notes to the consolidated annual report as at 2009 and 2008.

The year 2009 saw one of the worst global economic crises of recent decades.

The crisis, which was initially triggered mainly by financial factors, soon spread to the real economy and had a significant impact on the levels of consumption and employment.

Real gross domestic product (GDP) of the major world economies fell sharply in the year and returned to levels last seen several years ago.

This new and unexpected scenario created a sense of uncertainty about the future among consumers and drove them to overreact, thus causing a fall in consumption which was even more marked than the real economic factors justified.

The slight economic recovery, which started in the last few months of 2009 in the main industrialized economies and which was even more marked in the emerging countries, seems to be continuing at the start of 2010, driven by expansive economic policies and the generous budgetary maneuvers of the main countries. In particular, in the fourth quarter, there was a recovery in industrial production from the record lows in the first

half of 2009 and there was a slight improvement in the level of confidence; in the United States and Japan the drop in employment levels eased.

Nonetheless, these signals are still weak and insufficient to be able to talk about a final end to the crisis. The international markets are struggling to get back on their feet and the path still seems uncertain and subject to possible setbacks. What is certain, however, is that all the main economic variables are far away from their pre-crisis levels and it will take time to return to the levels of a year ago.

The Italian Central Statistics Institute (ISTAT) recorded a fall in Italian GDP of around 5.0% for 2009, with a return of the gross domestic product of the Italian economy to the values seen in 2001. If Italy were to return to growth as from 2011 with growth rates similar to those seen in 2008, it would take four years to return to pre-crisis levels.

Although the fall in the economy is easing, the recovery seems slow and problematic rather than rapid.

Operating performance

2009 saw varying performance over the year: there was a strongly negative trend in the 1st half, stability over the summer and a marked improvement in the fourth quarter. The year as a whole saw a decrease compared to the previous year in both trade and profit terms.

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Total revenues	619,598	690,830	(10.3%)
Total gross profit	363,532	418,952	(13.2%)
Total costs	(327,056)	(355,161)	(7.9%)
Operating profit	36,476	63,791	(42.8%)
Net profit/ (loss) for the year	(14,661)	38,883	(137.7%)
Net financial position	(79,995)	(84,045)	(4.8%)

Revenues from sales and services totaled 619.6 million Euro in 2009 compared to 690.8 million in 2008, down by 10.3% on the previous year.

Gross profit was 363.5 million Euro compared to 419.0 million in 2008, down by 13.2%.

Operating profit was 36.5 million Euro in 2009 compared to 63.8 million Euro in 2008, down by 42.8%.

In 2009 the Group recorded a consolidated net loss of 14.7 million Euro compared to a consolidated net profit of 38.9 million Euro in 2008. The Group's share was a consolidated loss of 20.9 million Euro compared to a profit of 29.8 million in 2008.

The net result for the year was heavily influenced by the settlement of the tax dispute with the Italian Inland Revenue Office (a net negative impact of 43.1 million Euro for the Group), the details of which are indicated in the section "Significant events occurred during the year" and in the notes.

The year ended with net financial debt of 80.0 million Euro, or 41.4% of consolidated shareholders' equity (43.0% in the previous year). In 2008 the net financial position was 84.0 million Euro. The improvement during 2009 was due to the reduction in working capital, in particular to the fall in inventories, which enabled not only the investments made in the year for the opening and restructuring of new stores to be covered but also to pay most of the cost related to the settlement of the aforementioned tax dispute.

Macroeconomic situation

The global economy is gradually emerging from the recession, supported by the broad fiscal and monetary stimulus initiatives adopted in almost all regions across the globe. However, it is clear that the recovery will be weak and will not be able to quickly bring business in the main countries back to pre-crisis levels. The return to fully normal conditions on the financial and lending markets is happening slowly, and this is affecting the path to production recovery. The labor market is suffering from the effects of the economic crisis and this is holding back household spending. American consumers have moved away from excessive debt levels and have thus removed what was the main driver in the previous period of growth, without the prospect of there being an adequate replacement with other sources to fuel demand, in particular in economies with a structural current account surplus. Against this background, addressing exit strategies, to wind back the emergency policies which were adopted to combat the crisis, is being deferred to a period of greater solidity in the cycle.

The markets expect the central banks to keep official rates at their current low levels for some time yet. Low rates and abundant liquidity have encouraged demand for risky assets. A worsening in the economic situation or the expectation of rapidly rising interest rates could cause corrections to the market values of financial assets.

In the scenario for 2010, international growth is driven by Asia. The growth rates for the recovery in the industrialized world will be broadly below those prior to the start of the crisis. American GDP, which fell by 2.4% in 2009, is forecast to grow by 2.7% in 2010; in the eurozone, the 4.0% decline in 2009 should be followed by a limited recovery in the economy (+1.0%) in 2010. As for Japan, after the sharp decline in 2009, analysts expect GDP to recover by 1.0%. The forecasts for the Chinese economy are much better, with estimated growth of 9.5%.

The gradual recovery in the global economy, ample liquidity, and low interest rates will probably drive up oil prices to an average of 75 US dollars a barrel in 2010. As a consequence of these scenarios, inflation is forecast to rise to 2.1% in the United States and to 1.2% in the eurozone in 2010.

In keeping with the trend in the global economy, in Italy too there are signs that the recession is coming to an end. The upward trend in industrial production in the summer foreshadowed the return of business to positive progress in the second half of 2009 which was also confirmed for 2010. During the year, the Italian GDP fell on average by 5.0%. In 2010, growth should be around 0.7%. The recovery is being driven by foreign demand and the slow improvement in some parts of domestic demand. The latter could be held back by the deterioration in the labor market and the greater difficulty/cost in accessing credit. Unemployment is forecast to rise from 7.6% in 2009 to 8.5% in 2010. As for the trend in consumer prices, after the record lows in the summer, inflation rose moderately, with rates close to 1% at the end of 2009.

Throughout 2009 exchange rates fluctuated significantly. In particular, the EUR/US\$ exchange rate stood at 1.39 at the start of the year, peaked at 1.51, and fell back to 1.44 at the end of the year.

The Japanese yen stood at 126 against the euro at the start of the year, peaked at 139, and fell back to 133 at the end of the year.

Group structure

During 2009 the Group structure underwent just one change:

- in November Ferragamo International BV subscribed a share with a nominal value of 15,000 Patacas (MOP), equal to an investment of 60% in Ferragamo Retail Macau Limited (1,272 euro). This company was incorporated in Macau in October 2009 with share capital of 25,000 Patacas. The remaining 40% share was subscribed by Imaginex Overseas Limited, our partner in companies in Greater China (China, Hong Kong, and Taiwan).

Sales performance

The Group's activities are broken down into two main businesses: Core business and Fragrances.

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 *Ferragamo* brand, property management and technical consultancy in relation to the 50/50 joint venture with the Zegna Group.

This division is in line with the operating segments identified on the basis of the guidelines of IFRS 8.

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.

In 2009 revenues from consolidated sales, services and rentals reached 619.6 million Euro compared to 690.8 million Euro in 2008, and can be broken down as follows:

(In thousands of Euro)	Year ended 31 December				
	2009	%	2008	%	2009 vs 2008 %
Core business	585,366	94.5%	644,820	93.3%	(9.2%)
Fragrances	34,232	5.5%	46,010	6.7%	(25.6%)
Total	619,598	100.0%	690,830	100.0%	(10.3%)

Core business

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

(In thousands of Euro)	Year ended 31 December				at constant exchange rates	
	2009	%	2008	%	2009 vs 2008 %	2009 vs 2008 %
Europe	139,159	23.8%	160,315	24.9%	(13.2%)	(12.5%)
North America	128,575	22.0%	153,660	23.8%	(16.3%)	(15.0%)
Japan	107,070	18.3%	117,056	18.2%	(8.5%)	(17.6%)
Asia Pacific	184,890	31.6%	190,169	29.5%	(2.8%)	3.0%
Central and South America	25,672	4.4%	23,620	3.7%	8.7%	10.0%
Total	585,366	100.0%	644,820	100.0%	(9.2%)	(8.9%)

As it has done for some years, the Asia Pacific region provided the largest contribution to consolidated sales, rising from 29.5% in 2008 to 31.6% in 2009. Even during 2009, which saw an overall fall of 9.2%, in this area the fall was limited to 2.8% at current exchange rates, while at constant exchange rates there was an increase of 3.0%; the retail activity was the most dynamic component in both years: measured in local currency sales were up 4.1% in 2009, mainly due to the openings of new stores, compared to 2008 when the increase was 18.8%.

North America was even more affected than in 2008 by the financial crisis, which started there and then spread worldwide, with a fall in net sales of 16.3%. This fall was softened by the appreciation in the exchange rate (average for 2009=1.39 / compared to an average for 2008=1.47) between the US\$ and the Euro, but in any case the contribution to the consolidated figure fell from 23.8% in 2008 to 22.0% in 2009.

The opening of new direct stores enabled the fall in the retail channel to be contained; in local currency it was -11.8%, while the wholesale channel was further badly affected (-17.8% in local currency), added to the fall in 2008 of -16.9%.

In 2009 Europe (including Italy), which was almost untouched in terms of exchange rate variations¹, and which during 2008 was less affected by the financial crisis, saw a fall of 13.2%, largely due to the wholesale rather than the retail channel.

Japan saw a drop in sales of 8.5% at current exchange rates (-17.6% in local currency), caused by falling demand which has been a factor for several years (GDP was down again in 2009, by 5.0%); this caused a reduction in the value of sales in euro terms of 10.0 million Euro in 2009, following that of 10.7 million in 2008 despite the solid 14.51% appreciation in the yen/euro exchange rate (average for 2009=130.34 / compared to an average for 2008=152.45).

The only region which saw an increase during 2009 at current exchange rates was Central and South America which saw solid growth also in 2009 (+8.7% against +14.2% in 2008, corresponding to an increase of 2.1 million Euro). Retail sales, in local currency, rose in 2009 by 32.6%, also thanks to the continued expansion of the chain of stores (2008: +21.3%).

The following table shows the changes in core business sales by geographic area in 2009 and 2008:

Core business – change in sales by geographical area

(In thousands of Euro)	Change	Change
	2009 vs 2008	2008 vs 2007
Europe	(21,156)	8,735
North America	(25,085)	(26,019)
Japan	(9,986)	(10,672)
Asia Pacific	(5,279)	24,228
Central and South America	2,052	2,931
Total	(59,454)	(797)

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				2009 vs 2008 %
	2009	%	2008	%	
Wholesale sales	151,499	25.9%	192,753	29.9%	(21.4%)
Retail sales	420,449	71.8%	435,744	67.6%	(3.5%)
Licenses and services	5,832	1.0%	9,379	1.5%	(37.8%)
Rental income investment properties	7,586	1.3%	6,944	1.1%	9.2%
Total	585,366	100.0%	644,820	100.0%	(9.2%)

The level of Retail sales broke through the 70% threshold of the total (67.6% in 2008) mainly due to the sharp reduction in the wholesale channel. Revenues from licenses and services were also affected by the market crisis and saw a fall in sales of *Ferragamo* branded products under license (glasses produced and distributed by Luxottica and watches produced and distributed by the Timex Group). Services also fell, as the year 2009 did not benefit from the contribution provided in 2008 by the interior design consultancy by Ferragamo for a real estate project in Dubai developed by Trident Holding International.

Compared to the directors' report on operations for the year 2008, in order to provide a better representation, a reclassification from wholesale to retail was applied to revenues relating to the management of some direct concession stores in China. The reclassification totaled 6.6 million Euro.

In 2009, the expansion of the chain of stores continued, although at a slower pace: the most important openings and restructurings, excluding outlet stores, occurred in the Far East and, to a lesser extent, in the United States (1 opening in Hong Kong, 8 in China, of which 2 are directly managed and 6 are franchises, 3 in Korea, 2 in Singapore of which 1 is a franchise), and in Macau (1 store) following the incorporation of the local retail company Ferragamo Retail Macau Limited.

In North America 3 new stores were opened, including Naples (Florida) and Bravern (Washington), and investments were made 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, 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.

2009 saw a sharp fall in turnover (-25.6%) as a consequence of the difficulties caused by the financial crisis which led wholesale customers (distributors) to limit their purchases and choose to run down the stocks they had accumulated at the end of the previous year. In particular the sharpest fall was recorded in Europe. Japan also dropped back significantly following the difficulties, which subsequently led to the bankruptcy of the local distributor, thus causing a sharp fall in sales. Worthy of note is the growth in North America (+26.3% compared to +31.6% in 2008) as a consequence of business consolidation on that market.

The trend by geographic area was as follows:

Sales of fragrances by geographic area (In thousands of Euro)	Year ended 31 December				
	2009	%	2008	%	2009 vs 2008 %
Europe	11,754	34.3%	18,183	39.5%	(35.4%)
North America	7,518	22.0%	5,954	12.9%	26.3%
Japan	3,948	11.5%	7,370	16.0%	(46.4%)
Asia Pacific	8,967	26.2%	11,826	25.7%	(24.2%)
Central and South America	2,045	6.0%	2,677	5.8%	(23.6%)
Total	34,232	100.0%	46,010	100.0%	(25.6%)

Sales by brand can be broken down as follows:

Sales of fragrances by brand (In thousands of Euro)	Year ended 31 December			
	2009	%	2008	%
Ferragamo	28,459	83.1%	38,481	83.6%
Ungaro	5,773	16.9%	7,529	16.4%
Total	34,232	100.0%	46,010	100.0%

The following table shows the changes in sales in the Fragrances sector by geographic area in 2009 and 2008:

Fragrances

Change in sales by area (In thousands of Euro)	Change 2009 vs 2008	Change 2008 vs 2007
Europe	(6,429)	(35)
North America	1,564	1,431
Japan	(3,422)	694
Asia Pacific	(2,859)	1,562
Central and South America	(632)	596
Total	(11,778)	4,248

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 2009 and 2008, highlighting a decrease in operating profitability in 2009 compared to 2008 (*EBITDA -28.0%; operating profit -42.8%*) and a loss for the year of 14.7 million Euro.

(In thousands of Euro)	Year ended 31 December			
	2009	%	2008	%
Revenues from sales and services	612,012	98.8%	683,886	99.0%
Rental income investment properties	7,586	1.2%	6,944	1.0%
Revenues	619,598	100.0%	690,830	100.0%
Cost of goods sold	(256,066)	(41.3%)	(271,878)	(39.4%)
Gross profit	363,532	58.7%	418,952	60.6%
Other income and revenues	19,664	3.2%	9,704	1.4%
Style, product development and logistics costs	(24,826)	(4.0%)	(30,189)	(4.4%)
Sales & distribution costs	(220,834)	(35.6%)	(221,348)	(32.0%)
Marketing & communication costs	(31,502)	(5.1%)	(47,696)	(6.9%)
General and administrative costs	(55,997)	(9.0%)	(55,966)	(8.1%)
Other operating costs	(13,561)	(2.2%)	(9,666)	(1.4%)
Operating profit	36,476	5.9%	63,791	9.2%
Financial charges	(18,068)	(2.9%)	(26,373)	(3.8%)
Financial income	15,959	2.6%	25,968	3.8%
Share of net profit/(loss) on investments accounted for using the Equity Method	436	0.1%	840	0.1%
Profit before taxes	34,803	5.6%	64,226	9.3%
Income taxes	(49,464)	(8.0%)	(25,343)	(3.7%)
Profit for the year from continuing operations	(14,661)	(2.4%)	38,883	5.6%
Net profit/(loss) from discontinued operations, net of taxes	-	-	-	-
Net profit/(loss) for the year	(14,661)	(2.4%)	38,883	5.6%
Profit/(loss) - Group	(20,907)	(3.4%)	29,787	4.3%
Profit/(loss) - minority interests	6,246	1.0%	9,096	1.3%

Earnings per share is shown later on at the foot of the separate 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	2009	2008	% change
Operating profit	36,476	63,791	(42.8%)
Depreciation of tangible assets	22,545	19,734	14.2%
Amortization of intangible assets	2,663	2,429	9.6%
Write-downs of non-current assets	229	-	
EBITDA	61,913	85,954	(28.0%)

(*) 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 differ from 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	2009	2008
Cost of goods sold	(549)	(508)
Style, product development and logistics costs	(634)	(644)
Sales & distribution costs	(18,529)	(15,709)
Marketing & communication costs	(61)	(50)
General and administrative costs	(5,664)	(5,252)
Total amortization, depreciation and write-downs of non-current assets	(25,437)	(22,163)
of which		
Depreciation of tangible assets	22,545	19,734
Amortization of intangible assets	2,663	2,429
Write-downs of non-current assets	229	-

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

Revenues (In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Wholesale sales	185,000	236,967	(21.9%)
Retail sales	420,449	435,744	(3.5%)
Receivables from related parties	19	-	
Royalties	3,632	5,444	(33.3%)
Fees and services for third parties	1,622	3,852	(57.9%)

Fees and services for associated and jointly controlled companies	1,267	1,764	(28.2%)
Fees and services for related companies	23	115	(80.0%)
Total revenues from sales and services	612,012	683,886	(10.5%)

Wholesale sales 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 the charge back of services provided to customers by Group companies (marketing consultancy, store consultancy, transport services).

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

With respect to the directors' report on operations for the year 2008, in order to provide a better representation, a reclassification from wholesale to retail was applied to revenues relating the management of some direct concession stores in China. The reclassification totaled 6.6 million Euro.

Rental income investment properties, which are shown in the following table, refer solely to American properties. The increase in 2009 was due in part to the appreciation in the dollar exchange rate. In local currency terms, revenues totaled US\$ 10.6 million in 2009 compared to US\$ 10.2 million in 2008.

Rental income investment properties	Year ended 31 December		
	2009	2008	% change
(In thousands of Euro)			
Total	7,586	6,944	9.2%

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

Cost of goods sold	Year ended 31 December		
(In thousands of Euro)	2009	2008	% change
Change in inventories of finished, semi-finished products and work in progress	(20,240)	31,992	(163.3%)
Raw materials, accessories and consumables used	(133,669)	(172,760)	(22.6%)
Costs for services	(97,167)	(125,744)	(22.7%)
Personnel costs	(4,441)	(4,858)	(8.6%)

Amortization and depreciation	(549)	(508)	8.1%
Cost of goods sold	(256,066)	(271,878)	(5.8%)

The **Gross profit** percentage was 58.7% of sales in 2009 compared to 60.6% in 2008, despite the positive contribution to the consolidated figure resulting from the weakening 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 strong increase compared to the previous year was positively influenced by the use of the provision for risks during the year following the settlement of the tax dispute with Italian tax authorities. For more detailed information, please refer to the note on the provision for risks and charges (note 21). 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		
	2009	2008	% change
Other income and revenues	17,901	6,811	
Gains on disposal of tangible/intangible assets	63	2,283	
Extraordinary income	1,700	610	
Total other income and revenues	19,664	9,704	102.6%

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		
	2009	2008	% change
Purchases	(1,691)	(2,341)	(27.8%)
Services	(11,471)	(14,491)	(20.8%)

Personnel costs	(11,030)	(12,713)	(13.2%)
Amortization and depreciation	(634)	(644)	(1.6%)
Other operating costs	-	-	
Total	(24,826)	(30,189)	(17.8%)

The decrease was due in part to the reduction in volumes, but above all to a cost containment measure aimed at limiting the negative impact on results of the fall in revenues from sales.

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		
	2009	2008	% change
Retail	(196,710)	(189,239)	3.9%
Wholesale	(19,131)	(26,738)	(28.5%)
Distribution logistics	(4,993)	(5,371)	(7.0%)
Sales & distribution costs	(220,834)	(221,348)	(0.2%)

The stability of overall costs, despite the expansion of the sales network and the negative impact of exchange rate movements, is the result of the adoption of effective cost containment measures.

The breakdown by nature is shown in the following table.

Sales & distribution costs by nature

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Purchases	(4,858)	(5,921)	(18.0%)
Services	(127,214)	(124,806)	1.9%
Personnel costs	(70,233)	(74,912)	(6.2%)
Amortization and depreciation	(18,529)	(15,709)	18.0%
Other operating costs	-	-	
Sales & distribution costs	(220,834)	(221,348)	(0.2%)

Marketing & communication costs, which are set out in the table below, mainly consist of communication costs and include expenses for advertising creation, media and event costs.

Marketing & communication costs

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change

Purchases	(3,072)	(3,282)	(6.4%)
Services	(21,921)	(38,353)	(42.8%)
Personnel costs	(6,448)	(6,011)	7.3%
Amortization and depreciation	(61)	(50)	22.0%
Other operating costs	-	-	
Marketing & communication costs	(31,502)	(47,696)	(34.0%)

The sharp decrease was due mainly to the reduction in services which fell from 38.3 to 21.9 million Euro as a consequence of the reduced communication activity in a depressed market.

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

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Purchases	(609)	(753)	(19.1%)
Services	(29,494)	(28,656)	2.9%
Personnel costs	(20,230)	(21,305)	(5.0%)
Amortization and depreciation	(5,435)	(5,252)	3.5%
Write-downs of non-current assets	(229)	-	
Other operating costs	-	-	
Total	(55,997)	(55,966)	0.1%

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. The write-down of current assets refers to the estimate of bad debts.

Other operating costs

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Losses on disposal of fixed assets	(568)	(222)	155.9%
Extraordinary charges	(1,736)	(130)	1235.4%
Provisions for risks and charges	(1,418)	(2,504)	(43.4%)
Write-down of current assets	(3,455)	(906)	281.3%
Other operating costs	(6,384)	(5,904)	8.1%
Total	(13,561)	(9,666)	40.3%

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	Year ended 31 December		
	2009	2008	% change
(In thousands of Euro)			
Interest and other net (charges)/income	(3,455)	(5,309)	(34.9%)
Gains/(losses) on exchange rate differences	(426)	2,625	(116.2%)
Financial (charges)/income to adjust derivatives to fair value	1,772	2,328	(23.9%)
(Losses)/gains on disposal of investments	-	-	
(Write-down / provisions)/revaluations of investments	-	(49)	
Net financial (charges)/ income	(2,109)	(405)	420.7%

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		
	2009	2008	% change
(In thousands of Euro)			
Current and deferred taxes	(6,330)	(15,343)	
Previous years income taxes	(43,134)	(10,000)	
Income taxes	(49,464)	(25,343)	95.2%
Tax rate	142.1%	39.5%	

The tax rate was negatively influenced by: the recognition of income taxes for previous years, following the agreement to settle the aforementioned tax dispute, and positively by: the deferred tax asset generated by the elimination of the profit unrealized in inventories and the effect from the deferred tax asset recorded for the Parent company and for some foreign subsidiaries, mainly Ferragamo Usa.

The amount charged to income taxes for previous years in relation to 2008 (10 million Euro) refers to a provision which was wholly used during 2009, as already indicated in the directors' report under "significant events occurred during the year".

The tax rate, net of the cost for income taxes for previous years, would have been 23.9% in 2008 and 18.2% in 2009.

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

(In thousands of Euro)	Year ended 31 December		
	2009	2008	% change
Net profit/(loss) for the year	(14,661)	38,883	(137.7%)
Profit/(loss) - Group	(20,907)	29,787	(170.2%)
Profit/(loss) - minority interests	6,246	9,096	(31.3%)

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		
	2009	2008	% change
Tangible assets, investment property, intangible assets with a finite useful life and goodwill	127,555	133,997	(4.8%)
Net working capital	142,394	163,965	(13.2%)
Other non current assets/(liabilities), net	5,920	(87)	(6904.6%)
Other current assets/(liabilities), net	(2,563)	(18,307)	(86.0%)
Net invested capital	273,306	279,568	(2.2%)
Group shareholders' equity	146,578	153,899	(4.8%)
Minority interests	46,733	41,624	12.3%
Shareholders' equity	193,311	195,523	(1.1%)
Net financial position	(79,995)	(84,045)	(4.8%)
Net financial debt/shareholders' equity	41.4%	43.0%	

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		
	2009	2008	% change
Property, plant and equipment	106,471	111,958	(4.9%)
Investment property	7,267	7,821	(7.1%)
Goodwill and other intangible assets with an indefinite useful life	-	227	-
Intangible assets with a finite useful life	13,817	13,991	(1.2%)
Total	127,555	133,997	(4.8%)

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 42.9 million Euro;
- furnishings and restructuring work for the chain of direct stores amounting to 54.2 million Euro;
- other property, plant and equipment, mainly for IT equipment, amounting to 9.4 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 (6.5 million Euro, net value to be amortized at 31.12.09), while the remainder includes capitalized costs for software development relating to business applications (SAP, ERP, reporting systems, e-commerce platform), registration expenses for trademarks and industrial patents and intellectual property rights (software licenses).

Goodwill refers to the purchase, in 2008, of a 51% stake in the Indian company Nelia Retail Private Limited, whose name was changed into Ferragamo Retail India Private Limited in 2009. This amount, as required by accounting standards, was subject to impairment testing which led to the write-down as set out in detail in the notes.

Investments totaled 20.9 million Euro in 2009 and 28.2 million Euro in 2008. Amortization and depreciation amounted respectively to 25.2 million Euro in 2009 and 22.2 million Euro in 2008.

Working capital consisted of:

(In thousands of Euro)	2009	31 December	
		2008	% change
Inventories	162,307	192,180	(15.5%)
Trade receivables	57,347	66,163	(13.3%)
Trade payables	(77,260)	(94,378)	(18.1%)

Total	142,394	163,965	(13.2%)
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The decrease in working capital, in particular in inventories of finished products, was caused by both the reduction in sales volumes and improved rotation of stocks. The exchange rate effect also contributed to the positive containment of this item, given the appreciation of the Euro against the US dollar (+3.5%) and the Japanese Yen (+5.6%) between 31.12.2009 and 31.12.2008.

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		
	2009	2008	% change
Investments in associated and Jointly controlled companies	1,091	1,155	(5.5%)
Investments in related companies	-	-	-
Available-for-sale financial assets	71	74	(4.1%)
Other non current assets	4,848	6,713	(27.8%)
Other financial assets	5,741	6,888	(16.7%)
Derivatives	-	-	-
Deferred tax assets	55,067	50,955	8.1%
Total other non current assets	66,818	65,785	1.6%
Provisions for risks and charges	(3,912)	(22,985)	(83.0%)
Employee benefit liabilities	(9,178)	(9,699)	(5.4%)
Other non current liabilities	(41,449)	(26,848)	54.4%
Deferred tax liabilities	(6,359)	(6,340)	0.3%
Total other non current liabilities	(60,898)	(65,872)	(7.6%)
Net total	5,920	(87)	

Other non current assets consist of:

- the straight lining of rental income from the American real estate business for 3.4 million Euro (5.0 million Euro in 2008);
- the portion of receivables due after more than 12 months stemming in 2005 from the advance on fees for Ungaro fragrances amounting to 1.1 million Euro paid at the time of the sale of the Ungaro brand and the renewal of the license contract (1.5 million Euro in 2008).

Other financial assets mainly consist of guarantee deposits and, only for the year 2008, 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 profit 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 (28.2 million Euro) and the portion, due after more than 12 months (12.7 million Euro), of the installment tax payable of the Dutch company Ferragamo International B.V. The installment payment is connected to the settlement of the tax dispute with the Italian tax authorities. For further information, please refer to the section “Significant events occurred during the year”.

Other current assets/(liabilities) were as follows:

(In thousands of Euro)	31 December		
	2009	2008	% change
Other current assets/(liabilities), net			
Tax receivables	5,267	11,344	(53.6%)
Other receivables	32,646	28,377	15.0%
Assets of disposal group classified as held for sale	-	-	-
Total other current assets	37,913	39,721	(4.6%)
Provisions for risks and charges - current portion	-	-	-
Tax payables	(16,759)	(9,176)	82.6%
Other payables	(23,717)	(48,852)	(51.5%)
Liabilities directly associated with assets classified as held for sale	-	-	-
Total other current liabilities	(40,476)	(58,028)	(30.2%)
Net total	(2,563)	(18,307)	(86.0%)

Other receivables mainly include:

- the fair value assessment of hedge derivative contracts for 7.9 million Euro (2.9 million Euro in 2008) 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 being repaid by Equitalia, (concessionaire for tax collection) following the relief measures issued on 28 January 2010, in connection with the settlement of the tax

dispute which arose in previous years, set out in detail in the section “Significant events occurred during the year”;

- advances to suppliers (1.2 million Euro), receivables from credit card management companies for retail sales (2.3 million Euro), receivables from Zefer for consultancy fees (1.3 million Euro), the current portion of the receivable from Ungaro (1 million Euro) collected in February 2010, and accrued income and prepaid expenses.

At the end of 2009 there were no **assets of disposal group classified as held for sale**.

Other payables mainly refer to: 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:

(In thousands of Euro)	31 December		
	2009	2008	% change
Group shareholders’ equity	146,578	153,899	(4.8%)
Minority interests	46,733	41,624	12.3%
Total	193,311	195,523	(1.1%)

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

- for -20.9 million Euro to the loss for the year, -2.9 million Euro to the effect of the appreciation of the Euro against the other currencies (mainly the yen and the dollar) in which the annual reports of the subsidiaries are expressed and +16.4 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)	2009	2008
(In thousands of Euro)		

Cash and cash equivalents	77,403	78,237
Current financial receivables	1,324	3,497
Current financial debt	(158,722)	(165,540)
Non current financial debt	-	(239)
Net financial receivables/(payables)	(79,995)	(84,045)

The decrease in net current financial debt was mainly caused by the release of resources following the decrease in working capital.

Significant events occurred during the year

In relation to the tax dispute between the subsidiary Ferragamo International B.V. (a subholding company incorporated under Dutch law and authorized by MINCOMES to hold the Group's foreign investments), Salvatore Ferragamo Italia SpA and the Florence Revenue Office, which was initiated following an inspection carried out in 2004, based on the alleged tax residence in Italy of the Dutch company, on 9 October 2009 the dispute was settled, with an agreement which led to the signing of a *Procès Verbal* in opposition to the Revenue Office and covered the period from 1996 to 2007. This agreement generated a total cost for the Group of 53.1 million Euro (52.9 million Euro charged to the Dutch company, 241 thousand Euro charged to the Parent company) without sanctions being applied.

The economic impact on the result for 2009, due to taxes for previous years, amounted to 43.1 million Euro, considering the provision of 10 million Euro already recorded in 2008.

On a part of the overall cost (21.3 million Euro), the Dutch company obtained payment by installments, plus interest, in 12 quarterly installments (first installment on 5.11.2009- last installment on 05.08.2012) against a guarantee provided by the Parent company on the residual debt to be paid by installments, after payment of the first installment, for 20.8 million Euro.

Ferragamo International BV has taken steps with the Revenue Office to obtain due repayment from the Italian tax authority of the taxes already paid in Holland in the period 2002-2007, amounting to around 6 million Euro.

This agreement has not changed the company's belief that it has operated correctly, with absolutely no intent to evade tax, as determined with the dismissal of the criminal

proceedings, and as is also shown by the non-application of sanctions at the time of settlement.

Despite this, it was appropriate to come to an agreement, which provided for a significant reduction in the total amount disputed, in order to eliminate a risk (which is deemed as remote according to the *pro-veritate* opinions collected), also considering the contradictory non-final judgments, which were favorable for the first few years (1996-1999) and then negative for the subsequent years (2000-2001). The overall sum disputed would, among other things, have created some serious problems both in the listing process of the Parent company and in operating decisions.

Considering this charge, which is even more abnormal given the inexistence of tax savings and the legitimate reliance on the previous tax authority assessment, the directors considered it appropriate, almost an unavoidable choice, to adhere to the settlement proposal on the basis of a weighted cost-benefit assessment, without any acknowledgment of the assumptions underlying the claims of the Italian tax authorities.

In 2009 the tax dispute started against the subsidiary Ferragamo Parfums S.p.A. was also settled. The company deemed it appropriate to accept the conciliation proposal filed by the Revenue Office, the cost of which, 1.4 million Euro, had already been recorded in the 2008 annual report.

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 envisaged by French law, albeit fruitlessly as the French tax authority maintained its position. Therefore, the company appealed to the “*Commission départementale des impôts directs et des taxes sur le chiffre d'affaires*” and filed a petition with the Finance Ministry, office CF3. Before the procedure with the “*Commission départementale*” may start, the petition filed with the Finance Ministry, office CF3, must be concluded.

During 2009 the office CF3 reported that it considered the findings of the tax authorities to be legitimate, albeit possibly only in part, and at the same time asked the French tax authorities (DIRCOFI) to start a new “interlocution” procedure which led to new talks and meetings (October 2009) between the company and DIRCOFI to discuss their respective positions. In November 2009 Ferragamo France confirmed its position and filed additional data to justify its conduct. We are now awaiting feedback from DIRCOFI and the conclusions of office CF3.

The company has decided not to make any provision for risks arising from the dispute, as they are judged remote.

On 6 May 2009 the organization, management and control model pursuant to Law Decree 231/2001 came into force for the Parent company.

This model also came into force for the subsidiary Ferragamo Parfums SpA in December 2009.

On 6 May 2009 the Parent company also adopted a Code of Ethics, which was then adopted by the subsidiary Ferragamo Parfums SpA in July 2009 and which should be extended to all the other companies in the Group.

Following the circular issued by the Italian Ministry of Economic Development on 16.04.09 relating to the application of tax credits for businesses in the textile and fashion sector for pre-competitive research and development, which was introduced by art. 1, paragraphs 280 to 284 of Law no. 296 of 27.12.2006 (Finance Bill 2007) and subsequent amendments, on 6 May 2009 the Parent company claimed for the tax credit, equal to 10% of the expenses incurred for research and development activities which are eligible for the tax credit and which were started before 28.11.2008 and after 28.11.2008 until the end of the tax period to 31.12.2009, through the online transmission of the form (mod. FRS), filled-in and filed as arranged by the Director of the Revenue Office.

Following the approval (given on 15.06.09) to use the tax credit for research and development activities (mod. FRS) for a total of 958,632 Euro, the Parent company recorded the entire amount in 2009 in the item “other income and revenues”, and used it in the tax periods indicated in the approval:

- 882,139 Euro in the 2009 tax period – the amount has already been offset against the Italian regional production tax (IRAP) advance payment made in November 2009;
- the residual amount of 76,493 Euro can be used as from the 2010 tax period.

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 2009:

- the Parent company Salvatore Ferragamo Italia SpA and Ferragamo International B.V., as noted above, reached an agreement with the Florence Revenue Office for the total settlement of the outstanding tax dispute. For income, equity and financial details, please refer to the section “Significant events occurred during the year”.
- in reference to the project to list the company, the Parent company’s Board of Directors, considering the 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 by the subsidiary Ferragamo Parfums SpA. The Code is going to be adopted soon by the other Group companies.

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. The Parent company is also planning to build a photovoltaic system at its Osmannoro-Sesto Fiorentino plant to produce electricity for the plant needs, and it believes that the consequent environmental benefit would be positive.

Research and development

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.

These costs totaled 16.5 million Euro in 2009 and 18.6 million Euro in 2008.

Infragroup 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 2010 there was no prejudicial effect to the profit for the current year originating from the financial statements valuations at 31 December 2009 and in particular from the changes which occurred in exchange rates.

On 26 January 2010 Ferragamo International B.V. completed the purchase of 490 shares or 49% of the share capital of the Swiss company Ferragamo Suisse S.A. for a total amount of 100,000 Swiss francs. With this transaction the Group acquired a 100% investment in Ferragamo Suisse SA, in which it previously held a 51% controlling stake.

On 18 March 2010 the Parent company received from Equitalia Cerit SpA (concessionaire for tax collection) repayment of the total amount of 7.7 million Euro following the two relief measures issued on 28 January 2010 and relating to the agreement signed in opposition to the Florence Revenue Office to settle the tax dispute; for further details, please refer to the section “Significant events occurred during the year”.

The Parent company and Ferragamo Parfums SpA are currently renewing the contract with Ferragamo Finanziaria SpA relating to the exercise of the option for the domestic fiscal unity regime for the three-year period 2010-12.

Outlook for 2010

The 2010 forecasts made by private analysts and international organizations have recently been revised upwards; the OECD forecasts a GDP rise of around 2% in the advanced economies, a relatively modest rate compared to previous periods seeing the start of cyclical expansion. On the other hand, growth should continue at high rates in China, India and Brazil, driven by a stronger dynamic in domestic demand. Some weaknesses could affect the recovery in advanced economies. For example, the expansive effect of fiscal stimulus incentives should ease off in the second part of the year; also the positive contribution from the expected restocking of inventories will, by its very nature, be temporary. As for the possibility that consumption will return to drive recovery, there is uncertainty regarding the conditions of the labor market; unemployment rates should rise further or, in any case, remain high for most of 2010. In some countries, including the United States, also the desire of households to put their finances back in order is limiting their propensity to spend. The lower use of production capacity tends to restrict investments in capital goods, while the excess offer of real estate properties tends to discourage investments in construction in countries where that market has been hardest hit.

Also in the eurozone, according to the economic indicators, the recovery continued in the last few months of 2009. However, the marked improvement in business and consumer confidence has not yet corresponded to an equally strong enhancement of production and sales volumes. This is reflected, against a relatively positive trend in exports, on the constant weakness of domestic demand; consumption is affected by the fall in employment which continued in the autumn. According to OECD estimates, which are broadly in line with those of the Eurosystem experts, GDP in the area should increase by around 1% in 2010. Consumer inflation, which at the end of 2009 was around 1%, should rise slightly in 2010. The ECB has left its reference rates unchanged and has started to gradually abandon unconventional measures, as they are deemed no longer necessary, although confirming the commitment of the Eurosystem to provide all the liquidity necessary to the banking system. In summary, the first few months of 2010 have seen an improving economic scenario compared to 2009 with positive growth rates in all the main economies.

As for currencies, the Euro has lost ground in the first part of 2010 against both the US and Japanese currencies.

Based on the budget forecasts and the results of the first few months of 2010, sales, operating profit and net profit for the year are expected to increase compared to 2009.

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated financial statements

Consolidated statement of financial position - assets

(In thousands of Euro)	Notes	December	
		2009	2008
NON CURRENT ASSETS			
Property, plant and equipment	4	106,471	111,958
Investment property	5	7,267	7,821
Goodwill and other intangible assets with an indefinite useful life	7	-	227
Intangible assets with a finite useful life	6	13,817	13,991
Investments in associated and jointly controlled companies	8	1,091	1,155
Investments in related companies		-	-
Available-for-sale financial assets	9	71	74
Other non current assets	10	4,848	6,713
Other non current financial assets	11	5,741	6,888
Derivatives		-	-
Deferred tax assets	12	55,067	50,955
TOTAL NON CURRENT ASSETS		194,373	199,782
CURRENT ASSETS			
Inventories	13	162,307	192,180
Trade receivables	14	57,347	66,163
Tax receivables	15	5,267	11,344
Other current assets	16	32,646	28,377
Other current financial assets	17-32	1,324	3,497
Cash and cash equivalents	18	77,403	78,237
TOTAL CURRENT ASSETS		336,294	379,798
Assets of disposal group classified as held for sale	19	-	-
Total assets of disposal group classified as held for sale		-	-
TOTAL ASSETS		530,667	579,580

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated statement of financial position - liabilities and shareholders' equity

(In thousands of Euro)	Notes	December	
		2009	2008
SHAREHOLDERS' EQUITY			
GROUP SHAREHOLDERS' EQUITY			
Share capital	20	16,841	16,841
Reserves	20	150,644	107,271
Net profit/(loss) – Group		(20,907)	29,787
TOTAL GROUP SHAREHOLDERS' EQUITY		146,578	153,899
MINORITY INTERESTS			
Share capital and reserves – minority interests		40,487	32,528
Net profit/(loss) – minority interests		6,246	9,096
TOTAL MINORITY INTERESTS		46,733	41,624
TOTAL SHAREHOLDERS' EQUITY		193,311	195,523
NON CURRENT LIABILITIES			
Non current interest-bearing loans & borrowings		-	-
Provisions for risks and charges	21	3,912	22,985
Employee benefit liabilities	22	9,178	9,699
Other non current liabilities	23	41,449	26,848
Non current financial liabilities	24-32	-	239
Deferred tax liabilities	25	6,359	6,340
TOTAL NON CURRENT LIABILITIES		60,898	66,111
CURRENT LIABILITIES			
Trade payables	26	77,260	94,378
Interest-bearing loans & borrowings	27	158,149	165,227
Provisions for risks and charges - current portion		-	-
Tax payables	28	16,759	9,176
Other current liabilities	29	23,717	48,852
Other current financial liabilities	30-32	573	313
TOTAL CURRENT LIABILITIES		276,458	317,946
Liabilities directly associated with assets classified as held for sale		-	-
Total liabilities directly associated with assets classified as held for sale		-	-
TOTAL LIABILITIES		337,356	384,057
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		530,667	579,580

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Separate consolidated income statement

(In thousands of Euro)	Notes	December	
		2009	2008
Revenues from sales and services	33	612,012	683,886
Rental income investment properties	34	7,586	6,944
Cost of goods sold	35	(256,066)	(271,878)
Gross profit		363,532	418,952
Other income and revenues	36	19,664	9,704
Style, product development and logistics costs	37	(24,826)	(30,189)
Sales & distribution costs	38	(220,834)	(221,348)
Marketing & communication costs	39	(31,502)	(47,696)
General and administrative costs	40	(55,997)	(55,966)
Other operating costs	41	(13,561)	(9,666)
Operating profit		36,476	63,791
Financial charges	43	(18,068)	(26,373)
Financial income	44	15,959	25,968
Share of net profit/(loss) on investments accounted for using the Equity Method	45	436	840
Profit before taxes		34,803	64,226
Income taxes	46	(49,464)	(25,343)
Profit/(loss) for the year from continuing operations		(14,661)	38,883
Net profit/(loss) from discontinued operations, net of taxes	47	-	-
Net profit/(loss) for the year		(14,661)	38,883
Profit/(loss) – Group		(20,907)	29,787
Profit/(loss) – minority interests		6,246	9,096

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Earnings per share	Notes	31 December	
		2009	2008
	48		
Basic earnings per share ordinary shares		(1.24)	1.74
Basic earnings per share preferred shares		(1.24)	1.79
Diluted earnings per share ordinary shares		(1.24)	1.74
Diluted earnings per share preferred shares		(1.24)	1.79
Earnings per share from continuing operations			
Basic earnings from continuing operations per ordinary share		(1.24)	1.74
Basic earnings from continuing operations per preferred share		(1.24)	1.79
Diluted earnings from continuing operations per ordinary share		(1.24)	1.74
Diluted earnings from continuing operations per preferred share		(1.24)	1.79
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

Basic dividend per share preferred shares

-	-
-	-
-	-

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated statement of comprehensive income

(In thousands of Euro)	Notes	31 December	
		2009	2008
Profit/(loss) for the period		(14,661)	38,883
Currency translation differences of foreign operations		(2,959)	6,733
Net (loss)/ gain from cash flow hedge		22,558	(26,015)
Income taxes effect		(6,204)	7,154
		16,354	(18,861)
Net (loss)/ gain from recognition of defined-benefit plans for employees		318	(853)
Income taxes effect		(87)	244
		231	(609)
Other comprehensive income for the period, net of taxes		13,626	(12,737)
Total comprehensive income for the period, net of taxes		(1,035)	26,146
Group		(7,321)	16,903
Minority interests		6,286	9,243

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Consolidated cash flow statement

(In thousands of Euro)	31 December 2009	31 December 2008
NET INCOME/ (LOSS)	(14,661)	38,883
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:		
Amortization and depreciation	25,437	22,163
Deferred tax assets and liabilities	(11,195)	(4,827)
Provision for employee severance indemnities	3,522	4,201
Provision for obsolete inventory	2,632	7,708
Losses and provision for bad debt	3,455	906
Loss/(gain) on disposal of tangible assets	505	(2,061)
Share of net profit/(loss) on investments accounted for using the Equity Method	64	(414)
Other non-cash items	1,418	2,920
Changes in operating assets and liabilities:		
Trade receivables	4,616	(3,720)
Inventories	23,720	(38,829)
Trade payables	(16,986)	(6,665)
Tax receivables	6,012	(4,053)
Tax payables	7,526	(674)
Advance payments and settlements of employee severance indemnities	(3,695)	(4,764)
Other – net	(9,274)	4,698
	23,096	15,473
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Cash flow from investing activities:		
Purchase of tangible assets	(18,320)	(24,873)
Investment property	-	-
Purchase of intangible assets	(2,600)	(3,305)
Net change in non current assets and liabilities	1,037	(1,774)
Cash from disposal of equity investments – other companies	-	-
Cash from disposal of tangible and intangible assets	194	2,833
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 acquired	-	-
	(19,689)	(27,062)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Cash flow from financing activities:		
Net change in financial receivables	2,849	(3,317)
Net change in financial payables	(2,394)	33,478
Dividends paid	(3,117)	(8,043)
Other net changes to Group shareholders' equity	(74)	(30)
Other net changes to minority interests	228	-
	(2,508)	22,088
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	899	10,499

CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	77,058	64,827
Increase/(decrease) in cash and cash equivalents	899	10,499
Net effect of translation of foreign currencies on cash and cash equivalents	(958)	1,733
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	76,999	77,058

Additional information

	31 December 2009	31 December 2008
Interest paid	2,669	5,937
Income taxes paid	47,644	21,348
Interest received	451	1,690
Dividends received	500	425

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Statement of changes in consolidated shareholders' equity

Changes in consolidated shareholders' equity	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Effect IAS 28 (Common) Equity	Profit/(loss) for the year	Group shareholders' equity	Minority interests	Total shareholders' equity
(In thousands of Euro)														
As at 31.12.2007	16,841	2,995	4,188	359	7,885	(49,460)	114,466	14,920	(517)	(5,924)	38,459	144,212	33,748	177,960
Allocation of results	-	-	-	7,610	-	-	30,849	-	-	-	(38,459)	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	29,787	29,787	9,096	38,883
Other comprehensive income	-	-	-	-	(18,861)	6,538	48	-	(609)	-	-	(12,884)	147	(12,737)
Total comprehensive income	-	-	-	-	(18,861)	6,538	48	-	(609)	-	29,787	16,903	9,243	26,146
Dividends	-	-	-	(7,477)	-	-	-	-	-	-	-	(7,477)	(2,278)	(9,755)
Change in consolidation area	-	-	-	-	-	-	(105)	-	-	-	-	(105)	911	806
Share-based payments	-	-	-	-	-	-	-	366	-	-	-	366	-	366
As at 31.12.2008	16,841	2,995	4,188	492	(10,976)	(42,922)	145,258	15,286	(1,126)	(5,924)	29,787	153,899	41,624	195,523

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director

Changes in consolidated shareholders' equity	Share capital	Share capital contributions	Legal reserve	Extraordinary reserve	Cash flow hedge reserve	Translation reserve	Retained earnings	Other reserves	Effect IAS 19 Equity	Effect IAS 28 (Common Control) Equity	Profit/(loss) for the year	Group shareholders' equity	Minority interests	Total shareholders' equity
(In thousands of Euro)														
As at 31.12.2008	16,841	2,995	4,188	492	(10,976)	(42,922)	145,258	15,286	(1,126)	(5,924)	29,787	153,899	41,624	195,523
Allocation of results	-	-	-	24,151	-	-	5,636	-	-	-	(29,787)	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	(20,907)	(20,907)	6,246	(14,661)
Other comprehensive income	-	-	-	-	16,354	(2,925)	(74)	-	231	-	-	13,586	40	13,626
Total comprehensive income	-	-	-	-	16,354	(2,925)	(74)	-	231	-	(20,907)	(7,321)	6,286	(1,035)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(1,405)	(1,405)
Share Capital contributions from minority interests	-	-	-	-	-	-	-	-	-	-	-	-	228	228
Reclassifications	-	-	-	-	-	-	746	(746)	-	-	-	-	-	-
As at 31.12.2009	16,841	2,995	4,188	24,643	5,378	(45,847)	151,566	14,540	(895)	(5,924)	(20,907)	146,578	46,733	193,311

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 2009 was authorized by a resolution of the Board of Directors on 23 March 2010. 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 2008 is given below.

Ferragamo Finanziaria S.p.A		
(in Euro)		
BALANCE SHEET at 31.12.2008		
ASSETS	31.12.2008	31.12.2007
B) Fixed assets	145,411,642	73,508,917
C) Current assets	1,664,451	4,042,925
TOTAL ASSETS	147,076,093	77,551,842
LIABILITIES AND SHAREHOLDERS' EQUITY		
A) Shareholders' equity		
- Share capital	49,749,960	49,749,960
- Reserves	8,920,054	8,484,433
- Retained earnings (losses)	-	-
- Profit (loss) for the year	1,941,971	7,898,115
B) Provisions for risks and charges	-	67,344
D) Payables	86,083,159	10,847,370
E) Accrued expenses and deferred income	380,949	504,620
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	147,076,093	77,551,842
Guarantees, commitments and other risks	91,376	91,376

INCOME STATEMENT at 31.12.2008

A) Value of production	-	-
B) Costs of production	(1,080,219)	(927,760)
C) Financial income and charges	2,566,879	8,589,153
D) Adjustments to value of financial assets	-	(50,000)
E) Extraordinary income and charges	(95,916)	-
Income taxes for the year, current and deferred	551,227	286,722
PROFIT (LOSS) FOR THE YEAR	1,941,971	7,898,115

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 2009 and 2008 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:

- 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;
- 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 stock option plans at the grant date of the options, calculated on the basis of the characteristics of the options granted and the data included in the valuation model; these elements are set out 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 2009 and 2008 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 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 2009:

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	München	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	4,600,000		100%	(2)
Sator Realty Inc	New York	Usd	100,000		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, Chile	Clp	1,471,169,399	5%	95%	(1)
Ferragamo Argentina SA	Buenos Aires	Ars	6,174,750	4.72%	95.28%	(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.	Sidney	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)
Ferragamo Retail India 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	45,000,000		50%	(1)
Ferragamo (Malaysia) Sdn Bhd	Kuala Lumpur	Myr	1,300,000		50%	(1)
Ferragamo Retail Macau Limited	Macau	Mop	25,000		60%	(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 consolidated 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%	

In 2009 the Group structure underwent only one change, with the incorporation, in October 2009, of Ferragamo Retail Macau Limited in which Ferragamo International BV holds a 60% stake, following the subscription of a share with a nominal value of 15,000 Patacas (MOP) (1,272 euro). The remaining 40% stake, worth 10,000 Patacas, was subscribed by Imaginex Overseas Limited, our local partner in companies in Greater China (China, Hong Kong, and Taiwan).

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

The consolidated annual report is expressed in Euro, which is the functional and presentation currency adopted by the Parent company. Every Group company 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 denominated 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 date of 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 exchange rates	
	for the year ended 31 December		at 31 December	
	2009	2008	2009	2008
US Dollar	1.39478	1.47076	1.4406	1.39170
Swiss Franc	1.51002	1.58739	1.4836	1.48500
Japanese Yen	130.33701	152.45400	133.1600	126.14000
Pound Sterling	0.890940	0.79628	0.8881	0.95250
Australian Dollar	1.77270	1.74162	1.6008	2.02740
Korean Won	1,772.90	1,606.09	1,666.97	1,839.13
Hong Kong Dollar	10.8114	11.45410	11.1709	10.78580
Mexican Peso	18.7989	16.29110	18.9223	19.23330
Taiwan Dollar	46.0182	46.28330	46.13040	45.66080
Singapore Dollar	2.02409	2.07619	2.0194	2.00400
Thai Baht	47.8044	48.47530	47.9860	48.28500
Malaysian Ringgit	4.90791	4.88933	4.9326	4.80480
Indian Rupee	67.36110	63.73430	67.04000	67.63600
Macau Pataca	11.13140	-	11.49790	-
Chinese Renminbi	9.52771	10.22360	9.83500	9.49560
Chilean Peso	776.509	762.8470	730.744	888.08598
Argentine Peso	5.21103	4.63927	5.46185	4.80444

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
- Improvements to third-party assets	On the basis of the residual duration of the asset's lease contract

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 for group sector reporting as determined on the basis of the indications of IFRS 8 Operating segments.

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.

Should minority interests be acquired, the excess difference between the cost of the business combination and the minority interests' share bought by the Group is recorded under shareholders' equity in accordance with the entity concept method.

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 for its investments in associated companies and joint ventures 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/(loss) 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 interest 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 translated 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.

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 options

In the presence of stock option plans belonging to the equity settled category, in accordance with the provisions of IFRS 2 – Share-based payment – 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.

If the terms and conditions for exercising the options are changed, the services received, which are measured at the fair value of the equity instruments allocated at the grant date, continue to be recognized, unless they fail to vest owing to failure to respect any one of the conditions specified at the grant date. In addition, the effects of changes which increase the fair value of these agreements are recorded.

Given share-based transactions which are settled in cash, the assets or services acquired and the liabilities taken on are measured at fair value. Until the liability is settled, the fair value is recalculated at each year-end date and at the settlement date, charging the related changes to the income statement.

Financial income and charges

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.

Financial charges which are directly related to the acquisition, construction or manufacture of an asset requiring a significant amount of time before being ready for its expected use or for sale (a so-called qualifying asset) are capitalized as part of the cost of the asset itself.

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 taxes 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 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.

During the year the Group has adopted the following new or revised IFRS and the following new or revised interpretations:

IFRS 2 Share-based payment - Vesting conditions and cancellations. In force since 1 January 2009

IFRS 7 Financial instruments: disclosures. In force since 1 January 2009

IFRS 8 Operating segments. In force since 1 January 2009

IAS 1 Presentation of financial statements. In force since 1 January 2009

IAS 23 Borrowing costs (revised). In force since 1 January 2009

When the adoption of a standard or interpretation affects the Group's performance or annual report, the impact is described below:

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

The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and establishes the accounting treatment to be used should a bonus be cancelled following failure to fulfill a non-vesting condition. The Group has adopted this amendment as from 1 January 2009. This has not had any impact on the Group's financial position or performance.

IFRS 7 Financial instruments: disclosures

The amended standard requires additional information regarding fair value assessments and liquidity risk. In case of fair value assessments, additional information on the input sources should be provided, using a fair value hierarchy on three levels, for each type of financial instrument. The standard also requires a reconciliation between the opening and closing balance of the fair value assessment for third level valuations, and also for measurements of significant transfers between the various hierarchy levels. Moreover, the amendments set out what is necessary in terms of disclosure on liquidity risk in reference to derivatives and financial assets used to manage foreign liquidity.

IFRS 8 Operating segments

IFRS 8 has replaced IAS 14 Segment reporting since its coming into force. 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

The revised IAS 1 separates changes in shareholders' and non-shareholders' equity. 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 has opted for presentation in two statements.

IAS 23 Borrowing costs

IAS 23 (Revised) requires the capitalization of borrowing costs which are directly related to the acquisition, construction or manufacture of an asset which justifies such capitalization. The previous accounting standard adopted by the Group required the allocation to the income statement of borrowing costs in the period in which they occurred. In compliance with the transitional provisions of IAS 23, the Group has adopted the standard on a prospective basis.

Amendments and interpretations effective as from 1 January 2009 which are not relevant for the Group

The following amendments, improvements and interpretations, which are effective as from 1 January 2009, govern situations and cases which have not occurred within the Group at the date of this annual report, but which could have accounting effects:

Improvement to IAS 29 – Financial reporting in hyperinflationary economies

Improvement to IAS 40 – Investment property

IFRIC 13 Customer loyalty programs

IFRIC 15 Agreements for the construction of real estate

IFRIC 16 Hedges of a net investment in a foreign operation

IFRS and IFRIC interpretations not yet in force

The Group has not yet adopted, in advance, the following new standards and interpretations and considers that their application will not have a significant impact on the annual report.

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 an 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.

IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial instruments: recognition and measurement. In force for financial years ending as from 30 June 2009

IFRIC 17 Distribution of non-cash assets to shareholders. In force from 1 July 2009

Improvements to IFRS

In May 2008 and April 2009 the IASB issued a series of improvements to the standards, mainly in order to remove inconsistencies and clarify terminology. Each standard has transitional provisions.

IFRS 5 Non-current assets held for sale and discontinued operations clarifies that the additional information required for non-current assets and groups of assets which are being disposed of and classified as held for sale, or for discontinued operations, is only that required by IFRS 5. The disclosure required by other IFRS is applied only if specifically requested in reference to those types of non-current assets or discontinued operations.

IFRS 8 Operating segments clarifies that the assets and liabilities of an operating segment must be shown only if they are part of the reporting used by senior management.

Since the Group's senior management reviews assets and liabilities by segment, the Group has continued to provide such information.

IAS 1 Presentation of financial statements: assets and liabilities classified as held for trading in accordance with the provisions of IAS 39 Financial instruments: recognition and measurement are not automatically classified as current items on the balance sheet and financial position statement.

IAS 7 Statement of cash flows explicitly states that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. This change will modify the presentation in the Cash flow statement of the potential cost of the business combination completed in 2009 at the time of cash settlement.

IAS 16 Property, plant and equipment: substitution of the term "net selling price" with "fair value less costs to sell".

IAS 20 Accounting for government grants and disclosure of government assistance: interest-free grants or grants with low interest rates are not exempt from the requirement of recording interest. The interest must be allocated to loans granted with below-market interest rates. This change has no impact on the Group, since it has received public assistance in the form of direct contributions and not in the form of lending.

IAS 23 Borrowing costs: the definition of Borrowing Costs has been revised in order to bring together under one heading the two items that make up Borrowing Costs – interest expense is calculated using the effective interest rate method as provided for by IAS 39.

IAS 36 Impairment of assets: when, in order to estimate "fair value less costs to sell", discounted cash flows are used, additional information on the discount rate must be given, in keeping with the information required when discounted cash flows are used to estimate the "value in use". The change clarifies that the broadest unit to which the goodwill purchased in a business combination can be allocated is the operating segment as defined in IFRS 8 prior to the combination for reporting purposes.

IAS 38 Intangible assets: advertising expense and promotional activities are recognized as costs when the Group either has the right to use those goods or has received the service. This change has no impact on the Group, since it has not undertaken this type of activity.

The reference to the possible existence of rare evidence, if ever noticeable, supporting an amortization method for intangible assets other than the straight-line method has been removed.

3. Business combinations and purchases of minority interests

In 2009 there were no business combinations and/or purchases of minority interests.

In 2008, a 51% interest in the New Delhi-based Indian company Nelia Retail Private Limited (now renamed Ferragamo Retail India Private Limited) was acquired.

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 2009 and 2008 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 2009		
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Land	17,870	-	17,870	
Buildings	36,960	11,951	25,009	
Plant and equipment	14,143	11,066	3,077	
Industrial and commercial equipment	75,124	46,815	28,309	
Other assets	29,550	23,200	6,350	
Improvements to third-party assets	65,356	40,549	24,807	
Fixed assets in progress and payments on account	1,049	-	1,049	
TOTAL	240,052	133,581	106,471	

The following tables show the changes in tangible assets for the years ended 31 December 2009 and 2008:

Property, plant and equipment		31 December 2008						
(In thousands of Euro)	Value 31.12.2007	Translation difference	Additions	Disposals	Depreciation	Reclassifications	Change in cons 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

Property, plant and equipment		31 December 2009						
(In thousands of Euro)	Value 31.12.2008	Translation difference	Additions	Disposals	Depreciation	Reclassifications	Change in cons area	Value 31.12.2009
Land	17,395	475	-	-	-	-	-	17,870
Buildings	24,529	(145)	1,988	-	1,363	-	-	25,009
Plant and equipment	1,770	(2)	1,936	(44)	577	(6)	-	3,077
Industrial and commercial equipment	29,033	(645)	8,815	(160)	8,791	57	-	28,309
Other assets	6,222	(30)	3,150	(36)	2,956	-	-	6,350
Improvements to third-party assets	28,699	(433)	5,609	(457)	8,560	(51)	-	24,807
Fixed assets in progress and payments on account	4,310	(17)	4,390	(7,568)	-	(66)	-	1,049
TOTAL	111,958	(797)	25,888	(8,265)	22,247	(66)	-	106,471

The addition:

- in the item “Buildings” refers to improvements to the property owned in the USA and the facility at Osmannoro-Sesto Fiorentino;
- in industrial and commercial equipment relates to the opening and restructuring of stores (8.3 million Euro) and moulds (0.5 million Euro) for the Fragrances business;
- in other assets mainly concerns IT equipment (1.1 million Euro) and furniture and furnishings (1.12 million Euro);
- in improvements to third-party assets refers mainly to work carried out for the opening or restructuring of stores.

Disposals mainly refer to assets in restructured or closed stores.

5. Investment property

The historic cost, the accumulated depreciation and net book value of investment property at 31 December 2009 and 2008 are shown in the following table:

Investment property	31 December					
	2009				2008	
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE
Land	3,885	-	3,885	4,022	-	4,022
Buildings	9,144	5,762	3,382	9,465	5,666	3,799
Improvements to third-party assets	-	-	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-	-	-
TOTAL	13,029	5,762	7,267	13,487	5,666	7,821

Investment property refers entirely to the buildings located in the United States. Their residual useful life at 31 December 2009 is estimated at approximately 30 years.

The following tables show the change in investment property for the years ended 31 December 2009 and 2008:

Investment property	31 December 2009				
	(In thousands of Euro)	Value 31.12.2008	Translation difference	Depreciation	Value 31.12.2009
Land		4,022	(137)	-	3,885
Buildings		3,799	(119)	298	3,382
Improvements to third-party assets		-	-	-	-
Fixed assets in progress and payments on account		-	-	-	-
TOTAL		7,821	(256)	298	7,267

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 2009 and 2008 is shown in the following table:

Intangible assets with a finite useful life			
31 December 2009			
	HISTORIC COST	ACCUMULATED AMORTIZATION	RESIDUAL VALUE
(In thousands of Euro)			
Industrial patents and intellectual property rights	10,792	9,666	1,126
Concessions, licenses and trademarks	6,349	4,828	1,521
Others	21,833	11,967	9,866
Intangible assets with a finite useful life in progress and payments on account	1,304	-	1,304
TOTAL	40,278	26,461	13,817

Intangible assets with a finite useful life			
31 December 2008			
	HISTORIC COST	ACCUMULATED AMORTIZATION	RESIDUAL VALUE
(In thousands of Euro)			
Industrial patents and intellectual property rights	8,576	7,690	886
Concessions, licenses and trademarks	6,036	4,465	1,571
Others	22,710	12,271	10,439
Intangible assets with a finite useful life in progress and payments on account	1,095	-	1,095
TOTAL	38,417	24,426	13,991

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2009 and 2008:

Intangible assets with a finite useful life			31 December 2008					
(In thousands of Euro)	Value	Translation	Additions	Disposals	Amortisation	Reclassifications	Change in	Value
	31.12.2007	difference					cons. area	31.12.2008
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	1,495	-	1,314	445	947	10,439
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

Intangible assets with a finite useful life			31 December 2009					
In thousands of Euro)	Value 31.12.2008	Translation difference	Additions	Disposals	Amortization	Reclassifications	Change in cons area	Value 31.12.2009
Industrial patents and intellectual property rights	886	(1)	781	-	901	361	-	1,126
Concessions, licenses and trademarks	1,571	-	313	-	363	-	-	1,521
Others	10,439	(176)	1,298	(1)	1,399	(295)	-	9,866
Intangible assets with a finite useful life in progress	1,095	1	1,385	(1,177)	-	-	-	1,304
TOTAL	13,991	(176)	3,777	(1,178)	2,663	66	-	13,817

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 region of Asia, the item also includes the indemnity paid in 2008 (834 thousand Euro) by the Indian company Nelia Retail Private Limited (which in 2009 was renamed Ferragamo Retail India Private Limited) for the early termination of the previous franchising contract. This item also includes software development costs relating to the capitalization of expenses (mainly IT consultancy) for the development of business software applications (SAP accounting system, ERP production system, reporting systems, e-commerce platform which sales started during 2009).

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

Key - money	31.12.2009	31.12.2008
(In thousands of Euro)		
Italy	-	-
Europe (excluding Italy)	2,443	3,029
North America	3,181	3,469
Japan	-	-
Asia and Oceania	870	867
Central and South America	-	-
Total	6,494	7,365

7. Goodwill and intangible assets with an indefinite useful life

Goodwill and other intangible assets with an indefinite useful life	31-Dec 2009			31-Dec 2008		
	GROSS VALUE	Impair- ment	NET VALUE	GROSS VALUE	Impair- ment	NET VALUE
(In thousands of Euro)						
Goodwill	229	229	-	227	-	227
TOTAL	229	229	-	227	-	227

Goodwill and other intangible assets with an indefinite useful life					
31 December 2008					
(In thousands of Euro)	Value	Translation	Additions	Impairment	Value
	31.12.2007	difference			31.12.2008
Goodwill	-	(33)	260	-	227
TOTAL	-	(33)	260	-	227

Goodwill and other intangible assets with an indefinite useful life					
31 December 2009					
(In thousands of Euro)	Value	Translation	Additions	Impairment	Value
	31.12.2008	difference			31.12.2009
Goodwill	227	2	-	229	-
TOTAL	227	2	-	229	-

In the annual report at 31.12.2008 goodwill of 227 thousand Euro was recorded, arising from the acquisition of 51% of the Indian company Nelia Retail Private Limited, now renamed Ferragamo Retail India Private Limited.

During 2009 this value was subject to impairment test and subsequently written down charging the effect to the income statement under general and administrative costs. This impairment entirely refers to the “core business” operating segment.

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 the item “Available-for-sale financial assets” at 31 December 2009 and at 31 December 2008 is set out in the following table:

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

Available-for-sale financial assets		31 December 2009					
(In thousands of Euro)	Investment percentage	Value 31.12.2008	Translation difference	Reclassifications	Increases	Write downs	Value 31.12.2009
Polimoda srl	2.45%	20	-	-	-	-	20
Fondo Amphora	2.8%	27	(1)	-	-	-	26
Other assets		27	(2)	-	-	-	25
TOTAL		74	(3)	-	-	-	71

10. Other non current assets

The breakdown of the item “Other non current assets” at 31 December 2009 and 31 December 2008 is set out in the following table:

Other non current assets	31 December	
	2009	2008
(In thousands of Euro)		
Advances to suppliers	1,100	1,500
Other	3,748	5,213
TOTAL	4,848	6,713

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 3.4 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 2009 and 31 December 2008 is set out in the following table:

Other non current financial assets	31 December		
	2009	2008	Change
(In thousands of Euro)			
Financial receivables from third parties due after 12 months	20	21	(1)
Guarantee deposits from third parties	5,721	5,348	373
Other receivables for long-term hedge derivatives	-	1,519	(1,519)
TOTAL	5,741	6,888	(1,147)

Guarantee deposits from third parties refer to guarantee deposits for existing rental contracts and are accounted for at amortized cost; the item “Other receivables for hedge derivatives” relates to 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		
	2009	2008	Change
(In thousands of Euro)			
TOTAL	55,067	50,955	4,112

13. Inventories

Ending inventories refer to the following categories:

Inventories	31 December		
	2009	2008	Change
(In thousands of Euro)			

Raw materials, accessories and consumables	29,411	34,605	(5,194)
Provision for obsolete inventory	(7,480)	(6,564)	(916)
Raw materials, accessories and consumables	21,931	28,041	(6,110)
Finished products and goods for resale	156,849	179,175	(22,326)
Provision for obsolete inventory	(16,473)	(15,036)	(1,437)
Finished products and goods for resale	140,376	164,139	(23,763)
TOTAL	162,307	192,180	(29,873)

The change in raw materials, compared to 2008, depends on production volumes, which decreased during the year due to the reduction in sales volumes; the provision reflects the obsolescence of raw materials (leathers and accessories) which are no longer suitable for the company's production plans. The significant decrease in inventories of finished products was caused by both the reduction in sales volumes and the improved rotation of stocks. The exchange rate effect also contributed to the favorable containment of this item. The change, net of the exchange rate effect, was -20.3 million Euro (exchange rate effect -3.5 million Euro, in particular the Yen and US\$).

Provisions for obsolete inventory were as follows:

Provisions for obsolete inventory	31 December		Change
	2009	2008	
(In thousands of Euro)			
Raw materials	917	(1,898)	2,815
Finished products	1,715	9,606	(7,891)
TOTAL	2,632	7,708	(5,076)

14. Trade receivables

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

Trade receivables	31 December		Change
	2009	2008	
(In thousands of Euro)			
Trade receivables from third parties	60,823	69,217	(8,394)
Provision for bad debt	(3,494)	(3,076)	(418)
Trade receivables from related parties	18	22	(4)
Trade receivables from associates	-	-	-
TOTAL	57,347	66,163	(8,816)

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

Trade receivables for approximately 11.5 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. As for the Fragrances business, in 2009 Euro 2.3 million, relating to trade receivables due from the Japanese market distributor, which went bankrupt during the year, were carried as bad debt in the income statement under the item “Other operating costs”.

The changes in the provision during 2009 were as follows:

31 December					
Provision for bad debt 2009					
(In thousands of Euro)					
	Value	Translation	Additions	Uses	Value
	31.12.2008	difference			31.12.2009
TOTAL	3,076	(24)	902	(460)	3,494

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:

31 December			
Tax receivables	2009	2008	Change
(In thousands of Euro)			
- Due from tax authorities for VAT and other taxes	3,466	6,287	(2,821)
- Due from tax authorities for income taxes	1,799	4,994	(3,195)
- Withholding taxes	2	63	(61)
TOTAL	5,267	11,344	(6,077)

The decrease in tax receivables can be broken down as follows: for VAT receivables it is due to the turnover reduction and the collection of receivables relating to previous years for the Fragrances business, while for income taxes it is due to the reduction in tax advances paid during the year, especially by Group companies in the United States.

16. Other current assets

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

Other receivables	31 December		Change
	2009	2008	
(In thousands of Euro)			
Other receivables from third parties within 12 months	15,613	16,717	(1,104)
Other receivables from associated and jointly controlled companies within 12 months	1,267	1,764	(497)
Other receivables from related parties	722	18	704
Accrued income	398	1,034	(636)
Prepaid expenses	6,767	5,932	835
Other receivables for short-term hedge derivatives	7,879	2,912	4,967
TOTAL	32,646	28,377	4,269

Other receivables from third parties refer to:

- 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 being repaid by Equitalia, (concessionaire for tax collection) following the relief measures issued on 28 January 2010, in connection with the settlement of the tax dispute which arose in previous years, set out in detail in the section “Significant events occurred during the year”;
- advances to suppliers (1.2 million Euro), receivables from credit card management companies for retail sales (2.3 million Euro);
- the remainder of the receivable due from Ungaro (1 million Euro) which expired on 17.11.09 and was collected in February 2010, as the balance consideration for the sale of the Ungaro fragrances brand which occurred in 2005;
- receivables from lessees of the American property for 0.6 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 0.4 million Euro.

Other receivables for hedge derivatives of 7.9 million Euro (2.9 million in 2008) 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
	2009	2008	
(In thousands of Euro)			
Derivatives	1,147	3,294	(2,147)
Other financial assets	177	203	(26)
TOTAL	1,324	3,497	(2,173)

18. Cash and cash equivalents

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

Cash and cash equivalents	31 December		Change
	2009	2008	
(In thousands of Euro)			
Time deposits	34,872	46,791	(11,919)
Bank and post office deposits	42,066	31,058	11,008
Checks	15	-	15
Cash and values on hand	450	388	62
TOTAL	77,403	78,237	(834)

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 2009 the Group had unused lines of credit for approximately 229 million Euro. At 31 December 2008 unused lines of credit totaled approximately 203 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
	2009	2008	
(In thousands of Euro)			

Cash and bank sight deposits	42,531	31,446	11,085
Short-term bank deposits	34,872	46,791	(11,919)
Bank overdrafts	(404)	(1,179)	775
TOTAL	76,999	77,058	(59)

19. Assets of disposal group classified as held for sale

At 31 December 2009 there were no assets of disposal group classified as held for sale.

20. Share capital and reserves

At 31 December 2009, 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 2009 and 2008, 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 2009 totaled 4,396 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>
(In thousands of Euro)				
At 31 December 2009				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	24,643	-	-	24,643
Cash flow hedge reserve	-	-	5,378	5,378
Translation reserve	-	(45,847)	-	(45,847)
Retained earnings	151,566	-	-	151,566
Other reserves	-	-	7,721	7,721
TOTAL	180,397	(45,847)	16,094	150,644

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 entirely refers to the Parent company, was set up with undistributed profits; the increase recorded in the year includes all the profit of the previous year since the Parent company did not approve any distribution of dividends in 2009.

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 against 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 2009 this reserve rose by 6.3 million Euro due to the capitalization of the 2008 profit (5.6 million Euro) and the reclassification from other reserves of the stock option reserve (746 thousand Euro).

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		
31 December 2009	Shareholders’ equity	Profit/(loss) for the year
(In thousands of Euro)		
Statutory annual report of the Parent company	96,493	22,346
Difference between the shareholders’ equity of the consolidated investments and the book value of the investee companies	135,620	
Profit/(loss) recorded by the investee companies		(37,406)
Valuation of associated companies using the Equity Method	535	(64)
Dividends distributed among Group companies, net of the tax effect		(4,300)
Elimination of write-downs on consolidated investments		13,155
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(46,257)	(4,713)
Effect of IAS 39 - cash flow hedge reserve, net of deferred tax effect	5,378	
Other consolidation entries	1,542	(3,679)
Total consolidated shareholders’ equity	193,311	(14,661)
Minority interests - shareholders’ equity and profit/(loss)	46,733	6,246
Total Group shareholders’ equity and profit/(loss)	146,578	(20,907)

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 31.12.09	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	24,643	A - B – C	24,643	(188)	(57,206)
Profit/(loss) for the year	22,346		22,346		
Total	96,492.4		76,283.4	(24,080.9)	(57,206)

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 31.12.2009 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 31.12.2009 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 31.12.2009 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:

31 December							
Provisions for risks and charges		2008					
(In thousands of Euro)							
	Value 31.12.2007	Translation difference	Additions	Uses	Reclassifications	Change in cons 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

31 December							
Provisions for risks and charges		2009					
(In thousands of Euro)							
	Value 31.12.2008	Translation difference	Additions	Uses	Reclassifications	Change in consoli dation area	Value 31.12.2009
Legal disputes	13,548	-	1,245	(11,917)	-	-	2,876
Opposition charges	5,792	-	-	(5,792)	-	-	-
Other operating charges	3,645	-	217	(2,826)	-	-	1,036
TOTAL	22,985	-	1,462	(20,535)	-	-	3,912

Legal disputes mainly refer to legal proceedings against the Parent company and some 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.

The use of the provision for legal disputes and the total use of opposition charges are largely due to the conclusion of the dispute with the Italian tax authorities by Ferragamo International BV and, to a lesser extent, by the Parent company which recognized on the income statement tax charges under the item “Previous years income taxes” and fees for legal and tax consultants who dealt with the matter. For further details, please refer to the section “Significant events occurred during the year” in the Board of Directors’ report on operations.

The provision for other operating charges includes allocations against likely future costs of various kinds and covers any charges for goods returned by our wholesale customers for collections delivered during 2009. 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 2009 and 31 December 2008:

Employee benefit liabilities	31 December	
	2009	2008
(In thousands of Euro)	Value 31.12.2009	Value 31.12.2008
Employee benefit liabilities (severance indemnities)	7,236	7,790
Employee benefit liabilities (other)	1,942	1,909
TOTAL	9,178	9,699

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	
	2009	2008
(In thousands of Euro)	Value 31.12.2009	Value 31.12.2008
Present value of the obligation at the beginning of the period	7,790	8,098
Cost relating to current employment	102	102
Financial charge	330	317
Benefits paid	(667)	(1,579)
Actuarial loss (gain) recorded	(319)	852
Present value of the obligation at the end of the period	7,236	7,790

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 were as follows:

	31.12.2009	31.12.2008
Annual rate of pay increase	4.50%	4.72%
Annual discount rate	4.22%	3.92%
Inflation rate	2.00%	2.00%

Of the foreign companies in the Group, Ferragamo Japan KK, Ferragamo Retail Taiwan Ltd., Ferragamo France SAS, Ferragamo Montecarlo SAM, Ferragamo Belgique SA, Ferragamo Mexico S.L.de C.V., Ferragamo Korea Ltd. and Ferragamo Retail India 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	
	2009	2008
<i>(In thousands of Euro)</i>		
Present value of the obligation at the end of the period	1,587	1,600

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

	31.12.2009	31.12.2008
Annual rate of pay increase	2.00% - 12.00%	2.50% - 9.00%
Annual discount rate	0.91% - 8.16%	2.00% - 8.16%
Inflation rate (*)		0% - 2.00%

(*) In 2009 the inflation rate is included in the discount rate

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

Average staff	31 December	
	2009	2008
Managers	453	392
Middle managers, white collars	2,084	2,138
Blue collars	206	182
TOTAL	2,743	2,712

Staff at 31 December	2009	2008
Italy	671	723

Abroad	2,031	2,033
TOTAL	2,702	2,756

The net increases are mainly due to the staff required by the expansion of the retail sales 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 2008			
(In thousands of Euro)					
	Value 31.12.2007	Translation difference	Increases	Decreases	Value 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

Other non current liabilities		31 December 2009			
(In thousands of Euro)					
	Value 31.12.2008	Translation difference	Increases	Decreases	Value 31.12.2009
Payables for deferred rents	26,225	(954)	2,897	-	28,168
Other payables	619	(2)	68	(95)	590
Tax payables	-	-	12,678	-	12,678
Other payables for hedge derivatives	4	-	9	-	13
TOTAL	26,848	(956)	15,652	(95)	41,449

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 31.12.2009 the Group had no Non current financial liabilities.

At 31.12.2008 these liabilities totaled 239 thousand Euro relating to the valuation of hedge derivatives, i.e. forward contracts, falling due after more than 12 months, for the management of exchange rate risk. For further details, please refer to note 32.

25. Deferred tax liabilities

Deferred taxes were:

Deferred tax liabilities	31 December		Change
	2009	2008	
(In thousands of Euro)			
TOTAL	6,359	6,340	19

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
	2009	2008	
(In thousands of Euro)			
Trade payables to third parties	76,754	93,864	(17,110)
Advances from customers	333	322	11
Trade payables to related parties	173	192	(19)
TOTAL	77,260	94,378	(17,118)

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

This item consists of 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
	2009	2008	
(In thousands of Euro)			
Financial payables to banks	154,395	162,398	(8,003)
Bank and postal current accounts	404	1,179	(775)
Payables to others	3,350	1,650	1,700
Payables to related parties	-	-	-
TOTAL	158,149	165,227	(7,078)

As described in more detail in the section “ 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 2 years, short and medium term committed credit lines, 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 1.00 percentage points, depending on the type of credit line.

During the year umbrella credit lines which had expired were renegotiated, increasing their amounts and expanding the range of counterparties. In addition, new umbrella lines were opened, in part by transforming some of the revolving credit lines into committed lines.

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

(In thousands of Euro)	Agreed		Used		Agreed		Used	
	2009		2009		2008		2008	
Stand-by (Club deal)	Eur	100,000	Eur	55,152	Eur	100,000	Eur	49,376
Committed credit lines	Eur	190,000	Eur	82,360	Eur	120,000	Eur	60,343
Revolving credit lines	Eur	93,626	Eur	16,882	Eur	145,510	Eur	52,679
Total	Eur	383,626	Eur	154,394	Eur	365,510	Eur	162,398

Payables to others refer to a loan from third-party shareholders to Ferragamo Suisse S.A. (1.0 million Euro) and from third-party shareholders to the Indian company Ferragamo Retail India Private Ltd. (1.2 million Euro) and from third-party shareholders to the company Ferragamo Retail Macau Ltd., which was set up in 2009 (1.1 million Euro).

The Group net financial debt at 31 December 2009 and 2008 was as follows:

Net financial position	31 December		Change
	2009	2008	
(In thousands of Euro)			
A. Cash	450	388	62
B. Other cash equivalents	76,953	77,849	(896)
C. Cash and cash equivalents (A)+(B)	77,403	78,237	(834)
Derivatives – non-hedge component	1,147	3,294	(2,147)
Other financial assets	177	203	(26)
D. Current financial receivables	1,324	3,497	(2,173)
E. Current bank payables	(154,395)	(162,398)	8,003

F. Derivatives – non-hedge component	(573)	(313)	(260)
G. Other current financial payables	(3,754)	(2,829)	(925)
H. Current financial debt (E)+(F)+(G)	(158,722)	(165,540)	6,818
I. Current financial receivables/(payables), net (C)+(D)+(H)	(79,995)	(83,806)	3,811
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)	(79,995)	(84,045)	4,050

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 Net financial position /EBITDA)	Interest cover (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 2009 and 2008 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
	2009	2008	
(In thousands of Euro)			
TOTAL	16,759	9,176	7,583

The amounts relate to payables for income taxes for the year and other taxes due by Group companies. The value at 31.12.2009 includes the portion falling due within 12 months (7.3 million Euro) of the tax payable which is to be paid in installments by the Dutch company Ferragamo International B.V., connected to the settlement of the tax

dispute with the Italian tax authorities. For further details please refer to the section of this report on “significant events occurred during the year”.

29. Other current liabilities

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

Other payables	31 December		Change
	2009	2008	
(In thousands of Euro)			
Other payables to third parties within 12 months	15,259	22,674	(7,415)
Payables to social security institutions within 12 months	3,367	3,743	(376)
Payables to associated and jointly controlled companies	3	-	3
Payables to related parties	924	1,435	(511)
Accrued expenses	2,058	1,491	567
Deferred income	1,075	3	1,072
Other payables for short-term hedge derivatives	1,031	19,506	(18,475)
TOTAL	23,717	48,852	(25,135)

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 due to social security institutions” refers to payables paid in the month following the year end and relating to amounts due to employees. Payables to related parties consist of the payable due to the Parent company 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 derivatives (hedging component) entered into by the Parent company to manage exchange rate risk.

30. Other current financial liabilities

This 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 2009 and 31 December 2008.

Classification of financial instruments and representation of their fair value

<i>(Amounts in thousands of Euro)</i>	Book value at 31 Dec. 2009		Fair Value at 31 Dec. 2009	Book value at 31 Dec. 2008		Fair Value at 31 Dec. 2008
	<i>Current portion</i>	<i>Non current portion</i>		<i>Current portion</i>	<i>Non current portion</i>	
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss						
Derivatives – non-hedge component	1,147		1,147	3,294		3,294
Securities held for trading	17		17	20		20
Available-for-sale financial assets		45	45		47	47
Receivables and loans						
Receivables from others (M/L term)	1,400	1,100	2,430	2,000	1,500	3,395
Trade receivables	57,347		57,347	66,163		66,163
Guarantee deposits		5,721	5,594		5,348	5,082
Cash and cash equivalents	77,403		77,403	78,237		78,237
Derivatives – hedge component	7,879		7,879	4,430		4,430
Total	145,193	6,866	151,862	154,144	6,895	160,668

<i>(Amounts in thousands of Euro)</i>	Book value at 31 Dec. 2009		Fair Value at 31 Dec. 2009	Book value at 31 Dec. 2008		Fair Value at 31 Dec. 2008
	<i>Current portion</i>	<i>Non current portion</i>		<i>Current portion</i>	<i>Non current portion</i>	
FINANCIAL LIABILITIES						
Liabilities at amortized cost						
Trade Payables and payments on account	77,260		77,260	94,378		94,378
Interest-bearing loans & borrowings	158,149		158,149	165,227		165,227
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedge component	573		573	552		552
Derivatives – hedge component	1,044		1,044	19,510		19,510
Total	237,026	-	237,026	279,667	-	279,667

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.

In all other cases, fair value is measured according to methodologies which can be classified as Level 2 of the hierarchy of data significance levels used in the fair value calculation as defined by IFRS7.

For receivables from others (M/L term), which include a receivable from Ungaro with a four-year remaining life, and for the item Guarantee Deposits, the fair value is calculated by discounting the nominal value at market IRS rates listed for individual annual maturities in accordance with the discounted cash flow method.

To determine the fair value of derivatives a pricing model is used based on market interest rate values and exchange rates at the valuation date.

There have been no changes in the valuation methods used compared to the previous years or transfers from one Level to another in the hierarchy of assets or liabilities valued at fair value.

Net gains and losses on financial instruments

<i>(Amounts in thousands of Euro)</i>	31 Dec.-09	31 Dec.-08
Net gains/(net losses) on financial instruments recognized in profit & loss:		
Financial assets/liabilities held for trading	1,772	2,328
Derivatives – hedge component	(17,286)	12,282
Net gains/(net losses) on financial instruments recognized in shareholders' equity:		
Derivatives – hedge component	22,558	(26,015)
Interest income/expense (calculated using the effective interest method) accrued on financial assets/liabilities not at FVTPL		
Interest income	507	1,850
Interest expense	2,870	6,090
Expenses and fees not included in determining the effective interest rate		
Financial liabilities	259	232
Interest income accrued on financial instruments written-down	-	-
Provisions for impairment on financial assets		
Receivables/loans	902	735

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 2009-2008.

32. Derivatives

Total derivatives at the year end were as follows.

Derivatives with a positive fair value:

Derivatives (assets)	31 December		Change
	2009	2008	
(In thousands of Euro)			
Long-term derivatives	-	-	-
Short-term derivatives	1,147	3,294	(2,147)
TOTAL	1,147	3,294	(2,147)

Derivatives with a negative fair value:

Derivatives (liabilities)	31 December		Change
	2009	2008	
(In thousands of Euro)			
Long-term derivatives	-	239	(239)
Short-term derivatives	573	313	260
TOTAL	573	552	21

Derivatives originate exclusively from the management of exchange rate risk on transactions in foreign currency undertaken by Group companies. For further details please refer to the section “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 2009 and those for 2008.

33. Revenues from sales and services

In the years ended 31 December 2009 and 31 December 2008 net revenues totaled 612.012 thousand Euro and 683.886 thousand Euro respectively and can be broken down as shown in the following table:

Revenues from sales and services	31 December	
	2009	2008
(In thousands of Euro)		
Retail sales	420,449	435,744
Wholesale sales	185,000	236,967
Sales to related parties	19	-
Royalties	3,632	5,444
Fees and services for third parties	1,622	3,852
Fees and services for associated and jointly controlled companies	1,267	1,764
Fees and services for related companies	23	115
Total net revenues	612,012	683,886

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 (*ferragamo* brand).

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

Compared to the directors' report on operations for the year 2008, in order to provide a better representation, a reclassification from wholesale to retail was applied to revenues relating to the management of some direct concession stores in China. The reclassification totaled 6.6 million Euro.

34. Rental income investment properties

In 2009 and 2008 rental income investment properties totaled 7,586 thousand Euro and 6,944 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 analysis of the cost of goods sold is shown below:

Cost of goods sold	31 December	
	2009	2008
(In thousands of Euro)		
Change in inventories of finished, semi-finished products and work in progress	(20,240)	31,992
- Purchases of raw materials, accessories and consumables	(144,892)	(192,447)
- Sales of raw materials	17,333	20,570
- Change in inventories of raw materials, accessories and consumables	<u>(6,110)</u>	<u>(883)</u>
Raw materials, accessories and consumables used	(133,669)	(172,760)
- Manufacturing in Outsourcing	(91,681)	(118,096)
- Other services	<u>(5,486)</u>	<u>(7,648)</u>
Costs for services	(97,167)	(125,744)
Personnel costs	(4,441)	(4,858)
Amortization and depreciation	(549)	(508)
Cost of goods sold	(256,066)	(271,878)

In 2009 the percentage cost of goods sold (-5.8%) fell less than the decrease in Group revenues as a consequence of the erosion in sales margins, due in part to the higher level of sales

realized in outlet stores, in particular in those in the United States and Japan. Purchases mainly include 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” mainly refers to this production cycle.

36. Other income and revenues

Other income and revenues	31 December	
	2009	2008
(In thousands of Euro)		
- Cost recovery	761	1,365
- Rental income	1,725	1,266
- Advertising contributions	370	754
- Others	15,003	3,328
Other income and revenues	17,859	6,713
Other income and revenues - related parties	42	98
Gains on disposal of tangible/intangible assets	63	95
Gains on disposal of tangible assets - related parties	-	2,188
Extraordinary income	1,700	610
Total other income and revenues	19,664	9,704

Cost recovery refers to costs charged back to third party wholesale customers. Rental income refers 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.

The item “Others” is positively influenced by the use of the provisions for other operating risks and charges (10.5 million Euro), mainly connected with the settlement of the aforementioned dispute with the Italian tax authorities and some legal disputes resolved positively during the year. For further details, please refer to the note on the analysis of the provision for other operating risks and charges (note 21).

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	
	2009	2008
(In thousands of Euro)		
Purchases	(1,691)	(2,341)
Services	(11,471)	(14,491)
Personnel costs	(11,030)	(12,713)
Amortization and depreciation	(634)	(644)
Other operating costs	-	-
Style, product development and logistics costs	(24,826)	(30,189)

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	
	2009	2008
(In thousands of Euro)		
Purchases	(4,858)	(5,921)
- Rents	(90,289)	(82,033)
- Others	<u>(36,925)</u>	<u>(42,773)</u>
Services	(127,214)	(124,806)
Personnel costs	(70,233)	(74,912)
Amortization and depreciation	(18,529)	(15,709)
Other operating costs	-	-
Sales & distribution costs	(220,834)	(221,348)

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	
	2009	2008
(In thousands of Euro)		
Retail	(196,710)	(189,239)
Wholesale	(19,131)	(26,738)
Distribution logistics	(4,993)	(5,371)
Sales & distribution costs	(220,834)	(221,348)

39. Marketing & communication costs

The item was made up as follows:

Marketing & communication costs	31 December	
	2009	2008
(In thousands of Euro)		
Purchases	(3,072)	(3,282)
Services	(21,921)	(38,353)
Personnel costs	(6,448)	(6,011)
Amortization and depreciation	(61)	(50)
Other operating costs	-	-
Marketing & communication costs	(31,502)	(47,696)

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).

40. General and administrative costs

The item was made up as follows:

General and administrative costs	2009	2008
(In thousands of Euro)		
Purchases	(609)	(753)
- Rental and hire costs	(9,279)	(8,591)
- Others	<u>(20,215)</u>	<u>(20,065)</u>
Services	(29,494)	(28,656)
Personnel costs	(20,230)	(21,305)
Amortization and depreciation	(5,435)	(5,252)
Write-downs of non-current assets	(229)	-
Other operating costs	-	-
General and administrative costs	(55,997)	(55,966)

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	
	2009	2008
(In thousands of Euro)		
Losses on disposal of fixed assets	(568)	(214)

Losses on disposal of tangible assets - related parties	-	(8)
Extraordinary charges	(1,736)	(130)
Provisions for future operating risks and charges	(1,418)	(2,504)
Write-down of current assets	(3,455)	(906)
- Entertainment expenses, gratuities and gifts	(600)	(904)
- Indirect taxes, duties and dues	(4,003)	(3,683)
- Other operating costs	<u>(1,781)</u>	<u>(1,317)</u>
Other operating costs	(6,384)	(5,904)
Other operating costs	(13,561)	(9,666)

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. In 2009 a bad debt charge of 2.3 million Euro was recorded in this item relating to the bankruptcy of the fragrances distributor for the Japanese market.

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 items is set out in the following table:

Costs by nature	31 December		Change 2009-2008
	2009	2008	
(In thousands of Euro)			
Raw materials, finished products and consumables used	(164,139)	(153,065)	(11,074)
Costs for services	(287,267)	(332,050)	44,783
Personnel costs	(112,382)	(119,799)	7,417
Amortization and depreciation	(25,208)	(22,163)	(3,045)
Write-down of other non current assets	(229)		(229)
Other charges	(13,561)	(9,666)	(3,895)
Operating costs	(602,786)	(636,743)	33,957

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 2009 these costs totaled 16.5 million Euro compared to 18.6 million Euro in 2008.

43. Financial charges

Financial charges	31 December	
	2009	2008
(In thousands of Euro)		
Interest expense - loans from third parties	(2,669)	(5,937)
Discount charges and other financial charges – third parties	(1,293)	(1,222)
Write-down of investments in other companies	-	(24)
Provisions for risks on investments in other companies	-	(25)
Losses on exchange rate differences	(12,204)	(14,296)
Financial charges for fair value adjustment of derivatives	(1,902)	(4,869)
Financial charges	(18,068)	(26,373)

Interest expense derives wholly from short-term bank loans.

The item “Discount charges and other financial charges” refers mainly to bank charges 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 1.1 million Euro for the medium-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 losses on exchange rate differences, net of gains on exchange rate differences, of 0.4 million Euro compared to a net impact of gains on exchange rate differences in 2008 of 2.6 million euro.

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	
	2009	2008
(In thousands of Euro)		
Interest income	451	1,690
Other financial income	56	160

Gains on exchange rate differences	11,778	16,921
Financial income for fair value adjustment of derivatives	3,674	7,197
Financial income	15,959	25,968

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 (In thousands of Euro)	31 December	
	2009	2008
Zefer S.p.A.	436	840

46. Income taxes

The taxes recorded in the income statement were as follows:

Income taxes	31 December	
	2009	2008
(In thousands of Euro)		
Current taxes	(17,525)	(20,170)
Deferred taxes	11,195	4,827
Previous years income taxes	(43,134)	(10,000)
Income taxes	(49,464)	(25,343)

The amount charged to the item “Previous years income taxes” relates entirely to the settlement of the tax dispute with the Italian tax authorities, as detailed in the directors’ report on operations under “significant events occurred during the year”.

Deferred tax assets and liabilities

The following table shows the receivables and payables components for deferred taxes at 31 December 2009 and 31 December 2008:

Receivables/payables for deferred taxes	31 December	
	2009	2008
(In thousands of Euro)		
Deferred tax assets	55,067	50,955
Deferred tax liabilities	6,359	6,340
TOTAL	48,708	44,615

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 2009 and 31 December 2008 is shown in the following table by nature, listing the entries which show underlying temporary differences:

Deferred tax assets and liabilities	31.12.09	31.12.08	31.12.09	31.12.08	2009	2008
(In thousands of Euro)	Balance sheet		Shareholders' equity		Income statement	
Deferred tax assets						
- on employee benefits	657	827	351	438	(64)	94
- on tangible assets	8,389	8,838			(243)	(2,356)
- on intangible assets	608	491			118	126
- on cash flow hedge reserve/derivative contracts IAS 39	1,239	4,104	(2,041)	4,163	-	(128)
- for postponement of revenues under IAS 18	101	120			(19)	(19)
- on valuation of inventories	4,982	5,616			(561)	1,404
- on the elimination of the profit unrealized in inventories	24,524	21,995			2,530	7,134
- on tax losses	5,280	226			5,204	(677)
- on taxed provisions	1,030	1,662			(633)	668
- on investments	11	12			-	10
- for other temporary differences	8,246	7,064			1,482	233
Total deferred tax assets	55,067	50,955	(1,690)	4,601	7,814	6,489
Deferred tax liabilities						
- on employee benefits	273	310			(37)	(57)
- on tangible assets	1,341	1,194			98	(69)
- on leased assets	360	367			(7)	57
- on intangible assets	-	294			(295)	(9)
- on cash flow hedge reserve/derivative contracts IAS 39	2,100	1,439			(2,678)	1,439
- on valuation of inventories	2,275	2,466			(192)	(5)
- for other temporary differences	10	270			(270)	306
Total deferred tax liabilities	6,359	6,340	0	0	(3,381)	1,662
Income/charge on deferred taxes					11,195	4,827
<i>Net effect on shareholders' equity</i>			(1,690)	4,601		
Represented in financial statements as follows:						
<i>Deferred tax assets</i>	55,067	50,955				
<i>Deferred tax liabilities</i>	6,359	6,340				
Net result for deferred taxes	48,708	44,615				

Tax losses of the Group companies at 31 December 2009 and 31 December 2008 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 2009	Expiry				
	Without time limits	within 1 year	1 to 3 years	3 to 5 years	over 5 years
69,542	49,170	0	1,651	1,543	17,178

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

Deferred tax assets on previous losses recorded in 2009 and 2008 were as follows:

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS HAVE BEEN CALCULATED (IN THE INCOME STATEMENT) / Situation at 31-12-09			
(In thousands of Euro)			
Expiry	Previous tax losses	Tax rate	Deferred tax assets
Without time limits	719	27.50%	198
Over 5 years	12,955	39.23%	5,082
Total	13,674	38.61%	5,280

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

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 2009 and 2008 is as follows:

Reconciliation of taxes	31 December 2009	31 December 2008
Profit before taxes	34,803	64,226
<i>IRES rate in force for the year</i>	27.50%	27.50%
Theoretical tax charge	9,571	17,662
IRAP effect	2,536	3,070
Non-deductible costs	(1,095)	347
Differences arising from different rates – foreign countries	(3,368)	(5,377)
Other effects	(1,314)	(359)
Provision for previous years income taxes	43,134	10,000
Total differences	39,893	7,681
Total taxes from the income statement	49,464	25,343
Effective tax rate	142.1%	39.5%

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

At 31 December 2009 and 31 December 2008 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 profit and/or loss 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	2009	2008
Net profit (loss) - shareholders of the Parent company	(20,907,000)	29,787,000
Less: increase of dividend for preferred shares (5% of par value)	-	(404,184)
	(20,907,000)	29,382,816

Average number of ordinary and preferred shares	16,841,000	16,841,000
Basic earnings per share ordinary shares	(1.24)	1.74
Plus: increase of dividend for preferred shares	-	0.05
Basic earnings per share preferred shares	(1.24)	1.79

DILUTED EARNINGS PER SHARE	2009	2008
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Average number of ordinary and preferred shares	16,841,000	16,841,000
Plus: effect of stock options	-	58,787
Diluted average number of ordinary and preferred shares	16,841,000	16,899,787

Diluted earnings per share ordinary shares	(1.24)	1.74
Plus: increase of dividend for preferred shares	-	0.05
Diluted earnings per share preferred shares	(1.24)	1.79

EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
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Net profit (loss) from continuing operations	(20,907,000)	29,787,000
Less: increase of dividend for preferred shares (5% of par value)	-	(404,184)
	<u>(20,907,000)</u>	<u>29,382,816</u>

Average number of ordinary and preferred shares	16,841,000	16,841,000
Plus: effect of stock options	-	58,787
Diluted average number of ordinary and preferred shares	16,841,000	16,899,787

Basic earnings from continuing operations per ordinary share	(1.24)	1.74
Plus: increase of dividend for preferred shares	-	0.05
Basic earnings from continuing operations per preferred share	(1.24)	1.79

Diluted earnings from continuing operations per ordinary share	(1.24)	1.74
Plus: increase of dividend for preferred shares	-	0.05
Diluted earnings from continuing operations per preferred share	(1.24)	1.79

EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS/ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE		
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Net profit (loss) from discontinued operations/assets of disposal group classified as held for sale	-	-
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Average number of ordinary and preferred shares	16,841,000	16,841,000
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Plus: effect of stock options	-	58,787
Diluted average number of ordinary and preferred shares	16,841,000	16,899,787
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	8,757,320
Average number of preferred shares	8,083,680	8,083,680
	16,841,000	16,841,000

Award of stock options

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.

For information on the calculation method of the options' fair value at the grant date, please refer to the annual report as at 31 December 2008.

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 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.

In May 2009 the parties modified the grant terms by redefining the exercise windows and changing the price for the services provided by the beneficiary. This price is no longer represented by the company's ordinary shares but by a cash payment whose amount is based on the value of the company's shares.

In choosing the accounting model, management considered that this plan structure refers to a share-based payment settled in cash. For this reason, the services provided have been measured at the fair value of the liability concerned and the related impact was recognized on the income statement.

The value of this liability accrued to the beneficiary has been estimated on the basis of a company assessment carried out by an independent expert.

Segment reporting

Following the coming into force of IFRS 8 – Operating segments as from 1 January 2009, information has been provided on the Group’s operating segments. 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.

In application of this standard, Group reporting is divided by business sector, broken down into the Core business and Fragrances business. 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 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.

Segment reporting – income statement data	2009			
(In thousands of Euro)	Core business	Fragrances	Eliminations	Consolidated figure
Net revenues - Wholesale	158,174	33,520	-	191,694
Net revenues - Retail	431,060	-	-	431,060
Revenues - Hedging	(17,286)	-	-	(17,286)
Inter-segment sales	38	627	(665)	-
Total Product sales	571,986	34,147	(665)	605,468
Revenues from royalties	3,913	700	(981)	3,632
Rental income investment properties and Other income	10,872	12	(386)	10,498
Total sales	586,771	34,859	(2,032)	619,598
Gross profit	353,474	11,706	(1,648)	363,532
%	60.2%	33.6%		58.7%

Personnel costs	(102,338)	(2,555)	-	(104,893)
Rental costs	(99,545)	(169)	79	(99,635)
Amortization, depreciation and write-downs of non-current assets	(24,638)	(210)	-	(24,848)
Communication costs	(24,041)	(2,504)	112	(26,433)
Other costs	(63,306)	(9,176)	1,235	(71,247)
EBIT	39,606	(2,908)	(222)	36,476
Net financial (charges)/ income				(2,109)
Share of net profit/(loss) of associated companies				436
Profit before taxes				34,803
Income taxes				(49,464)
Profit/(loss) for the year from continuing operations				(14,661)
Net profit/(loss) from discontinued operations, net of taxes				-
Net profit /(loss)				(14,661)
EBITDA	64,302	(2,167)	(222)	61,913

Segment reporting – income statement data	2008			
(In thousands of Euro)				
	Core business	Fragrances	Eliminations	Consolidated figure
Net revenues - Wholesale	186,811	44,214	-	231,025
Net revenues - Retail	429,404	-	-	429,404
Revenues - Hedging	12,282	-	-	12,282
Inter-segment sales	87	278	(365)	-
Total Product sales	628,584	44,492	(365)	672,711
Revenues from royalties	4,983	1,796	(1,335)	5,444
Rental income investment properties and Other income	12,938	-	(263)	12,675
Total sales	646,505	46,288	(1,963)	690,830
Gross profit	402,900	17,906	(1,854)	418,952
%	62.3%	38.7%		60.6%
Personnel costs	(108,912)	(2,727)	-	(111,639)
Rental costs	(90,647)	(128)	78	(90,697)
Amortization, depreciation and write-downs of non-current assets	(21,435)	(192)	-	(21,627)
Communication costs	(42,711)	(3,361)	110	(45,962)
Other costs	(78,442)	(8,424)	1,630	(85,236)
EBIT	60,753	3,074	(36)	63,791
Net financial (charges)/ income				(405)
Share of net profit/(loss) of associated companies				840
Profit before taxes				64,226
Income taxes				(25,343)
Profit/(loss) for the year from continuing operations				38,883
Net profit/(loss) from discontinued operations, net of taxes				-
Net profit/ (loss)				38,883

EBITDA	82,214	3,776	(36)	85,954
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Discontinued operations are shown separately in the income statement as a single item “Net profit/(loss) from discontinued operations, net of taxes”.

Inter-segment sales 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		2009		
(In thousands of Euro)				
	Core business	Fragrances	Eliminations	Consolidated figure
Inventories	146,363	16,195	(251)	162,307
Trade receivables	46,627	11,746	(1,026)	57,347
Tangible assets and investment property	111,872	1,866	-	113,738
Tangible assets with finite and indefinite life	13,112	705	-	13,817
Other assets	155,180	2,607	(51,732)	106,055
Total assets including cash and cash equivalents	473,154	33,119	(53,009)	453,264
Net financial debt				80,746
Trade payables	64,793	12,617	(150)	77,260
Other liabilities	134,793	2,482	(35,328)	101,947
Shareholders’ equity	200,909	9,477	(17,075)	193,311
Total liabilities and shareholders’ equity (net of cash and cash equivalents)	400,495	24,576	(52,553)	453,264
Other sector information				
Investment in tangible assets	17,853	467		18,320
Investment property	-	-		-
Goodwill and other intangible assets with an indefinite useful life	-			-
Investment in intangible assets	2,410	190		2,600

Segment reporting - balance sheet data		2008		
(In thousands of Euro)				
	Core business	Fragrances	Eliminations	Consolidated figure
Inventories	175,717	16,500	(37)	192,180

Trade receivables	50,762	15,563	(162)	66,163
Tangible assets and investment property	117,804	1,975	-	119,779
Tangible assets with finite and indefinite life	13,529	689	-	14,218
Other assets	159,387	5,151	(55,535)	109,003
Total assets including cash and cash equivalents	517,199	39,878	(55,734)	501,343
Net financial debt				86,990
Trade payables	82,312	12,253	(187)	94,378
Other liabilities	157,967	4,486	(38,001)	124,452
Shareholders' equity	200,881	11,731	(17,089)	195,523
Total liabilities and shareholders' equity (net of cash and cash equivalents)	441,160	28,470	(55,277)	501,343
Other sector information				
Investment in tangible assets	23,731	711		24,442
Investment property	-	-		-
Goodwill and other intangible assets with an indefinite useful life	260			260
Investment in intangible assets	3,475	261		3,736

Information by geographic area

Revenues are allocated to the customer's geographic area, while assets are based on their location.

Segment reporting – income statement data	Europe	North America	Japan	Asia-Pacific	Central and South America	Consolidated figure
(In thousands of Euro)						
31 December 2009						
Revenues						
Sales to customers	150,913	136,093	111,018	193,857	27,717	619,598
Sector revenues	150,913	136,093	111,018	193,857	27,717	619,598
Other sector information						
Non-current assets	49,956	51,568	5,447	29,572	2,763	139,306
Investments:						
Tangible assets	5,906	5,044	39	6,200	1,131	18,320
Investment property	-	-	-	-	-	-

Goodwill and other intangible assets with an indefinite useful life	-	-	-	-	-	-
Intangible assets	2,215	176	93	116	-	2,600

Segment reporting – income statement data	Europe	North America	Japan	Asia-Pacific	Central and South America	Consolidated figure
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(In thousands of Euro)

31 December 2008

Revenues

Sales to customers	178,498	159,614	124,426	201,995	26,297	690,830
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Sector revenues	178,498	159,614	124,426	201,995	26,297	690,830
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Other sector information

Non-current assets	49,740	60,234	7,269	27,904	2,161	147,308
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Investments:

Tangible assets	6,785	9,558	961	6,410	728	24,442
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Investment property	-	-	-	-	-	-
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Goodwill and other intangible assets with an indefinite useful life	-	-	-	260	-	260
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Intangible assets	2,826	581	178	151	-	3,736
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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. In general, uses of the lines range from a few days to a maximum of one year. The spreads applied, albeit they rose during the year following the renewals of expired committed lines of credit, are comparable to the best market standards.

The interest rate risk to which the Group companies are exposed mainly originates from the cost of outstanding financial payables, which changes in time.

Interest rate risk sensitivity analysis

		Increase/ reduction in underlying interest rates	Impact on the income statement
<i>(Amounts in thousands of Euro)</i>			
31 December 2009			
POSITIVE CHANGE	EURO	0.25%	(176)
	USD	0.22%	(8)
	JPY	0.05%	(18)
Total			(202)
NEGATIVE CHANGE	EURO	-0.25%	176
	USD	-0.22%	8
	JPY	-0.05%	18
Total			202
31 December 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

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 202 thousand Euro for 2009 compared with potential gains or losses of 216 thousand Euro for 2008.

The change in average interest rates in the two years under review is largely explained by the considerable decrease in the US dollar and Euro rates, as a result of the monetary policies which brought the rates of the main western economies close to zero as from the last quarter of 2008, in response to the serious financial crisis which affected the global economy. The Group has benefited not only from the low level of interest rates, but also from a strategy which has led it to position the maturities of its loans on the short to very short end of the rates curve (accompanied by a modest extension of the maturities of its cash commitments which are mainly denominated in dollars). These favorable variations were only partly offset by the increase in the spreads negotiated during the renewal of credit lines expired during the year and at the time of signing of additional lines. In 2009, as in 2008, there was a broad balance between the assets and liabilities in dollars.

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. Some Group companies, whose reference currencies are not freely transferable or require specific monetary obligations, arrange for a hedge of exchange rate risk against the US dollar. For these companies invoicing of goods is done in US dollars.

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)**

31 December 2009

(Amounts in currency/000)

Cash flow analysis (hedged items)	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	180,000	49,000	51,000	57,000	23,000	
Sales expected in JPY	4,200,000	1,000,000	1,000,000	1,700,000	400,000	100,000
Sales expected in GBP	4,800	1,400	1,600	1,500	300	
Sales expected in MXN	130,000	35,000	35,000	30,000	30,000	
Sales expected in CHF	8,400	1,500	1,900	1,500	1,500	2,000
Sales expected in AUD	2,250	250	500	500	880	120

31 December 2008

(Amounts in currency/000)

Cash flow analysis (hedged items)	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

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 2009 and 2008.

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

<i>(Amounts in thousands of Euro)</i>	Cash flow hedge reserve (currency risk)	
	<i>31 Dec.-09</i>	<i>31 Dec.-08</i>
Opening balance *	(15,139)	10,876
+ increases for recognition of new positive effectiveness	11,711	10,256
- decreases for recognition of new negative effectiveness	(6,439)	(23,989)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in the profit & loss	(3,048)	(16,388)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in the profit & loss	20,334	4,106
Closing balance *	7,419	(15,139)
<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, changed positively by 22,558 thousand Euro during 2009, while it had decreased by 26,015 thousand Euro at the end of 2008.

This change reflects the trend in the exchange rates being hedged in 2009, a year which saw a continuing high level of volatility, especially in terms of the exchange rate between the Euro and the Us dollar, which hit a low of 1.2455 in the first part of the year before reaching a high of 1.5144 towards the end of the year, and in terms of the exchange rate between the Euro and the Japanese yen, which hit a low of 112.04 in January 2009 before climbing back up to a high of 139.21.

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 negative for Euro 17,286 thousand in 2009 and positive for 12,282 thousand in 2008.

Sensitivity analysis on currency risk

<i>(Amounts in thousands of Euro)</i>		Increase/ decrease in foreign exchange rates	Items	Impact on the income statement	Impact on shareholders' equity
31 December 2009					
POSITIVE CHANGE	EUR/JPY	16.0%	Derivatives		4,040
			Non-derivatives	(230)	
	EUR/USD	13.2%	Derivatives	(1,997)	13,657
			Non-derivatives	(183)	
	USD/KRW	18.0%	Derivatives	948	
			Non-derivatives	(420)	
	EUR/MXN	15.5%	Derivatives	69	827
			Non-derivatives		
Total				(1,813)	18,524
NEGATIVE CHANGE					
NEGATIVE CHANGE	EUR/JPY	-16.0%	Derivatives		(5,580)
			Non-derivatives	318	
	EUR/USD	-13.2%	Derivatives	4,334	(17,739)
			Non-derivatives	238	
	USD/KRW	-18.0%	Derivatives	(1,166)	
			Non-derivatives	604	
	EUR/MXN	-15.5%	Derivatives	(93)	(1,119)
			Non-derivatives		
Total				4,235	(24,438)
31 December 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/KRW	27.0%	Derivatives	4,459	
			Non-derivatives	133	
	EUR/MXN	30.7%	Derivatives	61	1,647
			Non-derivatives		
Total				4,345	38,340
NEGATIVE CHANGE					
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/KRW	-27.0%	Derivatives	(988)	
			Non-derivatives	(231)	
	EUR/MXN	-30.7%	Derivatives	(115)	(3,102)
			Non-derivatives		
Total				(901)	(57,942)

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 market volatility in the exchange rates considered, which remained high in 2009.

A positive change in the identified exchange rates (EUR/JPY, EUR/USD, USD/KRW and EUR/MXN, as shown in the above table) would have produced a loss of 1,813 thousand Euro at 31 December 2009 and a gain of 4,345 thousand Euro at 31 December 2008; in the same way, a negative movement in exchange rates would have produced a gain of 4,235 thousand Euro at 31 December 2009 and a loss of 901 thousand Euro at 31 December 2008.

The increase in shareholders' equity generated from the hedge derivatives as a consequence of the estimated rises in exchange rates would have been 18,524 thousand Euro at 31 December 2009 and 38,340 thousand Euro at 31 December 2008; the reduction in shareholders' equity as a consequence of the estimated decreases in exchange rates would have been 24,438 thousand Euro at 31 December 2009 and 57,942 thousand Euro at 31 December 2008.

The impact on the income statement stemming from derivatives which would occur following the assumed percentage changes in the EUR/USD rate refers to a single forward purchase transaction in US dollars against the Euro carried out to hedge an intercompany loan which is not denominated in the accounting currency and which qualifies as held for trading. As for the rest, 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 through an adequate total of committed and revolving credit lines. In addition, liquidity is invested in short-term deposit transactions (generally between one and three months) carried out with leading banks.

The company has an existing stand-by revolving, committed, multicurrency and multiborrower credit line with several banking counterparties, with a residual life of two years (term: 5 years), as well as committed, multicurrency and multiborrower credit lines with a duration of twelve to thirty-six months, and revolving hot money

lines on the Parent company. Local cash lines are allocated to the main Group companies. There are no uses of lines over more than twelve months.

The year saw the renewal and signing of new committed credit lines for amounts higher than those in the outstanding lines at 31 December 2008 and a move away from revolving lines to committed lines, albeit with Group net financial position and gross debt gradually improving.

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

31 December 2009

(Amounts in thousands of Euro)

Maturity Analysis	<i>< 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>> 5 years</i>	<i>Total</i>
Trade payables	76,927				76,927
Financial liabilities due to banks	118,011	37,690			155,701
Payables to shareholders for loans	989	2,370			3,359
Payables to other lenders	-	5			5
Derivatives – non-hedge component	117	108			226
Derivatives – hedge component	95	1,110	5		1,211
Total	196,139	41,284	5	-	237,428

31 December 2008

(Amounts in thousands of Euro)

Maturity Analysis	<i>< 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>> 5 years</i>	<i>Total</i>
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

The analysis of the balance-sheet financial liabilities at 31 December 2009 and 31 December 2008 showed a concentration of maturities within 3-months, with nil values over 12 months. Financial assets recorded in 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; the remaining refers to retail sales with spot or credit card payment.

In general, 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 in order to minimize loss exposures. 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 year saw a moderate extension in payment terms granted to wholesale customers, partly offset by the acquisition of guarantees and the adoption of payment instruments, such as letters of credit, which are less risky for the Group. The credit risk management policies implemented enabled overdue and bad debts, which required the adoption of legal credit collection measures, to be kept within normal limits. During the year, only one significant exception occurred regarding the fragrances distributor in Japan, which is commented on in the notes.

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. 2009		Book value at 31 Dec. 2008	
	<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	17		20	
Receivables and loans				
Receivables from others (M/L term)	1,400	1,100	2,000	1,500
Trade receivables	57,347		66,163	
Cash and cash equivalents	77,403		78,237	
Guarantee deposits		5,721		5,348
Derivatives	7.826		2730	1,281
Total	143,993	6,821	149,150	8,129

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 2009 and at 31 December 2008, and is almost exclusively limited to the current portion.

Concentrations of credit risk

<i>(Amounts in thousands of Euro)</i>	Book value at 31 Dec. 2009	Percentage	Book value at 31 Dec. 2008	Percentage
Italy	10,374	18.1%	11,462	17.3%
Europe	5,365	9.4%	12,225	18.5%
North-America	6,547	11.4%	6,221	9.4%
East Asia	30,462	53.1%	32,812	49.6%
Others	4,600	8.0%	3,443	5.2%
Total	57,347	100.0%	66,163	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>	<i><30 days</i>	<i>30-60 days</i>	<i>60-90 days</i>	<i>90-120 days</i>	<i>>120 days</i>	
2009	-	46,053	7,218	1,031	740	564	1,741	57,347
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								
2009	-	80.3%	12.6%	1.8%	1.3%	1.0%	3.0%	100.0%
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 2009 and 31 December 2008.

Market risks

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

professionalism 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 operativity of the store. In some cases, when it is believed that there is no prospect of improving profitability in the medium to long term, or that there are no other commercial justifications, the store may be closed.

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	2009	2008
Percentage of revenues with the biggest customer	2.1%	2.1%
Percentage of revenues with the 3 biggest customers	4.7%	4.6%
Percentage of revenues with the 10 biggest customers	8.7%	10.7%

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 modify the dividends paid to shareholders, repay the capital or issue new shares. No change was made to the objectives, policies or procedures during 2009 and 2008.

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

Capital management	31 December	
	2009	2008
(In thousands of Euro)		
Interest-bearing loans	158,149	165,227
Trade and other payables	100,977	143,230
Cash and cash equivalents	77,403	78,237
Net debt	181,723	230,220
Group shareholders' equity	146,578	153,899
Minority interests	46,733	41,624
Total shareholders' equity	193,311	195,523
Share capital and net debt	375,034	425,743
Debt/shareholders' equity	94%	118%

Transactions with related parties

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

Transactions with related parties	31 December 2008			
	Revenues and income	Costs and charges	Receivables	Payables
(In thousands of Euro)				
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 2009			
	Revenues and income	Costs and charges	Receivables	Payables
(In thousands of Euro)				

Company with significant influence on the

Group:				
Ferragamo Finanziaria S.p.A.	-	-	683	(915)
Associated/related companies:				
Palazzo Feroni Finanziaria S.p.A.	58	(4,683)	32	(27)
Lungarno Alberghi S.p.A.	16	(599)	18	(5)
Zefer S.p.A.	1,267	(3)	1,267	(3)
Group directors:				
Caretti & Associati S.p.A.	-	(205)	-	(96)
Il Borro S.r.l.	9	(51)	7	(50)
Wanda Miletta Ferragamo	-	(76)	-	-
Fulvia Ferragamo Visconti	1	-	-	-
Bacco S.r.l.	-	(3)	-	-
Castiglion del Bosco S.r.l.	-	(4)	-	(4)

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; payables and receivables refer to 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) has 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 Leonardo Ferragamo (company director) holds an investment; revenues refer to product sales;
- Bacco srl is a company in which Fulvia Ferragamo Visconti (company director) and Massimo Ferragamo (company director) hold an investment; costs refer to rents.
- Castiglione del Bosco srl is a company related to Massimo Ferragamo (company director); 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 1.3 million Euro, are those paid by the Parent company and 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, it should be noted that during the year the award terms were changed by redefining the exercise windows and modifying the cost for the services provided by the beneficiary. This cost is no longer represented by the company’s ordinary shares but by a cash payment, whose amount is based on the value of the company.

The members of the Board of Statutory Auditors, besides the fees paid by the Parent company (Salvatore Ferragamo Italia SpA), amounting to 55 thousand Euro, receive 11 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 2009	Related parties	%
<i>(In thousands of Euro)</i>			
Trade receivables	57,347	18	0.03%
Other receivables	32,646	1,989	6.09%
Total current assets	336,294	2,007	0.60%
Total assets	530,667	2,007	0.38%
Trade payables	77,260	173	0.22%
Other payables	23,717	927	3.91%

Total current liabilities	276,458	1,100	0.40%
Total liabilities and shareholders' equity	530,667	1,100	0.21%

Balance sheet	December 2008	Related parties	%
(In thousands of Euro)			
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%

Income statement	31 December 2009	Related parties	Directors	Total	%
(In thousands of Euro)					
Revenues from sales and services	612,012	1,309		1,309	0.21%
Rental income investment properties	7,586			-	-
Cost of goods sold	(256,066)			-	-
Gross profit	363,532	1,309	-	1,309	0.36%
Other income and revenues	19,664	42		42	0.21%
Style, product development and logistics costs	(24,826)	(3)		(3)	0.01%
Sales & distribution costs	(220,834)	(3,398)		(3,398)	1.54%
Marketing & communication costs	(31,502)			-	-
General and administrative costs	(55,997)	(2,212)	(1,270)	(3,482)	6.22%
Other operating costs	(13,561)	(11)		(11)	0.08%
Operating profit	36,476	(4,273)	(1,270)	(5,543)	
Financial charges	(18,068)			-	-
Financial income	15,959			-	-
Share of net profit/(loss) on investments accounted for using the Equity Method	436			-	-
Profit before taxes	34,803	(4,273)	(1,270)	(5,543)	
Income taxes	(49,464)			-	-
Profit (loss) for the year from continuing operations	(14,661)	(4,273)	(1,270)	(5,543)	
Net profit/(loss) from discontinued operations, net of taxes	-			-	-
Net profit (loss) for the year	(14,661)	(4,273)	(1,270)	(5,543)	
Profit/(loss) – Group	(20,907)	(4,273)	(1,270)	(5,543)	
Profit/(loss) – minority interests	6,246			-	-

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 (loss) 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 (loss) 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			-	-

Commitments and risks

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

	2009	2008
(In thousands of Euro)		
Bank sureties provided by/to third parties in the interests of Group companies	7,885	23,751
Guarantees provided by third parties in the interests of Group companies	1,247	1,176
Guarantees provided by Group companies in the interests of third parties	8,489	8,818
TOTAL	17,621	33,745

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, sureties 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 (4.0 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 2009 and 2008, broken down by expiry date:

Operating lease contracts	31 December	
Minimum payments	2009	2008
(In thousands of Euro)		
Within 1 year	62,220	52,427
1 to 5 years	138,218	135,285
Over 5 years	154,532	162,436
Total	354,970	350,148

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)		2009			2008		
Company	Currency	Net revenues	Net profit/(loss)	Shareholders' equity	Net revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Ltd	AUD	9,864	(186)	5,896	9,313	(948)	6,083
M Mendrisio Moda SA	CHF	4,159	(438)	1,702	4,714	(220)	2,141
Ferragamo Japan KK	JPY	14,090,800	(240,457)	2,671,493	16,504,721	(26,100)	2,911,950
Ferragamo Korea Ltd	KWON	68,578,362	8,066,500	45,429,257	65,176,661	12,140,487	37,362,754
Ferragamo Espana S.L.	Euro	5,637	(251)	3,052	6,805	(304)	2,650
Ferragamo Latin America Inc	USD	853	28	2,042	2,856	864	2,015
Ferragamo St. Thomas Inc	USD	503	(314)	(329)	557	(256)	(15)
Ferrimag Limited	HKD	-	28,479	127,185	73,884	(3,330)	128,892
Ferragamo Retail HK Ltd	HKD	320,535	17,708	162,823	333,194	35,613	145,115
Ferragamo Retail Taiwan Ltd	TWD	630,896	42,087	267,438	558,327	31,953	225,350
Ferragamo Mexico SL de CV	MXN	305,565	20,551	45,405	237,058	(1,849)	24,855
Ferragamo Retail Nederland BV	Euro	1,639	(427)	73	1,670	(625)	(125)
Ferragamo Fashion Trading Shanghai Ltd	CNY	467,678	84,396	206,368	346,462	66,092	149,284
Ferragamo Singapore	SGD	17,673	(76)	7,711	17,181	1,477	7,787
Ferragamo Thailand	THB	94,976	(14,238)	4,169	78,929	(12,930)	(1,594)
Ferragamo Malaysia	MYR	17,784	810	14,674	20,653	1,893	13,865
Ferragamo HK Ltd	USD	152,709	17,978	92,512	270,542	33,463	74,538
Ferragamo USA Inc	USD	176,598	(9,944)	60,352	204,600	(4,041)	70,246
Ferragamo Deutschland GmbH	Euro	5,303	(1,127)	2,173	5,172	(1,055)	2,246
Ferragamo Belgique SA	Euro	1,329	(46)	702	1,498	(2)	140
Ferragamo Montecarlo SAM	Euro	1,176	(111)	(103)	1,449	7	9
Ferragamo Suisse SA	CHF	6,524	(1,228)	(448)	7,551	8	781
Ferragamo UK Ltd	GBP	10,269	184	2,429	7,748	(459)	2,245
Ferragamo France SAS	Euro	14,875	(2,914)	5,834	16,768	(1,381)	8,748
Ferragamo Parfums SpA	Euro	33,977	(1,970)	9,495	45,677	802	11,446
Ferragamo International BV	Euro	106	(51,974)	4,892	130	(18,899)	56,866
Ferragamo Chile SA	CLP	463,898	(87,254)	760,389	414,124	(188,846)	77,293
Ferragamo Austria GmbH	Euro	2,068	53	851	2,008	14	798
Ferragamo Parfum SA	CHF	-	(3)	668	-	1	671
Ferragamo Retail India Private Ltd	INR	219,647	(42,363)	46,641	62,105	(30,955)	89,003
Ferragamo Retail Macau Ltd	MOP	2,408	(3,891)	(3,866)	-	-	-
Ferragamo Moda Shangai Ltd	CNY	128,436	(2,698)	12,843	136,526	4,061	15,541
Ferragamo Argentina SA	ARS	3,142	(2,559)	(1,189)	1,232	(3,267)	(3,175)

Post-balance-sheet events

In the first few months of 2010 there was no prejudicial effect to the profit for the current year originating from the financial statements valuations at 31 December 2009 and in particular from the changes which occurred in exchange rates.

On 26 January 2010 Ferragamo International B.V. completed the purchase of 490 shares or 49% of the share capital of the Swiss company Ferragamo Suisse S.A. for a total amount of 100,000 Swiss francs. With this transaction the Group acquired 100% of Ferragamo Suisse SA, in which it previously held a 51% controlling stake.

On 18 March 2010 the Parent company received from Equitalia Cerit SpA (concessionaire for tax collection) repayment of the total amount of 7.7 million Euro following the two relief measures issued on 28 January 2010 and relating to the agreement signed in opposition to the Florence Revenue Office to settle the tax dispute; for further details, please refer to the section “Significant events occurred during the year”.

The Parent company and Ferragamo Parfums SpA are currently renewing the contract with Ferragamo Finanziaria SpA relating to the exercise of the option for the domestic fiscal unity regime for the three-year period 2010-12.

SALVATORE FERRAGAMO ITALIA SpA

Signed: Michele Norsa – Managing Director