

Independent auditors' report  
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010  
(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, as of and for the year ended December 31, 2010, comprising the statement of financial position, the separate statement of income, 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 financial statements in compliance with International Financial Reporting Standards as adopted by the European Union is the responsibility of 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 performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.  
  
For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated April 6, 2010.
3. In our opinion, the consolidated financial statements of Salvatore Ferragamo Italia S.p.A. at December 31, 2010 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 and the cash flows of Salvatore Ferragamo Italia S.p.A. 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 Salvatore Ferragamo Italia S.p.A. as of and for the year ended 31 December 2010.

Florence, March 30, 2011

Reconta Ernst & Young S.p.A.  
Signed by: Marco Mignani, Partner

*Salvatore Ferragamo*

***CONSOLIDATED ANNUAL REPORT AS AT 31 DECEMBER 2010  
and 2009***

(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 29 April 2010

### **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 statement of cash flows
- Consolidated statement of changes in shareholders' equity
- Notes to the consolidated annual report as at 2010 and 2009.

After two years of deep crisis, 2010 saw a significant recovery in the global economic cycle, which followed a two-speed pattern: on the one hand, developed countries where the recovery from the bottom of the cycle was faster in the first half of the year and much more gradual in the second, on the other, emerging countries, whose economies returned to close to pre-crisis levels, or in some cases even higher.

The global recovery was the result of three factors:

- the expansive budgetary policy adopted by governments, especially of the United States and, to a lesser extent, of the European countries, which, in order to accelerate economic growth, injected huge amounts of liquidity into the financial system and accepted significant public deficits,

- the marked drive for growth from emerging countries (above all China) which, by also boosting domestic consumption, provided a tremendous stimulus for growth in the demand for consumer goods,

- the restocking of inventories which, having reached extremely low levels after almost two years of shrinkage, slowly returned to their normal levels.

It must be noted that both the growth stimulus linked to the supply of liquidity to the financial markets and the restocking of inventories have, of course, only a temporary effect. In particular, in the medium term, governments will have to take into account their public deficits and the need to refinance sovereign debt, and in some cases this will be far from straightforward. This uncertainty about the future and an intrinsically fragile recovery have made, and continue to make, companies very cautious in making forecasts and investment plans.

The luxury sector, and in particular the so-called “soft luxury” sector, once again showed its resilience throughout the crisis, but also, when the recovery started, a marked ability to make the most of it.

In fact, the first final data for 2010 seem to suggest a significant rise in the whole luxury sector, albeit with markedly different performance among the various operators.

The consolidated revenues of the Ferragamo Group, showing a 26.1% increase, are among the best results in the sector and once again bear witness to the strength of its brand and the high quality of its product range. We would also like to point out the organizational flexibility of the Group, which, after facing a very severe and totally unexpected crisis, managed to join the economic recovery cycle and achieve positive results on all the markets where it operates and across all the product categories.

## **Operating performance**

Dear Shareholders,

the 2010 consolidated annual report of the Ferragamo Group recorded noteworthy results in terms of both sales and profits as well as cash generation.

In fact, after an initial timid start, the year was very positive and improved month by month.

The table below shows the main income statement indicators together with the net financial position.

**Year ended 31 December**

(In thousands of Euro)	2010	2009	% change
Total revenues	781,601	619,598	26.1%
Total gross profit	492,240	363,532	35.4%
Total costs	(405,803)	(327,056)	24.1%
Operating profit	86,437	36,476	137.0%
Net profit/(loss) for the year	60,801	(14,661)	(514.7%)
Net financial position	(18,151)	(79,995)	(77.3%)

Revenues from sales and services totaled 781.6 million Euro in 2010 compared to 619.6 million in 2009, up by 26.1% on the previous year.

Gross profit was 492.2 million Euro compared to 363.5 million Euro in 2009, up by 35.4%.

Operating costs (+24.1%) rose at a lower rate compared to turnover and gross profit, despite the marked increase in communication and marketing investments.

Operating profit was 86.4 million Euro in 2010 compared to 36.5 million in 2009, up by 137.0%.

In 2010 the Group recorded consolidated net profit of 60.8 million Euro compared to a consolidated net loss of 14.7 million Euro in 2009. The Group share amounted to consolidated profit of 48.9 million Euro compared to a loss of 20.9 million Euro in 2009. The consolidated net result for the previous year was affected by the settlement of the tax dispute with the Italian Revenue Office (a net negative impact on the Group of 43.1 million Euro).

The net financial position at the end of the year improved sharply, with net financial debt amounting to 18.2 million Euro, or 7.5% of consolidated shareholders' equity (vs. 41.4% in the previous year), after distribution of dividends of 25.9 million Euro.

In 2010 net financial debt was 80.0 million Euro. The improvement recorded during 2010 was largely due to the sharp increase in sales volumes realized with a higher operating profit compared to the previous year given a limited rise in working capital.

## **Macroeconomic situation**

During 2010 global GDP rose by around 5 percent, confirming the widespread nature of the macroeconomic recovery which had already started in the final quarter of 2009. This growth was the result of various elements, of which the following were key: the loose monetary policy adopted by the main central banks, the fiscal stimulus packages introduced by the most important governments, but above all the sustained growth in developing countries and emerging markets. The growth rate proved to be less robust in the second half of the year and continues to act erratically, with emerging countries, especially China and India, still enjoying high and constant growth rates, while the advanced economies, on the other hand, remain at low and uncertain growth levels.

Compared to the pre-crisis levels of the spring of 2008, at the end of 2010 the industrial production indices for the US and the eurozone were still lower (6% and 10% respectively).

According to estimates, in 2010 real GDP in the eurozone grew overall by 1.7 percent. The recovery was characterized by a mixed development across the region: the main countries, such as Germany and its neighbors, continued to grow strongly, increasing the disparity within the EU compared to the peripheral countries. Given the explosion in public debt, it was necessary to implement rescue plans for Greece and Ireland. In Italy, the main driver for economic activity continued to come from exports, while the contribution from domestic demand, which was already modest, fell further.

As for the North American economy, consumption was still affected by the persistent weakness of the labor market, with an unemployment rate which stood around 9 percent. The strongly expansive monetary and fiscal policies boosted growth on the one hand, while ignoring the problem of the medium to long-term sustainability of the federal deficit on the other.

In Japan, the boost of the Asian recovery and the expansive monetary policies adopted encouraged GDP growth which stood at around 4 percent in 2010, the highest rate since 1990.

In China, industrial production increased by over 10 percent. The biggest risk factor is represented by a significant slowdown in the securities market, with a negative impact feeding through onto the rest of the economy.

The recovery in the global economy relaunched international trade, the first beneficiary of which continues to be the Chinese economy, and caused the re-emergence of tensions over agricultural, industrial and energetic raw material prices.

Latin America confirmed its mixed development, with a general tendency on the part of the monetary authorities to increase official interest rates in response to inflationary pressures, which, however, favor speculative capital inflows which could potentially destabilize the economic and financial systems of the individual countries in the area.

During 2010 the Euro/US\$ exchange rate continued to fluctuate with strong volatility, related to concerns about sovereign debts in the eurozone and the loose monetary policies adopted by the European Central Bank, on the one hand, and to the liquidity injections that were announced and partly implemented by the Federal Reserve as well as to the upward revision of US growth forecasts, on the other. In particular, the exchange rate started the year at 1.43 US\$/Euro; when the Greek situation exploded, the exchange rate collapsed from 1.33 to 1.18, to then quickly return to 1.33 when the possibility of default receded. Likewise, when in September the Fed primed the markets for a new cycle of monetary loosening, the euro reacted first by appreciating from 1.35 to 1.43, to then fall back to 1.33 at the end of 2010. On the other hand, the yen remained strong against both the US dollar and the euro, mirroring the rapid convergence between the yields on the two currencies and that of the Japanese currency. The Asian currency, which stood at around 133 yen/euro at the start of the year, had a bullish trend, which remained stable throughout the year, before closing at 109, near the lows for the year (around 106).

### **Group structure**

During 2010 the Group structure underwent no changes.

### **Sales performance**

The Group's business is composed of a single operating segment involving the creation, development and production of items of footwear, leather goods, clothing and accessories, mainly distributed through the direct retail network, and, to a lesser extent, through franchisees and qualified resellers. As for the fragrances product category, which involves 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 belonging to the specific fragrances channel. The Group's activities also include the licensing of the

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

In 2010 revenues from consolidated sales, services and rental income on investment property reached 781.6 million Euro compared to 619.6 million Euro in 2009, and can be broken down by geographic area, product category and distribution channel as detailed below.

The following table shows the sales by geographic area and the change on the previous year:

(In thousands of Euro)	Year ended 31 December				at constant exchange rates		
	2010	%	2009	%	2010 vs 2009 %	2009 vs 2008 %	2010 vs 2009 %
Europe	182,292	23.3%	150,913	24.4%	20.8%	(15.5%)	20.3%
North America	174,018	22.3%	136,093	22.0%	27.9%	(14.7%)	18.1%
Japan	126,849	16.2%	111,018	17.9%	14.3%	(10.8%)	0.2%
Asia Pacific	267,872	34.3%	193,857	31.3%	38.2%	(4.0%)	24.3%
Central and South America	30,570	3.9%	27,717	4.5%	10.3%	5.4%	9.1%
<b>Total</b>	<b>781,601</b>	<b>100.0%</b>	<b>619,598</b>	<b>100.0%</b>	<b>26.1%</b>	<b>(10.3%)</b>	<b>16.8%</b>

The double-digit increase in turnover at constant exchange rates was recorded in all markets.

As it has done for some years, the Asia Pacific region provided the largest contribution to consolidated sales, rising from 31.3% in 2009 to 34.3% in 2010. During 2010, out of a total increase of 26.1% at current exchange rates and 16.8% at constant exchange rates, this area grew by 38.2% at current exchange rates, while at constant exchange rates it rose by 24.3%; in this area, retail was the most dynamic component in both years: measured in local currency sales were up by 27.8% in 2010, partly due to the openings of new stores, compared to 2009 when the increase was 10.9%.

North America, despite the ongoing uncertainty over the prospects for the economy, rose by 27.9% at current exchange rates and 18.1% at constant exchange rates. This increase was partly boosted by the slight depreciation in the exchange rate (average for 2010=1.33 / vs. average for 2009=1.39) between the US\$ and the euro, but in any case the contribution to consolidated results remained constant (22.3% in 2010).

The opening of some new direct sales stores contributed to the positive performance of the retail channel; in local currency it was +21.1%, while the wholesale channel, which was still suffering from the effects of the 2009 crisis, rose less at 16.5%.

In 2010 Europe (including Italy), which was almost untouched in terms of exchange rate variations<sup>1</sup>, and which during 2009 was less affected by the financial crisis, saw a significant increase of 20.8%, largely due to the retail rather than the wholesale channel.

Japan, which was still in a period of economic stagnation, rose by 14.3% at current exchange rates and was largely unchanged (+0.2%) at constant exchange rates; in 2010 the contribution to consolidated turnover of this area fell to 16.2% from 17.9% in 2009.

In 2010 Central and South America saw growth of 10.3% (+5.4% in 2009), corresponding to an increase of 2.9 million Euro. Retail sales, in local currency, rose in 2010 by 18.1%, also thanks to the expansion of the chain of stores (2009: +32.6%).

The following table shows the changes in sales by geographic area in 2010 and 2009:

**Change in sales by geographic area**

(In thousands of Euro)	Change	Change	%
	2010 vs 2009	2009 vs 2008	2010 vs 2009 %
Europe	31,379	(27,585)	19.4%
North America	37,925	(23,521)	23.4%
Japan	15,831	(13,408)	9.8%
Asia Pacific	74,015	(8,138)	45.7%
Central and South America	2,853	1,420	1.8%
<b>Total</b>	<b>162,003</b>	<b>(71,232)</b>	<b>100.0%</b>

Here below is a breakdown of revenues from sales and services which shows the contribution and growth by product category in 2010 and 2009.

(In thousands of Euro)	Year ended 31 December					
	2010	%	2009	%	2010 vs 2009 %	2009 vs 2008 %

<sup>1</sup> Europe also manages sales in the Middle East and non-EU European countries

Footwear	319,014	40.8%	240,508	38.8%	32.6%	(4.9%)
Leather goods	243,662	31.2%	195,825	31.6%	24.4%	(12.6%)
Clothing	90,096	11.5%	76,574	12.4%	17.7%	(8.4%)
Accessories	67,443	8.6%	57,502	9.3%	17.3%	(13.0%)
Fragrances	46,421	5.9%	35,059	5.7%	32.4%	(24.0%)
Licenses and services	6,850	0.9%	6,544	1.1%	4.7%	(41.4%)
Rental income investment properties	8,115	1.0%	7,586	1.2%	7.0%	9.2%
<b>Total</b>	<b>781,601</b>	<b>100.0%</b>	<b>619,598</b>	<b>100.0%</b>	<b>26.1%</b>	<b>(10.3%)</b>

The performance of the footwear product category was particularly positive, with women's footwear sales increasing by 33.7% and men's footwear sales up by 31.3%. There was also a significant increase in revenues from fragrances (32.4%) and men's and women's leather goods (30.9% and 22.3% respectively).

Sales by distribution channel can be broken down as follows:

#### Sales by distribution channel

(In thousands of Euro)	Year ended 31 December					
	2010	%	2009	%	2010 vs 2009 %	2009 vs 2008 %
Wholesale	223,669	28.6%	185,019	29.9%	20.9%	(21.9%)
Retail	542,967	69.5%	420,449	67.9%	29.1%	(3.5%)
Licenses and services	6,850	0.9%	6,544	1.1%	4.7%	(41.4%)
Rental income investment properties	8,115	1.0%	7,586	1.2%	7.0%	9.2%
<b>Total</b>	<b>781,601</b>	<b>100.0%</b>	<b>619,598</b>	<b>100.0%</b>	<b>26.1%</b>	<b>(10.3%)</b>

During the year retail sales reached 69.5% of the total (67.9% in 2009), thanks to the marked growth in sales recorded in the primary direct stores channel.

The wholesale channel, which usually slightly lags the recovery in markets, nonetheless rose by a robust 20.9%.

Revenues from licenses and services relating to sales of licensed *Ferragamo* branded products (glasses produced and distributed by Luxottica and watches produced and distributed by the Timex Group) were largely unchanged. Services also remained relatively unchanged during 2010.

Rental income investment properties refer solely to property located in the United States and leased/sub-leased to third parties.

In 2010, 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 (1 opening in Taiwan, 5 in the PRC, of which 4 are direct stores and 1 is a franchise, 1 in Korea, 1 in Singapore and 1 in Thailand).

In North America a new store was opened in Florida (Palm Beach Gardens) and investments were made to renovate already 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.

## Income performance

The following table shows the income statement data for 2010 and 2009. These show that operating profit rose from 36.5 million Euro to 86.4 million Euro which was achieved not only thanks to the sharp increase in revenues but also thanks to the increase in gross profit (from 58.7% to 63.0%) and the limited increase in operating costs, whose ratio to revenues fell from 56% to 53%.

(In thousands of Euro)	Year ended 31 December			
	2010	%	2009	%
Revenues from sales and services	773,486	99.0%	612,012	98.8%
Rental income investment properties	8,115	1.0%	7,586	1.2%
<b>Revenues</b>	<b>781,601</b>	<b>100.0%</b>	<b>619,598</b>	<b>100.0%</b>
Cost of goods sold	(289,361)	(37.0%)	(256,066)	(41.3%)
<b>Gross profit</b>	<b>492,240</b>	<b>63.0%</b>	<b>363,532</b>	<b>58.7%</b>
Other income and revenues	8,949	1.1%	19,664	3.2%
Style, product development and logistics costs	(27,690)	(3.5%)	(24,826)	(4.0%)
Sales & distribution costs	(262,543)	(33.6%)	(220,834)	(35.6%)
Marketing & communication costs	(44,095)	(5.6%)	(31,502)	(5.1%)
General and administrative costs	(66,647)	(8.5%)	(55,997)	(9.0%)
Other operating costs	(13,777)	(1.8%)	(13,561)	(2.2%)
<b>Operating profit</b>	<b>86,437</b>	<b>11.1%</b>	<b>36,476</b>	<b>5.9%</b>
Financial charges	(13,923)	(1.8%)	(18,068)	(2.9%)
Financial income	16,324	2.1%	15,959	2.6%
Share of net profit/(loss) on investments accounted for using the Equity Method	477	0.1%	436	0.1%
<b>Profit before taxes</b>	<b>89,315</b>	<b>11.4%</b>	<b>34,803</b>	<b>5.6%</b>
Income taxes	(28,514)	(3.6%)	(49,464)	(8.0%)
<b>Profit (loss) for the year from continuing operations</b>	<b>60,801</b>	<b>7.8%</b>	<b>(14,661)</b>	<b>(2.4%)</b>
Net profit/(loss) from discontinued operations, net of taxes	-	-	-	-
<b>Net profit/(loss) for the year</b>	<b>60,801</b>	<b>7.8%</b>	<b>(14,661)</b>	<b>(2.4%)</b>
Profit/(loss) - Group	48,877	6.3%	(20,907)	(3.4%)

Profit/(loss) - minority interests	11,924	1.5%	6,246	1.0%
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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.

<b>EBITDA (*)</b> (In thousands of Euro)	<b>2010</b>	<b>2009</b>	<b>% change</b>
<b>Operating profit</b>	<b>86,437</b>	<b>36,476</b>	137.0%
Depreciation of tangible assets	23,619	22,545	4.8%
Amortization of intangible assets	3,084	2,663	15.8%
Write-downs of tangible/intangible assets	-	229	
<b>EBITDA</b>	<b>113,140</b>	<b>61,913</b>	82.7%

(\*) EBITDA is operating profit before amortization and depreciation and write-downs of tangible/intangible assets. 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.

Please note that EBITDA as a percentage of revenues rose from 10.0% in 2009 to 14.5% in 2010.

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

<b>Reconciliation of the amortization and depreciation making up the total costs by function</b> (In thousands of Euro)	<b>2010</b>	<b>2009</b>	<b>% change</b>
Cost of goods sold	(552)	(549)	0.5%
Style, product development and logistics costs	(578)	(634)	(8.8%)
Sales & distribution costs	(19,319)	(18,529)	4.3%
Marketing & communication costs	(64)	(61)	4.9%
General and administrative costs	(6,190)	(5,664)	9.3%
<b>Total amortization, depreciation and write-downs of non-current assets</b>	<b>(26,703)</b>	<b>(25,437)</b>	<b>5.0%</b>
of which			
Depreciation of tangible assets	23,619	22,545	4.8%
Amortization of intangible assets	3,084	2,663	15.8%
Write-downs of tangible/intangible 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:

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Wholesale sales	223,640	185,000	20.9%
Retail sales	542,967	420,449	29.1%
Sales to related parties	29	19	
Royalties	3,384	3,632	(6.8%)
Fees and services for third parties	1,923	1,622	18.6%
Fees and services for associated and jointly controlled companies	1,459	1,267	15.2%
Fees and services for related companies	84	23	265.2%
<b>Total revenues from sales and services</b>	<b>773,486</b>	<b>612,012</b>	<b>26.4%</b>

Wholesale revenues refer to sales to third party retailers and include almost all fragrance sales. Retail sales refer solely to products sold through stores which are directly managed by the Group. 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.

**Rental income investment properties**, which are shown in the following table, refer solely to American properties. The increase in 2010 was due largely to the rise in the dollar exchange rate. In local currency, revenues totaled US\$ 10.8 million in 2010 compared to US\$ 10.6 million in 2009.

<b>Rental income investment properties</b>			
(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
<b>Total</b>	<b>8,115</b>	<b>7,586</b>	<b>7.0%</b>

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

<b>Cost of goods sold</b>			
(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Change in inventories of finished, semi-finished products and work in progress	(5,663)	(20,240)	(72.0%)

Raw materials, accessories and consumables used	(159,014)	(133,669)	19.0%
Costs for services	(119,194)	(97,167)	22.7%
Personnel costs	(4,938)	(4,441)	11.2%
Amortization and depreciation	(552)	(549)	0.5%
<b>Cost of goods sold</b>	<b>(289,361)</b>	<b>(256,066)</b>	<b>13.0%</b>

The **gross profit** was 63.0% of sales in 2010 compared to 58.7% in 2009, thanks largely to an improved ratio of full-price sales to discounted sales.

**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 decrease compared to the previous year was influenced by the use of the provision for risks during the previous 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 in the previous year's financial statements (note 21).

#### Other income and revenues

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Other income and revenues	7,661	17,901	(57.2%)
Gains on disposal of tangible/intangible assets	43	63	(31.7%)
Extraordinary income	1,245	1,700	(26.8%)
<b>Total other income and revenues</b>	<b>8,949</b>	<b>19,664</b>	<b>(54.5%)</b>

**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		
	2010	2009	% change
Purchases	(2,709)	(1,691)	60.2%
Services	(12,866)	(11,471)	12.2%
Personnel costs	(11,537)	(11,030)	4.6%
Amortization and depreciation	(578)	(634)	(8.8%)
Other operating costs	-	-	-

<b>Total</b>	<b>(27,690)</b>	<b>(24,826)</b>	<b>11.5%</b>
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The increase was mainly due to the rise in sales volumes which was partly mitigated by the ongoing efficiency recovery program.

**Sales & distribution costs**, mainly relating to the management of direct stores, also include the costs of the wholesale activities, 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		
	2010	2009	% change
Retail	(232,495)	(196,710)	18.2%
Wholesale	(24,746)	(19,131)	29.4%
Distribution logistics	(5,302)	(4,993)	6.2%
<b>Sales &amp; distribution costs</b>	<b>(262,543)</b>	<b>(220,834)</b>	<b>18.9%</b>

The rise in overall costs was the direct consequence of the increase in sales volumes and, to a lesser extent, the expansion of the retail network and the negative impact of exchange rate movements, in particular the US dollar and the Japanese yen.

The breakdown by nature is shown in the following table.

**Sales & distribution costs by nature**

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Purchases	(4,930)	(4,858)	1.5%
Services	(155,150)	(127,214)	22.0%
Personnel costs	(83,144)	(70,233)	18.4%
Amortization and depreciation	(19,319)	(18,529)	4.3%
Other operating costs	-	-	
<b>Sales &amp; distribution costs</b>	<b>(262,543)</b>	<b>(220,834)</b>	<b>18.9%</b>

**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		
	2010	2009	% change
Purchases	(3,729)	(3,072)	21.4%
Services	(33,648)	(21,921)	53.5%
Personnel costs	(6,654)	(6,448)	3.2%
Amortization and depreciation	(64)	(61)	4.9%
Other operating costs	-	-	

<b>Marketing &amp; communication costs</b>	<b>(44,095)</b>	<b>(31,502)</b>	<b>40.0%</b>
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The sharp increase was due to the rise in communication activities to support the *Ferragamo* brand in a period of major expansion.

**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		
	2010	2009	% change
Purchases	(965)	(609)	58.5%
Services	(32,500)	(29,494)	10.2%
Personnel costs	(26,992)	(20,230)	33.4%
Amortization and depreciation	(6,190)	(5,435)	13.9%
Write-downs of non-current assets	-	(229)	-
Other operating costs	-	-	-
<b>Total</b>	<b>(66,647)</b>	<b>(55,997)</b>	<b>19.0%</b>

**Other operating costs**, which are set out below, refer to indirect taxes and duties, entertainment expenses and gifts. Provisions for risks refer to the estimate of future charges for legal and 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		
	2010	2009	% change
Losses on disposal of fixed assets	(718)	(568)	26.4%
Extraordinary charges	(247)	(1,736)	(85.8%)
Provisions for risks and charges	(2,980)	(1,418)	110.2%
Write-down of current assets	(1,651)	(3,455)	(52.2%)
Other operating costs	(8,181)	(6,384)	28.1%
<b>Total</b>	<b>(13,777)</b>	<b>(13,561)</b>	<b>1.6%</b>

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.

Gains and losses on exchange rate differences mainly reflect the impact of exchange rate hedging transactions completed in the year. Net financial income for the purposes

of adjusting derivatives to fair value mainly refers to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company.

**Net financial charges**

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Interest and other net (charges)/income	(3,805)	(3,455)	10.1%
Gains/(losses) on exchange rate differences	7,139	(426)	(1775.8%)
Financial (charges)/income to adjust derivatives to fair value	(933)	1,772	(152.7%)
(Losses)/gains on disposal of investments	-	-	
(Write-down / provisions)/revaluations of investments	-	-	
<b>Net financial (charges)/ income</b>	<b>2,401</b>	<b>(2,109)</b>	<b>(213.8%)</b>

The **share of net profit/(loss) on investments accounted for using the Equity Method** refers to Zefer S.p.A., 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**

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
Current and deferred taxes	(28,514)	(6,330)	
Previous years income taxes	-	(43,134)	
<b>Income taxes</b>	<b>(28,514)</b>	<b>(49,464)</b>	<b>(42.4%)</b>
Tax rate	31.9%	142.1%	

In 2009, the tax rate was negatively affected, as mentioned above, by the recognition of income taxes for previous years relating to the settlement of the tax dispute.

The tax rate for the year was 31.9% of pre-tax profit and also takes into account the estimated taxes that the Parent company Salvatore Ferragamo Italia is going to pay on the 2010 income generated by some non-Italian companies, which are resident in countries and territories with privileged tax regimes (Hong Kong, Singapore and Malaysia), as regulated by Italian law on the taxation of CFCs (Controlled Foreign Corporations). Net of this recognition of current taxes, the tax rate would have been 28.36%.

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

(In thousands of Euro)	Year ended 31 December		
	2010	2009	% change
<b>Net profit/(loss) for the year</b>	<b>60,801</b>	<b>(14,661)</b>	(514.7%)
Profit/(loss) - Group	48,877	(20,907)	(333.8%)
Profit/(loss) - minority interests	11,924	6,246	90.9%

## 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		
	2010	2009	% change
Tangible assets, investment property, intangible assets with a finite useful life and goodwill	130,059	127,555	2.0%
Net working capital	154,550	142,394	8.5%
Other non current assets/(liabilities), net	21,101	5,920	256.4%
Other current assets/(liabilities), net	(47,123)	(2,563)	1738.6%
<b>Net invested capital</b>	<b>258,587</b>	<b>273,306</b>	<b>(5.4%)</b>
Group shareholders' equity	193,070	146,578	31.7%
Minority interests	47,366	46,733	1.4%
<b>Shareholders' equity</b>	<b>240,436</b>	<b>193,311</b>	<b>24.4%</b>
<b>Net financial position</b>	<b>(18,151)</b>	<b>(79,995)</b>	<b>(77.3%)</b>
<b>Net financial debt/shareholders' equity</b>	7.5%	41.4%	

**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		
	2010	2009	% change
Property, plant and equipment	107,636	106,471	1.1%
Investment property	7,535	7,267	3.7%
Goodwill and other intangible assets with an indefinite useful life	-	-	-
Intangible assets with a finite useful life	14,888	13,817	7.8%
<b>Total</b>	<b>130,059</b>	<b>127,555</b>	<b>2.0%</b>

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 43.8 million Euro;
- furnishings and restructuring work for the chain of direct stores amounting to 51.9 million Euro;
- other property, plant and equipment, mainly for IT equipment, amounting to 11.9 million Euro.

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

The Group does not have any entries in the financial statements for goodwill or for other intangible assets with an indefinite useful life.

Intangible assets with a finite useful life mainly consist of costs incurred to acquire the right to enter into shop rental contracts (6.2 million Euro, net value to be amortized at 31.12.10), 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).

Investments totaled 21.8 million Euro in 2010 and 20.9 million Euro in 2009. Amortization and depreciation amounted respectively to 26.7 million Euro in 2010 and 25.2 million Euro in 2009.

**Working capital** consisted of:

<b>Working capital</b>			
	<b>31 December</b>		
(In thousands of Euro)	<b>2010</b>	<b>2009</b>	<b>% change</b>
Inventories	182,780	162,307	12.6%
Trade receivables	75,377	57,347	31.4%
Trade payables	(103,607)	(77,260)	34.1%
<b>Total</b>	<b>154,550</b>	<b>142,394</b>	<b>8.5%</b>

The increase in working capital was 8.5% and was very low compared to the increase in revenues. In particular, inventories rose only by 12.6% thanks to a marked improvement in their rotation.

Trade receivables largely refer to wholesale sales and their increase of 31.4% indicates the recovery in this business channel above all in the second part of the year. Trade payables are mainly due to purchases of production materials, products and manufacturing in outsourcing and their increase related to the sharp rise in production.

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

(In thousands of Euro)	31 December		
	2010	2009	% change
<b>Other non current assets/(liabilities), net</b>			
Investments in associated and jointly controlled companies	1,143	1,091	4.8%
Investments in related companies	-	-	-
Available-for-sale financial assets	51	71	(28.2%)
Other non current assets	5,057	4,848	4.3%
Other financial assets	6,924	5,741	20.6%
Derivatives	2	-	-
Deferred tax assets	61,715	55,067	12.1%
<b>Total other non current assets</b>	<b>74,892</b>	<b>66,818</b>	<b>12.1%</b>
Provisions for risks and charges	(5,052)	(3,912)	29.1%
Employee benefit liabilities	(9,340)	(9,178)	1.8%
Other non current liabilities	(33,536)	(41,449)	(19.1%)
Deferred tax liabilities	(5,863)	(6,359)	(7.8%)
<b>Total other non current liabilities</b>	<b>(53,791)</b>	<b>(60,898)</b>	<b>(11.7%)</b>
<b>Net total</b>	<b>21,101</b>	<b>5,920</b>	

**Other non current assets** consist of:

- the straight lining of rental income from the American real estate business for 3.4 million Euro (3.4 million Euro in 2009);
- the portion of receivables due after more than 12 months stemming in 2005 from the advance on fees for Ungaro fragrances amounting to 1.25 million Euro paid at the time of the sale of the Ungaro brand and the renewal of the license contract entered into at the beginning of 2011 (1.1 million Euro in 2009).

**Other financial assets** mainly consist of guarantee deposits and, only for the year 2010, the fair value assessment of hedge derivatives due after more than 12 months (155 thousand Euro).

**Deferred tax assets** mainly 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 (32.9 million Euro). The part (5.4 million Euro) of the installment tax payable which was still to be paid at the end of the year and originally due after more than 12 months, was reclassified under short-term tax payables, as following the new agreements signed during 2010 with the Italian tax authorities, the total remainder was paid in one amount on 15.02.2011.

**Other current assets/(liabilities)** were as follows:

<b>Other current assets/(liabilities), net</b>			
(In thousands of Euro)	31 December		
	2010	2009	% change
Tax receivables	5,845	5,267	11.0%
Other receivables	23,213	32,646	(28.9%)
<b>Total other current assets</b>	<b>29,058</b>	<b>37,913</b>	<b>(23.4%)</b>
Provisions for risks and charges - current portion	-	-	-
Tax payables	(27,210)	(16,759)	62.4%
Other payables	(48,971)	(23,717)	106.5%
<b>Total other current liabilities</b>	<b>(76,181)</b>	<b>(40,476)</b>	<b>88.2%</b>
<b>Net total</b>	<b>(47,123)</b>	<b>(2,563)</b>	<b>1738.6%</b>

**Other receivables** mainly include:

- the fair value assessment of hedge derivative contracts for 4.4 million Euro (7.9 million Euro in 2009) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro;
- advances to suppliers (1.1 million Euro), receivables from credit card management companies for retail sales (2.8 million Euro), receivables from Zefer for consultancy fees (1.5 million Euro), and accrued income and prepaid expenses.

At the end of 2010 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, trade payables 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		
	2010	2009	% change
Group shareholders' equity	193,070	146,578	31.7%
Minority interests	47,366	46,733	1.4%
<b>Total</b>	<b>240,436</b>	<b>193,311</b>	<b>24.4%</b>

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

- for +48.9 million Euro to the profit for the year, +17.5 million Euro to the effect of translating into euro the subsidiaries' annual reports denominated in other currencies (mainly the yen and the dollar), -15.1 million euro to dividends paid by the Parent company, -2.8 million Euro to the net impact of changes related to the acquisition of minority interests in subsidiaries which are consolidated on a line-by-line basis and to the recognition of the put options assigned to minority shareholders, and -7.7 million Euro to the impact on shareholders' equity of the valuation of hedge derivatives in accordance with IAS/IFRS (cash flow hedge reserve), net of the related tax effect.

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

Net financial position (summary)		
(In thousands of Euro)	2010	2009
Cash and cash equivalents	132,895	77,403
Current financial receivables	1,200	1,324
Current financial debt	(152,163)	(158,722)
Non current financial debt	(83)	-
<b>Net financial Debt</b>	<b>(18,151)</b>	<b>(79,995)</b>

The decrease in current net financial debt was a consequence of the significant cash flow generated from operations.

### **Significant events occurred during the year**

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 with the Florence Revenue Office to settle the tax dispute.

On 9 June 2010 the Parent company and Ferragamo Parfums SpA renewed the contract with Ferragamo Finanziaria SpA relating to the exercise of the option to adopt the domestic fiscal unity regime for the three-year period 2010-12.

During the year two extraordinary transactions were carried out in order to simplify the Group's corporate structure and to optimize operating costs:

- on 31 August 2010, with retroactive effect as from 1 April 2010, a contract was signed to merge M Mendrisio Moda into Ferragamo Suisse SA, in order to simplify and optimize the operating costs of the retail business on the Swiss market. The transfer of the assets and liabilities was carried out at book values. At the date of the merger both Swiss companies were wholly owned by the Dutch company Ferragamo International BV.

- with merger deed of 8 November 2010, effective as of 16 November 2010, Ferragamo International BV, a company incorporated under Dutch laws, was merged into Salvatore Ferragamo Italia SpA, the sole shareholder in the Dutch company.

The objectives of the merger were mainly to simplify the control chain referring to Salvatore Ferragamo Italia SpA by eliminating the replication of costs connected to the incorporating company maintaining in the Group intermediary sub-holdings, such as the Dutch company; to transfer to Salvatore Ferragamo Italia SpA the investments held by Ferragamo International BV in line with the plan to enhance the direct coordination and management of investee companies; to eliminate any potential conflict between the tax authorities of the various countries regarding the tax residence of the Dutch company in order to avoid the risks of double taxation. In brief: reduction of overheads, simplification of financial flows, simplification of the Group's corporate

structure with a view to greater transparency towards third parties, and enhancement of the financial structure of the Parent company.

The transfer of the assets and liabilities was carried out at book values. The merger entailed in particular the transfer to the Parent company Salvatore Ferragamo Italia of all the investments held by Ferragamo International BV for a net book value of 75.1 million Euro. In the Parent company's financial statements, which were drawn up in accordance with Italian accounting principles, a merger deficit was recognized of 12.6 million Euro, net of the deferred tax liabilities, which was fully allocated to the assets transferred from the merged company under investments. The transaction did not have any accounting impact on the consolidated financial statements.

In regard to Ferragamo France SAS, in 2006 a tax assessment was undertaken on the transfer price as a result of which higher taxes and withholdings were claimed of 4,790 thousand Euro, in addition to fines and interest. During 2008 the company started the series of appeals provided for by French law, albeit fruitlessly as the French tax authority maintained its positions. 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 proceedings before 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 it 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 positions and filed additional data to justify its conduct.

During 2010 there were further talks with the French central tax authorities and the "*Commission départementale des impôts directs et des taxes sur le chiffre d'affaires*" expressed its opinion, which is not binding on the tax authorities, according to which the tax claim should be withdrawn.

Despite this favorable opinion from the "*Commission départementale*", on 9 and 10 December 2010 the French tax authority issued two collection notices for a total amount of 2.0 million Euro for taxes, withholdings, interests and additional charges for the tax periods 2004 and 2005.

On 12 January 2011 the company appealed against these collection notices due both to lack of the necessary requirements for the tax claim and to formal errors which, if accepted, could lead to nullity of the tax notices. In addition, a petition to suspend payment, which otherwise would be immediately collectible, was filed with the administrative courts.

On the grounds of prudence, the company decided to make a total allocation of 500 thousand Euro including defense costs, although it considers the risk of losing the case remote.

In reference to the organization, management and control model adopted during 2009 by the company pursuant to Legislative Decree 231/2001, in July 2010 the Board of Directors approved a redraft of the Model aimed at enhancing its overall organization, i.e. giving it a better framework structure between the general and special parts, and including some changes to the special protocols proposed by the Supervisory Board.

In November 2010, in order to disseminate as widely as possible knowledge of the Model among third parties and to guarantee compliance with the general principles and rules of conduct contained therein with respect to internal subjects, an abstract of the Model was included on the company's website and a specific section dedicated to it was published on the company intranet, management of which was entrusted to the Supervisory Board.

In the near future an update of the Model under Legislative Decree 231/2001 is scheduled, which is likely to be completed in the first half of 2011 following the results emerged from the project for a new risk assessment, required following the introduction of new crime categories after the most recent update of the Model (July 2009), and to take into account the impact on the Model's effectiveness given the changed conditions at the company and the changes to its organizational structure.

In December 2010 the Parent company paid dividends for 15.1 million Euro.

On 29 July 2010 the Board of Directors of the Parent company decided to consider a possible return to the listing process, on the basis of the prospects of the three-year strategic plan for 2010-2012 and the prospects for equity market recovery. It, therefore, decided to resume all the procedures needed to reactivate the process and be ready to file for listing, should the conditions exist at the appropriate moment.

In subsequent meetings of the Board of Directors, the Chairman and the directors involved in this process reported on progress made in the activities preparatory to listing. In particular, in its meeting held on 3 November 2010, the Board of Directors confirmed the mandate to the Chairman to manage and coordinate the preparatory activities with the Managing Director and Director F. Caretti.

Please note that the 2010 financial statements do not include potential assets (5.5 million Euro) relating to the request made to the Italian tax authority for refund of the taxes paid in Holland by the Dutch company Ferragamo International BV, following the agreement of 9 October 2009 for the final settlement of the tax dispute and the unilateral elimination of the double taxation by Italy, as, at the end of year, the right for refund is not certain.

### **Non-recurring transactions**

In 2010 there were no unusual or non-recurring transactions.

### **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 in 2009 by the Parent company and by the subsidiary Ferragamo Parfums SpA.

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. During 2010, taking advantage of tax benefits, the Parent company introduced at its Osmannoro-Sesto Fiorentino plant several photovoltaic systems (solar panels) to produce hot water for the various buildings, as it believes that the consequent environmental benefit will 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 16.8 million Euro in 2010 and 16.5 million Euro in 2009.

### **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 2011 there was no prejudicial effect to the profit for the current year originating from the financial statements valuations at 31 December 2010 and in particular from the changes which occurred in exchange rates.

On 15 February 2011 the remaining part of the tax payable (10.9 million Euro + interest), originally to be paid in installments, was paid in full, as per the agreement with the Florence Revenue Office signed in 2009 for the total settlement of the tax dispute, as set out in more detail in the section “Significant events occurred during the year” of the report on operations relating to the previous year.

The Board of Directors of the Parent company met on 18 February 2011 and, after the illustration of the listing project development by Director F. Caretti, resolved to entrust the Chairman and the Managing Director with the task of appointing two banks as Global Coordinators.

On 28 February 2011 the company signed a share purchase agreement with Imaginex Holdings Limited and Imaginex Overseas Limited for the acquisition of a 25% stake in Ferrimag Limited of Hong Kong and Ferragamo Moda Shanghai Ltd (both already held at 50%), and a 15.2% stake in Ferragamo Retail Macau Ltd (already held at 60%). The closing of this transaction, with the purchase of these investments by the Parent company or by subsidiaries it has designated, has been set for 1 January 2013, the date by which the distribution contracts directly existing between Ferragamo Hong Kong and Ferragamo Moda Shanghai and the subsidiaries of Ferrimag will expire.

The price to be paid based on this transaction, which is determined right now and is due on 1 January 2013, reflects the companies’ value at 31 December 2010.

The agreement also provides for the renewal of the distribution contracts until 31 December 2019.

On the same date Peter Woo, owner of the Imaginex Group, signed, through a subsidiary, a share purchase agreement to acquire a 8% stake in Salvatore Ferragamo Italia SpA and was appointed as Director of the company.

### **Outlook for 2011**

Global economic growth is likely to continue in 2011, albeit at a slightly slower pace than in 2010, with global growth rates estimated at around 4.4 percent. The large emerging economies, above all in Asia, will continue to be the main driver of recovery: according to forecasts, China will grow 9.6%, India 4.8%, and Brazil and Russia 4.5%. However, the macroeconomic scenario for the immediate future is not risk-free and is exposed to possible downward corrections due to a continuing high level of uncertainty. Concerns are focused on tensions still affecting some segments of the financial markets, the increase in the price of oil and raw materials generally, renewed protectionist trends and the possibility of sudden readjustments to global imbalances, which are still largely unresolved.

Among mature economies, Europe is expected to maintain a very low growth rate estimated at around 1.5%. Germany will remain the main economy driving the area. Unrest over European debt and the potential repercussions on the banking system are likely to condition financial markets and economic policy in 2011 too. The recent events in North Africa introduce a further element of uncertainty which could have not only a negative economic impact but also cause worrying social tensions. It should be noted that the main threats to global economic stability may probably come from the state of public finances in the United States and Japan, which are much more worrying and, proportionately, more significant for the world economy.

The United States is forecast to grow at around 3%, thanks above all to its confirmed public support policies which, on the other hand, will impact the federal deficit. The issue of employment is still important as is its impact on consumption, the key to the internal macroeconomic scenario. The Japanese Government declared that GDP growth will slow down and fall back to 1.5%: the main problem for the economy remains the impact of the continuing strength of the yen on exports. On the contrary, most of the central banks in Asia Pacific (Japan excluded) have kept official interest

rates unchanged or have increased them to combat inflation prospects caused by strong growth and expectations of increases in raw material prices. The abundant liquidity and close to zero interest rates could trigger capital flows to markets which promise higher yields, thus starting speculative bubbles which could be dangerous at least in the local context.

Another risk factor is connected to the possibility of significant movements in exchange rates. The quantitative stimulus policies adopted in the United States and Japan, the persisting strong foreign trade imbalances and the panic over eurozone debt are all contrasting forces affecting exchange rates, whose net effect is impossible to predict.

As for the exchange rate between the euro and the US dollar, the market expects a similar performance to that seen in 2010, with a fluctuation range between 1.20 and 1.45, and an equilibrium area between 1.30 and 1.35. On the other hand, the yen is expected to reverse the trend of 2010 and fall against both the US dollar and the euro, both because the Bank of Japan will maintain a loose monetary policy further into the future and because Japan's macroeconomic scenario is rapidly deteriorating.

The budget forecasts and the results for the first few months of 2011 are likely to suggest a positive trend in sales, operating profit and net profit for the entire year.

SALVATORE FERRAGAMO ITALIA SpA

Signed by: Ferruccio Ferragamo - Chairman

## Consolidated financial statements

### Consolidated statement of financial position - assets

(In thousands of Euro)	Notes	December	
		2010	2009
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment	4	107,636	106,471
Investment property	5	7,535	7,267
Intangible assets with a finite useful life	6	14,888	13,817
Investments in associated and jointly controlled companies	8	1,143	1,091
Available-for-sale financial assets	9	51	71
Other non current assets	10	5,057	4,848
Other non current financial assets	11	6,924	5,741
Derivatives	32	2	-
Deferred tax assets	12	61,715	55,067
<b>TOTAL NON CURRENT ASSETS</b>		<b>204,951</b>	<b>194,373</b>
<b>CURRENT ASSETS</b>			
Inventories	13	182,780	162,307
Trade receivables	14	75,377	57,347
Tax receivables	15	5,845	5,267
Other current assets	16	23,213	32,646
Other current financial assets	17-31	1,200	1,324
Cash and cash equivalents	18	132,895	77,403
<b>TOTAL CURRENT ASSETS</b>		<b>421,310</b>	<b>336,294</b>
<b>TOTAL ASSETS</b>		<b>626,261</b>	<b>530,667</b>

SALVATORE FERRAGAMO ITALIA SpA

Signed by: Ferruccio Ferragamo - Chairman

## Consolidated statement of financial position - liabilities and shareholders' equity

(In thousands of Euro)	Notes	31 December	
		2010	2009
<b>SHAREHOLDERS' EQUITY</b>			
<b>GROUP SHAREHOLDERS' EQUITY</b>			
Share capital	20	16,841	16,841
Reserves	20	127,352	150,644
Net profit/(loss) – Group		48,877	(20,907)
<b>TOTAL GROUP SHAREHOLDERS' EQUITY</b>		<b>193,070</b>	<b>146,578</b>
<b>MINORITY INTERESTS</b>			
Share capital and reserves – minority interests		35,442	40,487
Net profit/(loss) – minority interests		11,924	6,246
<b>TOTAL MINORITY INTERESTS</b>		<b>47,366</b>	<b>46,733</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>240,436</b>	<b>193,311</b>
<b>NON CURRENT LIABILITIES</b>			
Provisions for risks and charges	21	5,052	3,912
Employee benefit liabilities	22	9,340	9,178
Other non current liabilities	23	33,536	41,449
Non current financial liabilities	24-31	83	-
Deferred tax liabilities		5,863	6,359
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>53,874</b>	<b>60,898</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	25	103,607	77,260
Interest-bearing loans & borrowings	26	150,796	158,149
Tax payables	27	27,210	16,759
Other current liabilities	28	48,971	23,717
Other current financial liabilities	29-31	1,367	573
<b>TOTAL CURRENT LIABILITIES</b>		<b>331,951</b>	<b>276,458</b>
<b>TOTAL LIABILITIES</b>		<b>385,825</b>	<b>337,356</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>626,261</b>	<b>530,667</b>

SALVATORE FERRAGAMO ITALIA SpA

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## Separate consolidated income statement

(In thousands of Euro)	Notes	31 December	
		2010	2009
Revenues from sales and services	32	773,486	612,012
Rental income investment properties	33	8,115	7,586
Cost of goods sold	34	(289,361)	(256,066)
<b>Gross profit</b>		<b>492,240</b>	<b>363,532</b>
Other income and revenues	35	8,949	19,664
Style, product development and logistics costs	36	(27,690)	(24,826)
Sales & distribution costs	37	(262,543)	(220,834)
Marketing & communication costs	38	(44,095)	(31,502)
General and administrative costs	39	(66,647)	(55,997)
Other operating costs	40	(13,777)	(13,561)
<b>Operating profit</b>		<b>86,437</b>	<b>36,476</b>
Financial charges	42	(13,923)	(18,068)
Financial income	43	16,324	15,959
Share of net profit/(loss) on investments accounted for using the Equity Method	44	477	436
<b>Profit before taxes</b>		<b>89,315</b>	<b>34,803</b>
Income taxes	45	(28,514)	(49,464)
<b>Net profit/(loss) for the year</b>		<b>60,801</b>	<b>(14,661)</b>
Net profit/(loss) - Group		48,877	(20,907)
Net profit/(loss) - minority interests		11,924	6,246

SALVATORE FERRAGAMO ITALIA SpA

Signed by: Ferruccio Ferragamo - Chairman

Earnings per share	Notes	31 December	
		2010	2009
Basic earnings per share ordinary shares	47	2.88	(1.24)
Basic earnings per share preferred shares		2.93	(1.24)

Diluted earnings per share ordinary shares	2.88	(1.24)
Diluted earnings per share preferred shares	2.93	(1.24)

**Earnings per share from continuing operations**

Basic earnings from continuing operations per ordinary share	2.88	(1.24)
Basic earnings from continuing operations per preferred share	2.93	(1.24)

Diluted earnings from continuing operations per ordinary share	2.88	(1.24)
Diluted earnings from continuing operations per preferred share	2.93	(1.24)

**Dividend per share**

Basic dividend per share ordinary shares  
Basic dividend per share preferred shares

SALVATORE FERRAGAMO ITALIA SpA

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## Consolidated statement of comprehensive income

(In thousands of Euro)	Notes	31 December	
		2010	2009
<b>Profit/(loss) for the period</b>		<b>60,801</b>	<b>(14,661)</b>
Currency translation differences of foreign operations		23,679	(2,959)
Net (loss)/ gain from cash flow hedge		(10,543)	22,558
Income taxes effect		2,899	(6,204)
		(7,644)	16,354
Net (loss)/ gain from recognition of defined-benefit plans for employees		(194)	318
Income taxes effect		54	(87)
		(140)	231
<b>Other comprehensive income for the period, net of taxes</b>		<b>15,895</b>	<b>13,626</b>
<b>Total comprehensive income for the period, net of taxes</b>		<b>76,696</b>	<b>(1,035)</b>
Group		58,642	(7,321)
Minority interests		18,054	6,286

SALVATORE FERRAGAMO ITALIA SpA

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## Consolidated statement of cash flows

	31 December 2010	31 December 2009
<b>NET INCOME/ (LOSS)</b>	<b>60,801</b>	<b>(14,661)</b>
<b>Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:</b>		
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	26,703	25,437
Deferred tax assets and liabilities	(2,477)	(11,195)
Provision for employee severance indemnities	3,737	3,522
Provision for obsolete inventory	(3,307)	2,632
Losses and provision for bad debt	1,651	3,455
Loss/(gain) on disposal of tangible assets	676	505
Share of net profit/(loss) on investments accounted for using the Equity Method	(52)	64
Other non-cash items	2,980	1,418
<b>Changes in operating assets and liabilities:</b>		
Trade receivables	(16,665)	4,616
Inventories	3,344	23,720
Trade payables	25,125	(16,986)
Tax receivables	(298)	6,012
Tax payables	9,591	7,526
Advance payments and settlements of employee severance indemnities	(4,142)	(3,695)
Other – net	13,921	(9,274)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>121,588</b>	<b>23,096</b>
<b>Cash flow from investing activities:</b>		
Purchase of tangible assets	(18,210)	(18,320)
Investment property		
Purchase of intangible assets	(3,548)	(2,600)
Net change in non current assets and liabilities	(265)	1,037
Cash from disposal of tangible and intangible assets	307	194
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(21,716)</b>	<b>(19,689)</b>
<b>Cash flow from financing activities:</b>		
Net change in financial receivables	(1,781)	2,849
Net change in financial payables	(23,222)	(2,394)
Payment of dividends to Group shareholders	(15,056)	-
Payment of dividends to minority interests	(10,831)	(3,117)
Purchase of minority interests in companies consolidated on a line-by-line basis	(68)	
Other net changes to Group shareholders' equity	59	(74)
Other net changes to minority interests	-	229
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>(50,899)</b>	<b>(2,508)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>48,973</b>	<b>899</b>

<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>76,999</b>	<b>77,058</b>
Increase/(decrease) in cash and cash equivalents	48,973	899
Net effect of translation of foreign currencies on cash and cash equivalents	6,497	(958)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>132,469</b>	<b>76,999</b>

**Additional information**

	<b>31 December 2010</b>	<b>31 December 2009</b>
Interest paid	2,337	2,669
Income taxes paid	24,238	47,644
Interest received	382	451
Dividends received	425	500

SALVATORE FERRAGAMO ITALIA SpA

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## 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 Control) Equity	Profit/(loss) for the year	Group shareholders' equity	Minority interests	Total shareholders' equity
(In thousands of Euro)														
<b>As at 31.12.2009</b>	<b>16,841</b>	<b>2,995</b>	<b>4,188</b>	<b>24,643</b>	<b>5,378</b>	<b>(45,847)</b>	<b>151,566</b>	<b>14,540</b>	<b>(895)</b>	<b>(5,924)</b>	<b>(20,907)</b>	<b>146,578</b>	<b>46,733</b>	<b>193,311</b>
Allocation of results	-	-	-	22,346	-	-	(43,253)	-	-	-	20,907	-	-	-
Profit/(loss) for the year	-	-	-	-	-	-	-	-	-	-	48,877	48,877	11,924	60,801
Other comprehensive income	-	-	-	-	(7,644)	17,491	58	-	(140)	-	-	9,765	6,130	15,895
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,644)</b>	<b>17,491</b>	<b>58</b>	<b>-</b>	<b>(140)</b>	<b>-</b>	<b>48,877</b>	<b>58,642</b>	<b>18,054</b>	<b>76,696</b>
Dividends	-	-	-	(15,056)	-	-	-	-	-	-	-	(15,056)	(10,831)	(25,887)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	1,068	1,932	(94)	-	-	-	2,906	(6,590)	(3,684)
<b>As at 31.12.2010</b>	<b>16,841</b>	<b>2,995</b>	<b>4,188</b>	<b>31,933</b>	<b>(2,266)</b>	<b>(27,288)</b>	<b>110,303</b>	<b>14,446</b>	<b>(1,035)</b>	<b>(5,924)</b>	<b>48,877</b>	<b>193,070</b>	<b>47,366</b>	<b>240,436</b>

SALVATORE FERRAGAMO ITALIA SpA

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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)														
<b>As at 31.12.2008</b>	<b>16,841</b>	<b>2,995</b>	<b>4,188</b>	<b>492</b>	<b>(10,976)</b>	<b>(42,922)</b>	<b>145,258</b>	<b>15,286</b>	<b>(1,126)</b>	<b>(5,924)</b>	<b>29,787</b>	<b>153,899</b>	<b>41,624</b>	<b>195,523</b>
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
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,354</b>	<b>(2,925)</b>	<b>(74)</b>	<b>-</b>	<b>231</b>	<b>-</b>	<b>(20,907)</b>	<b>(7,321)</b>	<b>6,286</b>	<b>(1,035)</b>
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	(1,405)	(1,405)
Share Capital contributions from minority interests	-	-	-	-	-	-	-	-	-	-	-	-	228	228
Reclassifications	-	-	-	-	-	-	746	(746)	-	-	-	-	-	-
<b>As at 31.12.2009</b>	<b>16,841</b>	<b>2,995</b>	<b>4,188</b>	<b>24,643</b>	<b>5,378</b>	<b>(45,847)</b>	<b>151,566</b>	<b>14,540</b>	<b>(895)</b>	<b>(5,924)</b>	<b>(20,907)</b>	<b>146,578</b>	<b>46,733</b>	<b>193,311</b>

SALVATORE FERRAGAMO ITALIA SpA

Signed by: Ferruccio Ferragamo - Chairman

# Explanatory Notes

## Corporate information

The Parent company is a legal entity organized under Italian law.

The consolidated annual report of Salvatore Ferragamo Italia S.p.A. for the year ended 31 December 2010 was prepared and submitted for approval by the Board of Directors on 30 March 2011.

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 2009 is given below.

<b>Ferragamo Finanziaria S.p.A</b>		
<b>(in Euro)</b>		
<b>BALANCE SHEET AT 31.12.2009</b>		
<b>ASSETS</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>B) Fixed assets</b>	145,411,642	145,411,642
<b>C) Current assets</b>	1,621,709	1,664,451
<b>TOTAL ASSETS</b>	<b>147,033,351</b>	<b>147,076,093</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>A) Shareholders' equity</b>		
- Share capital	49,749,960	49,749,960
- Reserves	10,862,024	8,920,054
- Retained earnings (losses)	-	-
- Profit (loss) for the year	(1,799,463)	1,941,971
<b>B) Provisions for risks and charges</b>	-	-
<b>D) Payables</b>	87,963,510	86,083,159
<b>E) Accrued expenses and deferred income</b>	257,320	380,949
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>147,033,351</b>	<b>147,076,093</b>
<b>Guarantees, commitments and other risks</b>	91,376	91,376

**INCOME STATEMENT AT 31.12.2009**

A) Value of production	-	-
B) Costs of production	(1,283,227)	(1,080,219)
C) Financial income and charges	(1,281,128)	2,566,879
D) Adjustments to value of financial assets	-	-
E) Extraordinary income and charges	-	(95,916)
Income taxes for the year, current and deferred	764,892	551,227
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>(1,799,463)</b>	<b>1,941,971</b>

**Accounting principles****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), issued by the International Accounting Standards Board (“IASB”) adopted by European Union.

**Consolidation area**

The consolidated annual report as at 31 December 2010 and 2009 contains the balance-sheet and financial position as well as the operating performance of the Parent company 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 Managing Director. In some cases the consolidated annual report has been prepared on the basis of the accounting records provided by Group companies. The annual reports of the subsidiaries are prepared using the same accounting principles as the Parent company. Subsidiaries are consolidated on a line-by-line basis as from the purchase date, or from the date in which the Group acquires control, and are excluded from consolidation from the date when control is transferred outside the Group.

All infragroup 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 acquisition 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 result of the purchased company recorded from the acquisition date to the end of the year.

Changes in the Group's stake in a subsidiary which do not cause the loss of control are recognized as equity transactions.

As from 1 January 2010, following the coming into force of IAS 27 (modified), when the Group loses control of a subsidiary, it:

- eliminates the assets (including any goodwill) and the liabilities of the subsidiary;
- eliminates the book values of any minority interest in the former subsidiary;
- eliminates the accumulated translation differences recorded under shareholders' equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment in the former subsidiary;
- recognizes any profit or loss in the income statement;
- reclassifies the Group's share of the items previously recorded in the statement of comprehensive income to the income statement or to retained earnings, as appropriate.

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 2010:

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 Retail Nederland B.V.	Amsterdam	Euro	500,000	100%		
Ferragamo France SAS	Paris	Euro	4,334,094	100%		
Ferragamo Deutschland GmbH	Munich	Euro	3,300,000	100%		
Ferragamo Austria GmbH	Vienna	Euro	1,853,158	100%		
Ferragamo U K Ltd.	London	Gbp	6,172,735	100%		
Ferragamo Suisse SA	Mendrisio	Chf	1,000,000	100%		
Ferragamo Belgique SA	Brussels	Euro	750,000	100%		
Ferragamo Monte-Carlo S.A.M.	Monte-Carlo	Euro	304,000	100%		
Ferragamo Espana S.L.	Madrid	Euro	4,600,000	100%		
Ferragamo USA Inc.	New York	Usd	74,011,969	100%		
SF Licensing Corporation	Wilmington, DE	Usd	1,000		100%	(1)
Ferragamo Canada Inc	Vancouver	Cad	430,000		100%	(1)
S-Fer International inc	New York	Usd	4,600,000		100%	(1)
Sator Realty Inc	New York	Usd	100,000		100%	(1)
Ferragamo Parfums Usa Inc.	New York	Usd	200,000		100%	(1)
Ferragamo Latin America Inc.	Miami	Usd	300,000	100%		
Ferragamo St. Thomas Inc.	St Thomas USVI	Usd	301,000		100%	(4)
Ferragamo Mexico S. de R.L. de C.V.	Mexico City	Mxn	4,592,700	99.73%	0.27%	(4)
Ferragamo Chile SA	Santiago, Chile	Clp	1,471,169,399	99%	1%	(4)

Ferragamo Argentina SA	Buenos Aires	Ars	6,174,750	95%	5%	(4)
Ferragamo Hong Kong Ltd.	Hong Kong	Hkd	10,000	100%		
Ferragamo Japan KK	Tokyo	Yen	305,700,000	71%		(7)
Ferragamo Australia PTY Ltd.	Sydney	Aud	10,536,004	100%		
Ferrimag Limited	Hong Kong	Hkd	109,200,000		50%	(2)
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Shanghai, PRC	Usd	200,000		50%	(3)
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, PRC	Usd	1,400,000	50%		
Ferragamo Retail HK Limited	Hong Kong	Hkd	39,000,000		50%	(3)
Ferragamo Retail Taiwan Limited	Taipei	Twd	136,250,000		50%	(3)
Ferragamo Retail India Private Limited	New Delhi	Inr	150,000,000	51%		(6)
Ferragamo Korea Limited	Seoul	Kwon	3,291,200,000	50%		
Ferragamo (Singapore) Pte. Ltd.	Singapore	Sgd	4,600,000	50%		
Ferragamo (Thailand) Limited	Bangkok	Thb	45,000,000	50%		
Ferragamo (Malaysia) Sdn Bhd	Kuala Lumpur	Myr	1,300,000	50%		
Ferragamo Retail Macau Limited	Macau	Mop	25,000	60%		
Ferragamo Parfums SpA	Florence	Euro	10,000,000	100%		
Ferragamo Parfums SA	Neuchatel	Chf	250,000	100%		(5)

1 - Through Ferragamo USA Inc.

2 - Through Ferragamo Hong Kong Ltd.

3 - Through Ferrimag Ltd.

4 - Through Ferragamo Latin America Inc.

5 – In liquidation

6 – The investment in Ferragamo Retail India Private Ltd refers to the legal percentage of ownership.

Given the call option on minority interests of the company transferring the benefits and risks to Salvatore Ferragamo Italia SpA, at consolidated shareholders' equity level all references to minority interests have been eliminated.

7 – The investment in Ferragamo Japan KK refers to the legal percentage of ownership. Given the put option allocated to the company's minority shareholders, at consolidated shareholders' equity level all references to minority interests have been eliminated.

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 2010, the composition of the Group did not undergo any changes.

*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) as follows:

	Average rates for the year ended 31 December		Year-end exchange rates at 31 December	
	2010	2009	2010	2009
US Dollar	1.32576	1.39478	1.3362	1.44060
Swiss Franc	1.38055	1.51002	1.2504	1.48360
Japanese Yen	116.27109	130.33701	108.6499	133.15999
Pound Sterling	0.857890	0.89094	0.8607	0.88810
Australian Dollar	1.44230	1.77270	1.3136	1.60080
Korean Won	1,531.63	1,772.90	1,499.07	1,666.97
Hong Kong Dollar	10.2997	10.81140	10.3856	11.17090
Mexican Peso	16.7357	18.79890	16.5475	18.92230
Taiwan Dollar	41.7566	46.01820	38.89000	46.13040
Singapore Dollar	1.80564	2.02409	1.7136	2.01940
Thai Baht	42.0185	47.80440	40.1700	47.98600
Malaysian Ringgit	4.26682	4.90791	4.0950	4.93260
Indian Rupee	60.58396	67.36110	59.75800	67.04000
Macau Pataca	10.60231	11.13140	10.70190	11.49790
Chinese Renminbi	8.97185	9.52771	8.82200	9.83500
Chilean Peso	675.229	776.5090	625.078	730.74416
Argentine Peso	5.18319	5.21103	5.30457	5.46185

At the financial statements date, the assets and liabilities of Group companies are converted into the Group's presentation currency (the euro) at the exchange rate in force on that date, and their income statement is converted using the average exchange rate for the period. Translation differences stemming from the conversion are recognized in the statement of comprehensive income. On disposal of a particular

foreign company, the accumulated translation differences which have been recorded as component of the statement of comprehensive income for that particular company are recorded in the income statement.

Any goodwill resulting from the acquisition of a foreign company carried out after 1 January 2005 (date of transition to IFRS) and any adjustment to fair value of the book values of assets or liabilities arising from the acquisition of that foreign company are recognized as assets and liabilities of the foreign company, are expressed in the functional currency of the foreign company and are translated at the year-end exchange rate.

### *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 2010 and 2009 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 statement of cash flows 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.

### **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 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.

### **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. The net value (cost less accumulated depreciation) of parts of replaced plant and equipment is recognized on the income statement at the time of replacement.

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:

	<b>Useful life</b>
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

The residual value of the asset, its useful life, and the depreciation methods applied are reviewed at the end of each year and adjusted on a prospective basis if necessary.

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 depleted 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. Investment property is shown net of the relevant accumulated depreciation and any impairment. 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 on a straight-line basis over the duration of the contract.

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method.

As from 1 January 2010, following the coming into force of IFRS 3 (revised), the acquisition cost is valued as the total of the transferred consideration measured at fair value at the acquisition date and the amount of any minority interests in the acquired company. For every business combination, the acquirer must assess any minority interests in the acquired company at fair value or in proportion to the share of minority interests in the net identifiable assets of the acquired company. Acquisition costs are recognized on the income statement under administrative costs.

Every potential consideration must be recognized by the acquirer at the fair value on the acquisition date. The change in the fair value of the potential consideration classified as an asset or a liability will be recognized in accordance with the provisions of IAS 39, on the income statement or in the statement of other comprehensive income. If the potential consideration is classified as an equity instrument, its value is not remeasured and its discharge is recognized under shareholders' equity.

The goodwill acquired in a business combination is initially valued at cost, which corresponds to the positive difference between the cost (as defined above) of the business combination and the Group's share (should minority interests not be valued at fair value) of the net fair value of the identifiable assets, liabilities and contingent liabilities (of the acquired company).

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 acquired company.

After the initial recognition, goodwill is valued at cost less accumulated impairment. For impairment test purposes, the goodwill acquired in a business combination is allocated, at the acquisition 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.

When the Group acquires a business, it must classify or designate the financial assets acquired or the liabilities taken on under the contractual terms, economic conditions and other relevant conditions in force at the acquisition date. This includes a test to establish whether an embedded derivative must be separated from the primary contract.

If the business combination is carried out in several stages, the company recalculates the fair value of the investment which was previously held and accounted for using the equity method and recognizes any resulting profit or loss in the income statement.

If the goodwill has been allocated to a cash flow generating unit and the entity disposes of part of the assets of this unit, the goodwill associated with the disposed asset must be included in the book value of the asset when the profit or loss arising from the disposal is determined. The goodwill associated with the disposed asset must be determined on the basis of the values relating to the disposed asset and the part of the cash flow generating unit which is kept.

### **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:

	<b>Useful life</b>
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**

A joint venture is a contract agreement under which two 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.

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.

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 or individual impairment test. 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.

Once it has lost its significant influence over an associated company, the Group assesses and records any residual investment at fair value. The difference between the book value of the investment when the significant influence is lost and the fair value of

the residual investment and the considerations received is recognized on the income statement.

### **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 Group establishes the classification of its financial assets and liabilities when they are initially recognized.

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

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

- Listed financial instruments: the market value at the reference date is used.

#### Elimination of financial assets

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 without delay 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 consideration 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.

#### Impairment of financial assets

The Group verifies at each balance-sheet date whether a financial asset or group of financial assets has suffered impairment. A financial asset or a group of financial assets must be considered impaired if, and only if, there is objective evidence of impairment

as the result of one or more events which have occurred since the initial recognition (when “an event of impairment” occurs) and this event of impairment has an impact, which can be reliably estimated, on the estimated future cash flows of the financial asset or group of financial assets. Evidence of impairment may be indicators such as financial difficulties, the inability to meet obligations, insolvency in paying interest or major payments, which debtors, or a group of debtors, are experiencing, the likelihood that it will go bankrupt or be subject to some other forms of financial reorganization, and where observable data indicate that there is a measurable fall in estimated future cash flows, such as changes in circumstances or in economic conditions related to obligations.

Should financial assets be recorded at amortized cost, if there is objective evidence of impairment, the total loss is measured as the difference between the book value of the asset and the present value of the estimated future cash flows (excluding future expected bad debts which have not yet occurred). The present value of cash flows is discounted at the original effective interest rate of the financial asset. If a loan is at a floating interest rate, the discount rate for the assessment of any impairment is the effective current rate. The book value of the asset is reduced by using a provision for bad debt and the amount of the impairment is recorded on the income statement.

In the case of equity instruments which are classified as available for sale, the objective evidence would include a significant or prolonged reduction in the fair value of the instrument to below its cost. ‘Significant’ is intended with respect to the original cost of the instrument and ‘prolonged’ is intended with respect to (the duration of) the period in which the fair value has been below the original cost. Where there is evidence of impairment, the cumulative impairment – measured as the difference between the purchase cost and the current fair value, less any loss for impairment of that financial asset which has already been recorded on the income statement – is reversed from the other items of the comprehensive income statement and is recorded on the income statement.

#### Elimination of financial liabilities

A financial liability is eliminated when the obligation underlying the liability is extinguished, cancelled or fulfilled.

Should an existing financial liability be replaced by another liability from the same lender at largely different conditions, or should the conditions of an existing liability be substantially modified, this replacement or change is treated as an accounting elimination of the original liability and the recording of a new liability, with the entry on the income statement of possible differences between the book values.

### **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.

### **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.

#### **Other receivables and other financial assets**

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

#### **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.

#### **Interest-bearing loans & borrowings**

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

#### **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.

#### **Assets of disposal group classified as held for sale**

This item is composed of 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.

### **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, 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 are still “Defined-benefit plans”. The legislative changes which have occurred as from 2007 have, in addition, entailed a reduction in defined benefits with a change in 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.

## **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 necessary 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 change in the fair value of the hedging instrument is recorded on the income statement and the change in the fair value of the hedged instrument attributable to the risk covered is recorded as part of the book value of the item being hedged and is also recorded on the income statement.

- 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 occur, the effects arising from the fair value assessment of the derivative are charged directly to the income statement.

### **Revenues and costs**

Revenues are recorded if the relevant economic benefits are likely to be accrued by the Group and the related amount can be reliably determined, regardless of the date payment is received. Revenues are valued at the fair value of the consideration received or to be received, taking into account the contractually defined payment terms and excluding taxes and duties.

#### Sale of goods

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 the Group has transferred to the purchaser all the significant risks and benefits related to the product ownership, i.e. at the time of the transfer of ownership, generally, corresponding to the shipment of goods.

#### Royalties

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, when the service has been provided and delivered to the Group.

### **Share-based payment plans - stock options**

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

If the options can be exercised after a certain period (vesting period) and on the occurrence of specific performance conditions, the cost of transactions settled with equity instruments, together with the corresponding increase in shareholders’ equity, is recorded in the period in which the conditions relating to the achievement of objectives and/or the provision of the service are satisfied, ending at the time the beneficiaries have fully accrued the right to receive payment (“vesting date”).

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. The accumulated costs recorded for these transactions at the end of each year up to the vesting date are proportionate to the expiries of the vesting period and to the best available estimate of the number of options which will actually vest. The cost or revenue recorded on the income statement for the year represents the change in the accumulated cost recorded at the start and at the end of the year.

No cost is recorded for rights which do not ultimately vest, except in the case of rights whose allocation is subordinate to market conditions.

### **Transactions settled in cash**

In case of share-based transactions which are settled in cash, the cost of the cash-settled transactions is initially valued at the fair value at the grant date. This fair value is recognized in the income statement in the period until vesting, with the recognition of a corresponding liability. 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.

### **Dividends**

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

### **Income taxes**

#### *Current taxes*

Current taxes reflect a realistic estimate of the tax burden, determined by applying the rates and laws 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 settled, taking into account the rates in force and those already issued or basically issued at the financial statements date.

Current and deferred taxes relating to items recorded directly under shareholders' equity or in the statement of comprehensive income are also charged directly to shareholders' equity or to the statement of comprehensive income.

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 value 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.

#### **Put and Call agreements on minority interests**

In the case of put options granted to minority shareholders, the company records a financial liability corresponding to the current value of the liability. At the time of initial recognition of the liability, this value is reclassified from the accounting

shareholders' equity. The liability is subsequently remeasured at the end of each period in compliance with IAS 39. The accounting policy chosen by the company provides for: a) the allocation of profit/(loss) to minority interests; b) the reclassification of minority interests under debts at the end of each accounting period as if the acquisition had occurred on that date; c) the recognition under shareholders' equity of every change in value in the liability.

### **Changes in international accounting standards**

The accounting standards adopted are the same as those used in the previous year, except for the following new and revised standards and IFRIC interpretations in force since 1 January 2010:

- IFRS 2 Share-based payments: Group cash-settled share-based payment transactions. In force since 1 January 2010
- IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and separate financial statements (Revised) in force since 1 July 2009 including the consequent amendments to: IFRS 2, IFRS 5, IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial instruments: recognition and measurement - exposures qualifying for hedge accounting
- IFRIC 17 Distribution of non-cash assets to owners
- IFRIC 18 Transfers of assets from customers
- Improvements to IFRS (May 2008)
- Improvements to IFRS (April 2009)

The adoption of the standards and interpretations is described below:

#### **IFRS 2 Share-based payments (Revised)**

The IASB issued an amendment to IFRS 2 which clarifies the scope and accounting of Group cash-settled share-based payment transactions. The Group has adopted this amendment as from 1 January 2010, but this has not had any impact on the Group's financial position or performance.

### **IFRS 3 Business combinations (Revised) and IAS 27 Consolidated and separate financial statements (Revised)**

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations. These changes regard the evaluation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent evaluation of any contingent consideration and business combinations undertaken in several stages. These changes will have an impact on the amount of goodwill recorded, on the results achieved in the period in which the acquisition takes place and on future results.

IAS 27 (Revised) requires that a change in the ownership structure of a subsidiary (without loss of control) be recognized as a transaction between shareholders in their role as shareholders. Therefore, these transactions will no longer generate goodwill nor any gain or loss. In addition, the revised standard introduces changes regarding the recognition of losses recorded by the subsidiary and of the loss of control of the subsidiary. The changes introduced by IFRS 3 (Revised) and IAS 27 (Revised) concern the acquisition or loss of control of a subsidiary and transactions with minority interests.

The change in the accounting standards has been applied on a prospective basis and has had no material impact on the earnings per share.

### **Changes to IAS 32 and IAS 1: Puttable financial instruments and obligations arising on liquidation**

On 14 February 2008 the International Accounting Standards Board (IASB) published amendments to IAS 32 Financial instruments: Presentation and to IAS 1 Presentation of financial statements — Puttable financial instruments and obligations arising on liquidation. These amendments require the classification as equity of some instruments which are issued by companies and currently classified as liabilities, despite having features similar to ordinary shares. Where applicable, additional information is required regarding such instruments in the financial statements in which they are reclassified from financial liabilities to equity instruments.

The change in the accounting standards has been applied on a prospective basis and has had no material impact on the earnings per share.

### **IAS 39 Financial instruments: recognition and measurement - exposures qualifying for hedge accounting**

The amendment clarifies that an entity is allowed to designate a portion of the changes in fair value or cash flows of a financial instrument as a hedged element. This amendment also includes the designation of inflation as a hedged risk or as a portion of the risk in particular situations. The Ferragamo Group concluded that this change will have no impact on the financial position or performance of the Group, since it does not use such hedges.

### **IFRIC 12 Service concession arrangements**

IFRIC 12 is an interpretation which clarifies how to apply the provisions of the International Reporting Financial Standards (IFRS) to agreements for service concessions. In particular IFRIC 12 shows how to recognize the obligations assumed and the rights received by a service concession operator, distinguishing between an intangible asset model, a financial asset model and a mixed model depending on the level of uncertainty to which the operator is exposed in terms of cash flows deriving from the exercise of the concession as well as the obligations assumed regarding the use of the infrastructure deployed to provide the service.

### **IFRIC 15 Agreements for the construction of real estate**

On 3 July 2008 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 15 Agreements for the construction of real estate (hereafter «IFRIC 15»). IFRIC 15 provides clarification and guidelines as to when revenues arising from the construction of real estate are to be recognized and to the application of IAS 11 Construction contracts or IAS 18 Revenues to an agreement for the construction of a real estate.

### **IFRIC 16 Hedges of a net investment in a foreign operation**

On 3 July 2008 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 16 Hedges of a net investment in a foreign operation. IFRIC 16 is an interpretation which clarifies how to apply the requirements of IAS 21 and IAS 39 in the cases in which an entity hedges the exchange rate risk from its net investments in foreign operations.

### **IFRIC 17 Distribution of non-cash assets to owners**

This interpretation clarifies how to account for agreements providing for the distribution by an entity of non-cash assets to owners, such as the distribution of reserves or dividends. This interpretation has had no impact on the financial position or performance of the Group.

### **IFRIC 18 Transfers of assets from customers**

IFRIC 18 provides clarification and guidelines on the recognition of items of property, plant and equipment received from customers or of cash and cash equivalents received from customers for the acquisition or construction of items of property, plant and equipment.

### **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. The adoption of the following amendments entails changes in the accounting standards but has not had any impact on the Group's financial position or results.

#### **Issued in May 2008**

- IFRS 5 Non-current assets held for sale and discontinued operations clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, including when the company after disposal becomes a minority interest. This amendment has been applied on a prospective basis and has not had any impact on the Group's financial position or results.

#### **Issued in April 2009**

- 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 in the Notes.

- IAS 7 Statement of cash flows states that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. This amendment will modify the presentation in the Statement of cash flows of the potential cost of the business combination completed in 2010 at the time of cash settlement.
- IAS 36 Impairment of assets. This amendment clarifies that the broadest identifiable (cash flow generating) unit for the allocation of the goodwill acquired in a business combination is the operating segment as defined in IFRS 8 prior to the combination for reporting purposes. This amendment did not have any impact on the Group since the annual impairment test on assets is carried out before any combination.

Other changes related to improvements to IFRS for the following standards did not have any impact on the Group's accounting policies, financial position or performance:

#### **Issued in April 2009**

- IFRS 2 Share-based payments
- IAS 1 Presentation of financial statements
- IAS 17 Leases
- IAS 34 Interim financial reporting
- IAS 38 Intangible assets
- IAS 39 Financial instruments: recognition and measurement
- IFRIC 9 Reassessment of embedded derivatives

#### **Standards to be applied in the near future**

Here below is a list of standards which are going to be introduced soon and the estimate of their potential impact on future financial statements:

#### IFRIC 14 Pre-payments of a minimum funding requirement

On 15 November 2009 the International Financial Reporting Interpretations Committee (IFRIC) published amendments to IFRIC 14 Pre-payments of a minimum funding requirement, in order to eliminate an unintended consequence of IFRIC 14 in cases of contributions pre-payments by an entity subject to a minimum funding requirement, following to which, in particular circumstances, this entity would be required to recognize an expense. Should a defined benefit plan be subject to a minimum funding requirement, the amendment to IFRIC 14 requires to treat this pre-payment as an asset, as for any other pre-payment.

#### IFRIC 19: Extinguishing financial liabilities with equity instruments

On 26 November 2009 the International Financial Reporting Interpretations Committee (IFRIC) published IFRIC 19 Extinguishing financial liabilities with equity instruments, whose aim is to provide guidance on the recognition by the debtor of equity instruments issued to extinguish in full or in part a financial liability following renegotiation of the related terms. Companies are required to apply IFRIC 19 and the amendment to IFRS 1 no later than the opening date of their first financial year starting after 30 June 2010.

#### IAS 24: Related party disclosures

On 4 November 2009 the International Accounting Standards Board (IASB) published the revision of IAS 24 — related party disclosures. The amendments introduced with the revision of IAS 24 simplify the definition of «related party» while eliminating at the same time some inconsistencies and releasing public entities from some disclosure requirements relating to transactions with related parties. Companies are required to apply IAS 24 and the amendments to IFRS 8 no later than the opening date of their first financial year starting after 31 December 2010.

Here below is a list of new standards or amendments to standards issued by the IASB but not yet adopted by the European Union:

- IFRS 7 Financial instruments: disclosures
- IFRS 9 Financial instruments
- IAS 12 Income taxes – Deferred Tax: Recovery of Underlying Assets.

### **Business combinations and purchases of minority interests**

During 2010 there were no business combinations.

We summarize below the minority interests purchased during the year:

#### *Ferragamo Suisse SA*

- on 26 January 2010 Ferragamo International B.V. completed the purchase of no. 490 shares or 49% of the share capital of Ferragamo Suisse SA, a company established under Swiss laws, for a total amount of 100,000 Swiss francs (68,204 Euro). With this transaction the Group acquired 100% of Ferragamo Suisse SA, in which it previously held a 51% controlling stake. This transaction had the following effects: elimination of negative minority interests amounting to 148 thousand Euro and recognition of a negative equity transaction reserve amounting to 216 thousand Euro.

#### *Ferragamo Retail India Private Limited*

In reference to the investment in the subsidiary Ferragamo Retail India Private Limited, in March 2010 the Group modified its agreements with the local partner and signed new agreements granting, among other things, to the Ferragamo Group the right to immediately buy the minority interests at a preset price (34,324,000 Indian rupees), plus interest calculated based on preset parameters. The Ferragamo Group can exercise the call option up to 30 June 2016; if the call option is not exercised by that date, the local partner will have the chance to exercise a put option on similar terms.

Given a preset option price and contract terms ensuring the minority shareholder solely a return on capital, the Group believes it already has access to the economic benefits connected to the share of capital covered by the option.

This transaction had the following effects: elimination of minority interests amounting to 290 thousand Euro, recognition of a negative equity transaction reserve amounting to 277 thousand Euro and recognition of a financial payable amounting to 567 thousand Euro.

## Comments on the main balance sheet and income statement items

### NOTES TO THE BALANCE SHEET

#### 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 2010 and 2009 are shown in the following table:

Property, plant and equipment		31 December 2010		
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	
Land	18,790	-	18,790	
Buildings	39,118	14,104	25,014	
Plant and equipment	14,888	11,774	3,114	
Industrial and commercial equipment	74,395	47,281	27,114	
Other assets	32,904	25,351	7,553	
Improvements to third-party assets	87,596	62,820	24,776	
Fixed assets in progress and payments on account	1,275	-	1,275	
<b>TOTAL</b>	<b>268,966</b>	<b>161,330</b>	<b>107,636</b>	

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	
<b>TOTAL</b>	<b>240,052</b>	<b>133,581</b>	<b>106,471</b>	

The following tables show the changes in tangible assets for the years ended 31 December 2010 and 2009:

Property, plant and equipment		31 December 2010						
(In thousands of Euro)	Value	Transl.	Additions	Disposals	Deprec.	Reclassifications	Change in consolidation	Value
	31.12.2009	diff.					area	31.12.2010
Land	17,870	920	-	-	-	-	-	18,790
Buildings	25,009	848	564	-	1,407	-	-	25,014
Plant and equipment	3,077	9	899	(1)	870	-	-	3,114
Industrial and commercial equipment	28,309	2,502	10,481	(476)	8,720	(4,982)	-	27,114
Other assets	6,350	574	4,346	(8)	2,981	(728)	-	7,553
Improvements to third-party assets	24,807	2,293	1,796	(499)	9,331	5,710	-	24,776
Fixed assets in progress and payments on account	1,049	110	1,807	(1,691)	-	-	-	1,275
<b>TOTAL</b>	<b>106,471</b>	<b>7,256</b>	<b>19,893</b>	<b>(2,675)</b>	<b>23,309</b>	<b>-</b>	<b>-</b>	<b>107,636</b>

Property, plant and equipment		31 December 2009						
(In thousands of Euro)	Value	Transl.	Additions	Disposals	Deprec.	Reclassifications	Change in consolidation	Value
	31.12.2008	diff.					area	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
<b>TOTAL</b>	<b>111,958</b>	<b>(797)</b>	<b>25,888</b>	<b>(8,265)</b>	<b>22,247</b>	<b>(66)</b>	<b>-</b>	<b>106,471</b>

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 (10.0 million Euro) and moulds (0.4 million Euro) for the Fragrances product category;
- in other assets mainly concerns IT equipment (1.3 million Euro) and furniture and furnishings (1.1 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.

## Investment property

The historic cost, the accumulated depreciation and net book value of investment property at 31 December 2010 and 2009 are shown in the following table:

31 Dec.						
Investment property	2010				2009	
(In thousands of Euro)	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE	HISTORIC COST	ACCUMULATED DEPRECIATION	RESIDUAL VALUE
Land	4,189	-	4,189	3,885	-	3,885
Buildings	9,866	6,520	3,346	9,144	5,762	3,382
Improvements to third-party assets	-	-	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-	-	-
<b>TOTAL</b>	<b>14,055</b>	<b>6,520</b>	<b>7,535</b>	<b>13,029</b>	<b>5,762</b>	<b>7,267</b>

Investment property refers entirely to the buildings located in the United States. Their residual useful life at 31 December 2010 is estimated at approximately 30 years.

The following tables show the changes in investment property for the years ended 31 December 2010 and 2009:

Investment property	31 December 2010				
(In thousands of Euro)	Value at 31.12.2009	Translation difference	Increases	Depreciation	Value at 31.12.2010
Land	3,885	304	-	-	4,189
Buildings	3,382	266	8	310	3,346
Improvements to third-party assets	-	-	-	-	-
Fixed assets in progress and payments on account	-	-	-	-	-
<b>TOTAL</b>	<b>7,267</b>	<b>570</b>	<b>8</b>	<b>310</b>	<b>7,535</b>

Investment property	31 December 2009			
(In thousands of Euro)	Value at 31.12.2008	Translation difference	Depreciation	Value at 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	-	-	-	-

<b>TOTAL</b>	<b>7,821</b>	<b>(256)</b>	<b>298</b>	<b>7,267</b>
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### **Intangible assets with a finite useful life**

The breakdown of intangible assets with a finite useful life at 31 December 2010 and 2009 is shown in the following table:

Intangible assets with a finite useful life	31 December 2010		
	HISTORIC COST	ACCUMULATED AMORTIZATION	RESIDUAL VALUE
(In thousands of Euro)			
Industrial patents and intellectual property rights	12,625	10,934	1,691
Concessions, licenses and trademarks	6,670	5,174	1,496
Other intangible assets with a finite useful life	24,266	14,436	9,830
Intangible assets with a finite useful life in progress	1,871	-	1,871
<b>TOTAL</b>	<b>45,432</b>	<b>30,544</b>	<b>14,888</b>

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
Other intangible assets with a finite useful life	21,833	11,967	9,866
Intangible assets with a finite useful life in progress	1,304	-	1,304
<b>TOTAL</b>	<b>40,278</b>	<b>26,461</b>	<b>13,817</b>

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2010 and 2009:

Intangible assets with a finite useful life	31 December 2010						
	Value at 31.12.2009	Translation difference	Additions	Disposals	Amortization	Reclassifications	Value at 31.12.2010
(In thousands of Euro)							
Industrial patents and intellectual property rights	1,126	73	974	-	980	498	1,691

Concessions, licenses and trademarks	1,521	-	322	-	347	-	1,496
Other intangible assets with a finite useful life	9,866	533	1,686	-	1,757	(498)	9,830
Intangible assets with a finite useful life in progress	1,304	1	1,895	(1,329)	-	-	1,871
<b>TOTAL</b>	<b>13,817</b>	<b>607</b>	<b>4,877</b>	<b>(1,329)</b>	<b>3,084</b>	<b>-</b>	<b>14,888</b>

Intangible assets with a finite useful life							
31 December 2009							
(In thousands of Euro)	Value at 31.12.2008	Translation difference	Additions	Disposals	Amortization	Reclassifications	Value at 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
Other intangible assets with a finite useful life	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
<b>TOTAL</b>	<b>13,991</b>	<b>(176)</b>	<b>3,777</b>	<b>(1,178)</b>	<b>2,663</b>	<b>66</b>	<b>13,817</b>

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). This item also includes software development costs relating to the capitalization of expenses for the development of business software applications (SAP accounting system, ERP, reporting systems, and the e-commerce platform, whose sales started during 2009).

In the following table the relevant net book value and distribution by geographic area are shown:

Key - money	31.12.2010	31.12.2009
(In thousands of Euro)		
Europe (excluding Italy)	2,134	2,443
North America	3,165	3,181
Asia and Oceania	862	870

<b>Total</b>	<b>6,161</b>	<b>6,494</b>
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### **Goodwill and intangible assets with an indefinite useful life**

At 31 December 2010, no amounts were recorded by the Group relating to goodwill and intangible assets with an indefinite useful life.

Goodwill and other intangible assets with an indefinite useful life	31 Dec.			31 Dec.		
	2010			2009		
(In thousands of Euro)	GROSS VALUE	Impairment	NET VALUE	GROSS VALUE	Impairment	NET VALUE
Goodwill	-	-	-	229	229	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>229</b>	<b>229</b>	<b>-</b>

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

### **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. At 31 December 2010, the net book value of the investment totaled 1,143 thousand Euro, while at the end of the previous year it totaled 1,091 thousand Euro.

The main data relating Zefer SpA. as at 31.12.2010 and 31.12.2009 are shown below:

Zefer S.p.A. financial statement data	31 December	
	2010	2009
(In thousands of Euro)		
Non current assets	46	60
Current assets	10,757	6,384
<b>Total assets</b>	<b>10,803</b>	<b>6,444</b>

Shareholders' equity	2,287	2,182
Non current liabilities	335	332
Current liabilities	8,181	3,930
<b>Total liabilities and shareholders' equity</b>	<b>10,803</b>	<b>6,444</b>
Revenues	23,782	20,849
Profit/(loss) for the period	954	872

### Available-for-sale financial assets

The breakdown and reason of the item “Available-for-sale financial assets” at 31 December 2010 and at 31 December 2009 is set out in the following table:

Available-for-sale financial assets		31 December 2010				
(In thousands of Euro)	Investment percentage	Value at 31.12.2009	Translation difference	Increases	Write-downs	Value at 31.12.2010
Polimoda srl	2.45%	20	-	-	-	20
Fondo Amphora	2.8%	26	2	-	(28)	-
Other assets		25	6	-	-	31
<b>TOTAL</b>		<b>71</b>	<b>8</b>	<b>-</b>	<b>(28)</b>	<b>51</b>

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

### Other non current assets

The breakdown of the item “Other non current assets” at 31 December 2010 and 31 December 2009 is set out in the following table:

Other non current assets	31 December	
	2010	2009
(In thousands of Euro)		
Advances to suppliers	1,250	1,100
Other	3,807	3,748
<b>TOTAL</b>	<b>5,057</b>	<b>4,848</b>

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 and renewed at the beginning of 2011. These advances will be recovered with the accrual of royalties as from 1 January 2012.

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.

### **Other non current financial assets**

The breakdown of the item “Other financial assets” at 31 December 2010 and 31 December 2009 is set out in the following table:

Other non current financial assets	31 December		Change
	2010	2009	
(In thousands of Euro)			
Financial receivables from third parties due after 12 months	-	20	(20)
Guarantee deposits from third parties	6,769	5,721	1,048
Other receivables for long-term hedge derivatives	155	-	155
<b>TOTAL</b>	<b>6,924</b>	<b>5,741</b>	<b>1,183</b>

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 evaluation of hedge derivatives (forward contracts) entered into by the Parent company to manage exchange rate risk and falling due after more than 12 months.

### **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		Change
	2010	2009	
(In thousands of Euro)			
<b>TOTAL</b>	<b>61,715</b>	<b>55,067</b>	<b>6,648</b>

## Inventories

Ending inventories refer to the following categories:

Inventories	31 December		Change
	2010	2009	
(In thousands of Euro)			
Raw materials, accessories and consumables	32,351	29,411	2,940
Provision for obsolete inventory	(4,795)	(7,480)	2,685
Raw materials, accessories and consumables	27,556	21,931	5,625
Finished products and goods for resale	172,484	156,849	15,635
Provision for obsolete inventory	(17,260)	(16,473)	(787)
Finished products and goods for resale	155,224	140,376	14,848
<b>TOTAL</b>	<b>182,780</b>	<b>162,307</b>	<b>20,473</b>

The change in raw materials, compared to 2009, depends on production volumes, which rose during the year due to the strong increase 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 increase in inventories of finished products was caused entirely by the exchange rate effect, with the depreciation of the euro against foreign currencies, in particular against the Japanese yen and the US dollar. The change, net of the exchange rate effect, was a decrease of -5.7 million Euro (exchange rate effect +20.5 million Euro, in particular the Yen and US\$).

Net uses of and/or allocations to the provision for obsolete inventory were as follows:

Here below is a breakdown of the allocations for write-down of obsolete inventory.

Allocations and/or uses during the year	31 December		Change
	2010	2009	
(In thousands of Euro)			
Write-down of inventories			
Raw materials	(2,686)	917	(3,603)
Finished products	(621)	1,715	(2,336)
<b>TOTAL</b>	<b>(3,307)</b>	<b>2,632</b>	<b>(5,939)</b>

## Trade receivables

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

Trade receivables	31 December		Change
	2010	2009	
(In thousands of Euro)			

Trade receivables from third parties	78,970	60,823	18,147
Provision for bad debt	(3,628)	(3,494)	(134)
Trade receivables from related parties	35	18	17
Trade receivables from associates	-	-	-
<b>TOTAL</b>	<b>75,377</b>	<b>57,347</b>	<b>18,030</b>

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

Trade receivables refer for approximately 9.1 million Euro to the Fragrances product category and the remainder to the other categories, essentially for wholesale sales. They are interest-free and are generally due in 90 days or less. The related provision for bad debt is considered adequate to meet any cases of insolvency.

The changes in the provision during 2010 were as follows:

Provision for bad debt (In thousands of Euro)	31 December					Value at 31.12.2010
	Value at 31.12.2009	Translation difference	Additions	Uses	Reclassificat ions	
<b>TOTAL</b>	<b>3,494</b>	<b>70</b>	<b>681</b>	<b>(617)</b>	<b>-</b>	<b>3,628</b>

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

### **Tax receivables**

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

Tax receivables (In thousands of Euro)	31 December		
	2010	2009	Change
- Due from tax authorities for VAT and other taxes	4,151	3,466	685
- Due from tax authorities for income taxes	1,691	1,799	(108)
- Withholding taxes	3	2	1
<b>TOTAL</b>	<b>5,845</b>	<b>5,267</b>	<b>578</b>

The increase in tax receivables can be broken down as follows: for VAT receivables it is due to the increase in turnover.

## Other current assets

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

Other receivables	31 December		Change
	2010	2009	
(In thousands of Euro)			
Other receivables	7,939	15,613	(7,674)
Other receivables from associated and jointly controlled companies	1,459	1,267	192
Other receivables from related parties	218	722	(504)
Accrued income	517	398	119
Prepaid expenses	8,669	6,767	1,902
Other receivables for short-term hedge derivatives	4,411	7,879	(3,468)
<b>TOTAL</b>	<b>23,213</b>	<b>32,646</b>	<b>(9,433)</b>

Other receivables from third parties refer to:

- advances to suppliers (1.1 million Euro), receivables from credit card management companies for retail sales (2.8 million Euro);
- receivables from lessees of the American property for 0.7 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 4.0 million Euro and insurance premiums for 1.0 million Euro.

Other receivables for hedge derivatives of 4.4 million Euro (7.9 million in 2009) 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.

## Other current financial assets

The values were as follows:

Other current financial assets	31 December		Change
	2010	2009	
(In thousands of Euro)			
Derivatives	1,181	1,147	34
Other financial assets	19	177	(158)
<b>TOTAL</b>	<b>1,200</b>	<b>1,324</b>	<b>(124)</b>

## **Cash and cash equivalents**

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

<b>Cash and cash equivalents</b>	<b>31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
(In thousands of Euro)			
Time deposits	85,078	34,872	50,206
Bank and post office deposits	47,333	42,066	5,267
Checks	-	15	(15)
Cash and values on hand	484	450	34
<b>TOTAL</b>	<b>132,895</b>	<b>77,403</b>	<b>55,492</b>

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 2010 the Group had unused lines of credit for approximately 260 million Euro. At 31 December 2009 unused lines of credit totaled approximately 229 million Euro.

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

<b>Cash and cash equivalents net of bank overdrafts</b>	<b>31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
(In thousands of Euro)			
Cash and bank sight deposits	47,817	42,531	5,286
Short-term bank deposits	85,078	34,872	50,206
Bank overdrafts	(426)	(404)	(22)
<b>TOTAL</b>	<b>132,469</b>	<b>76,999</b>	<b>55,470</b>

## **Assets of disposal group classified as held for sale**

At 31 December 2010 there were no assets of disposal group classified as held for sale.

## **Share capital and reserves**

At 31 December 2010, share capital totaled 16,841 thousand Euro, was fully paid up and consisted of 16,841,000 shares with a par value of 1,00 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 2010 and 2009, 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 2010 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:

<b>Other reserves and retained earnings</b>				
<b><i>OTHER RESERVES AND RETAINED EARNINGS</i></b>	<b><i>Reserves made up of profits</i></b>	<b><i>Translation reserve</i></b>	<b><i>Other reserves</i></b>	<b><i>Total</i></b>
(In thousands of Euro)				
<b>At 31 December 2010</b>				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	31,933	-	-	31,933
Cash flow hedge reserve	-	-	(2,266)	(2,266)
Translation reserve	-	(27,288)	-	(27,288)
Retained earnings	110,303	-	-	110,303
Other reserves	-	-	7,487	7,487
<b>TOTAL</b>	<b>146,424</b>	<b>(27,288)</b>	<b>8,216</b>	<b>127,352</b>

<b>Other reserves and retained earnings</b>				
<b><i>OTHER RESERVES AND RETAINED EARNINGS</i></b>	<b><i>Reserves made up of profits</i></b>	<b><i>Translation reserve</i></b>	<b><i>Other reserves</i></b>	<b><i>Total</i></b>
(In thousands of Euro)				
<b>At 31 December 2009</b>				
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
<b>TOTAL</b>	<b>180,397</b>	<b>(45,847)</b>	<b>16,094</b>	<b>150,644</b>

Share capital contributions, which refer entirely to the Parent company, were paid in one amount in 2003 by Ferragamo Finanziaria S.p.A. and were reduced in 2007, due to demerger, by 2,815 thousand Euro.

The legal reserve is commented on above.

The extraordinary reserve, which refers entirely to the Parent company, was set up with retained earnings; the increase recorded in the year refers to the 2009 profit, net of the distribution of dividends, amounting to 15.1 million Euro, declared in 2010 by the Parent company.

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 change in the US dollar exchange rate, then the yen and, finally, other currencies.

Retained earnings include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. In 2010 this reserve decreased by 41.3 million Euro due to the capitalization of the 2009 loss (43.3 million Euro), gross of the result of the Parent company, which was allocated to the Extraordinary reserve. This change was also affected by movements related to the acquisition of minority interests in companies consolidated on a line-by-line basis and to the recognition of the effects of the put and call options on minority interests.

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 2010	Shareholders' equity	Profit/(loss) for the year

(In thousands of Euro)

<b>Statutory annual report of the Parent company</b>	<b>110,206</b>	<b>28,768</b>
Difference between the shareholders' equity of the consolidated investments and the book value of the investee companies	178,945	
Profit/(loss) recorded by the investee companies		60,576
Valuation of associated companies using the Equity Method	587	52
Dividends distributed among Group companies, net of the tax effect		(29,943)
Elimination of write-downs on consolidated investments		3,554
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(52,610)	(6,353)
Effect of IAS 39 - cash flow hedge reserve, net of deferred tax effect	(2,266)	
Other consolidation entries	5,574	4,147
<b>Total consolidated shareholders' equity</b>	<b>240,436</b>	<b>60,801</b>
Minority interests - shareholders' equity and profit/(loss)	<b>47,366</b>	<b>11,924</b>
<b>Total Group shareholders' equity and profit/(loss)</b>	<b>193,070</b>	<b>48,877</b>

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 last three years:

Shareholders' equity	Value at 31.12.10	Possibility of use	Amount available	Summary of uses made in the last three years
				For dividends
Share capital	16,841			
<u>Share capital reserves</u>				
Revaluation reserve L.342/00	4,592	A - B	4,592	
Revaluation reserve L.350/03	7,421	A - B	7,421	
Revaluation reserve L.266/05	13,465	A - B	13,465	
Share capital contributions	2,995	A - B	2,995	
Provision as per Art 55	1.4	A - B - C	1.4	
<u>Net profit reserves</u>				
Legal reserve	4,188	B	820	
Extraordinary reserve	31,934	A - B - C	31,934	(22,532)
Profit/(loss) for the year	28,768		28,768	
<b>Total</b>	<b>110,205.40</b>		<b>89,996.40</b>	<b>(22,532)</b>
<b>Key</b>				
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 31.12.2010 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 31.12.2010 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 31.12.2010 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.

### **Provision for risks and charges**

Here below is the breakdown and changes in the item:

31 December							
Provisions for risks and charges							
2010							
(In thousands of Euro)	Value at 31.12.2009	Translation difference	Add.ons	Uses	Reclassificat ions	Change in consolida tion area	Value at 31.12.2010
Legal disputes	2,876	-	2,081	(1,690)	-	-	3,267
Opposition charges	-	-	500	-	-	-	500
Other	1,036	36	467	(254)	-	-	1,285
<b>TOTAL</b>	<b>3,912</b>	<b>36</b>	<b>3,048</b>	<b>(1,944)</b>	<b>-</b>	<b>-</b>	<b>5,052</b>

31 December							
Provisions for risks and charges							
2009							
(In thousands of Euro)	Value at 31.12.2008	Translation difference	Add.ons	Uses	Reclassific ations	Change in consolida tion area	Value at 31.12.2009

Legal disputes	13,548	-	1,245	(11,917)	-	-	2,876
Opposition charges	5,792	-	-	(5,792)	-	-	-
Other	3,645	-	217	(2,826)	-	-	1,036
<b>TOTAL</b>	<b>22,985</b>	<b>-</b>	<b>1,462</b>	<b>(20,535)</b>	<b>-</b>	<b>-</b>	<b>3,912</b>

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 is related to the positive conclusion of some legal and labor disputes during the year.

The provision for other risks includes allocations against likely future costs of various kinds and covers any charges for goods returned by our wholesale customers for collections delivered during 2010. This amount includes the additional allowance set aside by Ferragamo Parfums SpA and Salvatore Ferragamo Italia SpA for agents operating in Italy.

### **Employee benefit liabilities**

The following table shows the breakdown of employee benefits at 31 December 2010 and 31 December 2009:

<b>Employee benefit liabilities</b>	<b>31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
(In thousands of Euro)	Value at	Value at	Change
	31.12.2010	31.12.2009	2010 vs 2009
Employee benefit liabilities (severance indemnities)	7,285	7,236	49
Employee benefit liabilities (other)	2,055	1,942	113
<b>TOTAL</b>	<b>9,340</b>	<b>9,178</b>	<b>162</b>

### **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	
	2010	2009
(In thousands of Euro)	Value at 31.12.2010	Value at 31.12.2009
Present value of the obligation at the beginning of the period	7,236	7,790
Cost relating to current employment	93	102
Financial charge	279	330
Benefits paid	(517)	(667)
Actuarial loss (gain) recorded	194	(319)
<b>Present value of the obligation at the end of the period</b>	<b>7,285</b>	<b>7,236</b>

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 evaluation of employee severance indemnities of the Italian companies with less than 50 employees (Ferragamo Parfums SpA).

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

	31.12.2010	31.12.2009
Annual rate of pay increase	4.17%	4.50%
Annual discount rate	3.86%	4.22%
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. 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	
	2010	2009
(In thousands of Euro)		
<b>Present value of the obligation at the end of the period</b>	<b>1,519</b>	<b>1,587</b>

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
Annual rate of pay increase	2.00% - 7.50%	2.00% - 12.00%
Annual discount rate	0.90% - 8.00%	0.91% - 8.16%
Inflation rate (*)	1.5% - 3.5%	

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

The average number of employees by category is shown in the following table:

Average staff	<b>31 December</b>	
	<b>2010</b>	<b>2009</b>
Managers	475	453
White collars	2,053	2,084
Blue collars	217	206
<b>TOTAL</b>	<b>2,745</b>	<b>2,743</b>

Staff at 31 December	<b>2010</b>	<b>2009</b>
Italy	703	671
Abroad	2,124	2,031
<b>TOTAL</b>	<b>2,827</b>	<b>2,702</b>

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

### **Other non current liabilities**

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

Other non current liabilities	<b>31 December 2010</b>					
(In thousands of Euro)	Value at 31.12.2009	Translation difference	Increases	Decreases	Reclassifi- cations	Value at 31.12.2010
Payables for deferred rents	28,168	2,294	2,398	(9)	-	32,851
Other payables	590	17	72	(92)	-	587
Tax payables	12,678			-	(12,678)	-
Other payables for hedge derivatives	13		85		-	98
<b>TOTAL</b>	<b>41,449</b>	<b>2,311</b>	<b>2,555</b>	<b>(101)</b>	<b>(12,678)</b>	<b>33,536</b>

Other non current liabilities	<b>31 December 2009</b>				
(In thousands of Euro)	Value at 31.12.2008	Translation difference	Increases	Decreases	Value at 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
<b>TOTAL</b>	<b>26,848</b>	<b>(956)</b>	<b>15,652</b>	<b>(95)</b>	<b>41,449</b>

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. At the end of the year, the tax payable originally scheduled to be paid in installments was reclassified as a short-term payable (see the section relating to significant events in the 2009 report on operations), since, in agreement with the Florence Revenue Office, the residual amount of the payable was paid in full on 15 February 2011 in order to set the grounds to obtain the refund of the taxes paid in Holland.

### **Non current financial liabilities**

At 31 December 2010, the Group's non current financial liabilities amounted to 83 thousand Euro. At 31 December 2009 the Group had no non current financial liabilities. For further details, please refer to note 32.

### **Trade payables**

The breakdown of trade payables was as follows:

<b>Trade payables</b>	<b>31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
(In thousands of Euro)			
Trade payables to third parties	102,667	76,751	25,916
Advances from customers	887	333	554
Trade payables to related parties	53	176	(123)
<b>TOTAL</b>	<b>103,607</b>	<b>77,260</b>	<b>26,347</b>

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.

## Interest-bearing loans & borrowings

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

Interest-bearing loans & borrowings	31 December		Change
	2010	2009	
(In thousands of Euro)			
Financial payables to banks	145,803	154,395	(8,592)
Bank and postal current accounts	426	404	22
Payables to others	4,567	3,350	1,217
<b>TOTAL</b>	<b>150,796</b>	<b>158,149</b>	<b>(7,353)</b>

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 1 year, 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 which depends on the type of credit line. Commissions due for unused credit line are immaterial.

During the year committed credit lines which had expired were renegotiated, increasing their amounts and expanding the range of counterparties. In addition, new revolving credit lines were opened.

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

(In thousands of Euro)	Agreed		Used		Agreed		Used	
	2010		2010		2009		2009	
Stand-by (Club deal)	Eur	100,000	Eur	54,665	Eur	100,000	Eur	55,152
Committed credit lines	Eur	195,000	Eur	67,865	Eur	190,000	Eur	82,360
Revolving credit lines	Eur	110,863	Eur	23,699	Eur	93,626	Eur	17,286
<b>Total</b>	<b>Eur</b>	<b>405,863</b>	<b>Eur</b>	<b>146,229</b>	<b>Eur</b>	<b>383,626</b>	<b>Eur</b>	<b>154,798</b>

At 31 December 2010, the item “Payables to others” was composed as follows:

- the loan granted by third-party shareholders to Ferragamo Retail Macau Ltd., amounting to 901 thousand Euro.
- the put option (3,050 thousand Euro) granted to the minority shareholders of Ferragamo Japan KK., to sell to Salvatore Ferragamo Italia their 29% investment in Ferragamo Japan KK, which is valued on the basis of the conditions contained

in the Shareholders' Agreement signed by partners. This put option was recognized under Group shareholders' equity after eliminating minority interests.

- the liabilities due to Ferragamo Retail India's minority shareholders, amounting to 616 thousand Euro.

In future years any value adjustments to the put option will be recorded directly under shareholders' equity.

At 31 December 2009, this item was composed of loans provided to Ferragamo Suisse SA by third-party shareholders (991 thousand Euro); a loan granted by third-party shareholders to the Indian company Ferragamo Retail India Private Ltd (1,236 thousand Euro); a loan granted by third-party shareholders to Ferragamo Retail Macau Ltd, which was incorporated in 2009 (1,118 thousand Euro) and a financial lease of the Chinese company Ferragamo Fashion Trading (Shanghai) Co. Ltd. (5 thousand Euro).

The Group net financial debt at 31 December 2010 and 2009 was as follows:

Net financial position	31 December		
	2010	2009	Change
(In thousands of Euro)			
A. Cash	484	450	34
B. Other cash equivalents	132,411	76,953	55,458
<b>C. Cash and cash equivalents (A)+(B)</b>	<b>132,895</b>	<b>77,403</b>	<b>55,492</b>
Derivatives – non-hedge component	1,181	1,147	34
Other financial assets	19	177	(158)
<b>D. Current financial receivables</b>	<b>1,200</b>	<b>1,324</b>	<b>(124)</b>
E. Current bank payables	(145,803)	(154,395)	8,592
F. Derivatives – non-hedge component	(1,367)	(573)	(794)
G. Other current financial payables	(4,993)	(3,754)	(1,239)
<b>H. Current financial debt (E)+(F)+(G)</b>	<b>(152,163)</b>	<b>(158,722)</b>	<b>6,559</b>
<b>I. Current financial receivables/(payables), net (C)+(D)+(H)</b>	<b>(18,068)</b>	<b>(79,995)</b>	<b>61,927</b>
J. Non current bank payables	-	-	-
K. Derivatives – non-hedge component	(83)	-	(83)
M. Other non current payables	-	-	-
<b>N. Non current financial debt (J)+(K)+(M)</b>	<b>(83)</b>	<b>-</b>	<b>(83)</b>
<b>O. Net financial debt (I)+(N)</b>	<b>(18,151)</b>	<b>(79,995)</b>	<b>61,844</b>

### 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)
not higher than 2.75 to 1	not lower than 4 to 1

The following specific definitions are used, as provided for in the contract and for the purposes of its application:

- Net financial position: interest-bearing loans and borrowings, net of cash and cash equivalents;
- EBITA: profit before tax, net of extraordinary items and any revaluations or disposals of assets and gross of amortization, depreciation and net financial charges, defined as interest and financial expenses excluding charges and income generated by derivatives.

The above covenants are checked within 180 days after the end of each year with reference to the data contained in the annual reports which are subject to audit by the independent auditors.

These covenants were complied with on the basis of the consolidated annual reports prepared in accordance with the IFRS for the years ended 31 December 2010 and 31 December 2009.

Non-financial covenants are included in some local loan contracts of companies with minority interests, even though they are uncommitted lines of credit.

### **Tax payables**

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

Tax payables	31 December		Change
	2010	2009	
(In thousands of Euro)			
<b>TOTAL</b>	<b>27,210</b>	<b>16,759</b>	<b>10,451</b>

The amounts relate to payables for income taxes for the year and other taxes owed by Group companies. The value at 31 December 2010 includes the reclassification of the

year-end residual amount (originally due after more than 12 months and amounting to 12.7 million Euro) of the tax payable to be paid in installments of the Dutch company Ferragamo International B.V., connected to the settlement of the tax dispute with the Italian tax authorities. See note 23.

### **Other current liabilities**

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

<b>Other payables</b>	<b>31 December</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
(In thousands of Euro)			
Other payables to third parties within 12 months	23,856	15,259	8,597
Payables to social security institutions within 12 months	3,726	3,367	359
Payables to associated and jointly controlled companies	-	3	(3)
Payables to related parties	10,832	924	9,908
Accrued expenses	2,519	2,058	461
Deferred income	1,818	1,075	743
Other payables for short-term hedge derivatives	6,220	1,031	5,189
<b>TOTAL</b>	<b>48,971</b>	<b>23,717</b>	<b>25,254</b>

The item “Other payables to third parties” mainly refers to Group payables to employees for amounts accrued but not yet paid at the financial statements date; it also includes payables to suppliers/service providers which were not yet invoiced at the financial statements date. The item “Payables to social security institutions” refers to payables paid in the month following the year end date and relating to amounts due to employees. The item “Payables to related parties” consists 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) signed by the Parent company to manage exchange rate risk.

### **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.

## 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 2010 and 31 December 2009.

### Classification of financial instruments and representation of their fair value

<i>(Amounts in thousands of Euro)</i>	<b>Book value at 31 Dec. 2010</b>		<b>Fair Value at 31 Dec. 2010</b>	<b>Book value at 31 Dec. 2009</b>		<b>Fair Value at 31 Dec. 2009</b>
	<i>Current portion</i>	<i>Non current portion</i>		<i>Current portion</i>	<i>Non current portion</i>	
<b>FINANCIAL ASSETS</b>						
Financial assets at fair value through profit or loss						
Derivatives – non-hedge component	1,181	2	1,183	1,147		1,147
Securities held for trading	19		19	17		17
Available-for-sale financial assets	-	51	51	-	45	45
Receivables and loans						
Receivables from others (M/L term)	250	1,250	1,389	1,400	1,100	2,430
Trade receivables	75,377		75,377	57,347		57,347
Guarantee deposits		6,769	6,767		5,721	5,594
Cash and cash equivalents	132,895		132,895	77,403		77,403
Derivatives – hedge component	4,411	155	4,566	7,879		7,879
<b>Total</b>	<b>214,133</b>	<b>8,227</b>	<b>222,247</b>	<b>145,193</b>	<b>6,866</b>	<b>151,862</b>

<i>(Amounts in thousands of Euro)</i>	<b>Book value at 31 Dec. 2010</b>		<b>Fair Value at 31 Dec. 2010</b>	<b>Book value at 31 Dec. 2009</b>		<b>Fair Value at 31 Dec. 2009</b>
	<i>Current portion</i>	<i>Non current portion</i>		<i>Current portion</i>	<i>Non current portion</i>	
<b>FINANCIAL LIABILITIES</b>						
Liabilities at amortized cost						
Trade Payables and payments on account	103,607	-	103,607	77,260	-	77,260
Interest-bearing loans & borrowings	150,796	-	150,796	158,149	-	158,149
Financial liabilities at fair value through profit or loss						
Derivatives – non-hedge component	1,367	83	1,450	573	-	573
Derivatives – hedge component	6,220	98	6,318	1,044	-	1,044
<b>Total</b>	<b>261,990</b>	<b>181</b>	<b>262,171</b>	<b>237,026</b>	<b>-</b>	<b>237,026</b>

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 methods which can be classified as Level 2 of the hierarchy of data significance levels used in the fair value calculation as defined by IFRS7.

The Group uses internal valuation models, which are generally used in finance, on the basis of prices supplied by market operators or of share prices collected on active markets through leading info-providers.

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

For receivables from others (M/L term), which include a receivable from Emanuel Ungaro Italia Srl of Ferragamo Parfums Spa with a six-year remaining life, renegotiated during the year, 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.

Receivables and payables falling due in less than eighteen months, or without a definite due date, or outstanding until revocation, are valued at historic cost.

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**

	<b>31 Dec. 2010</b>	<b>31 Dec. 2009</b>
<i>(Amounts in thousands of Euro)</i>		
<b>Net gains/(losses) on financial instruments recognized in profit &amp; loss:</b>		
Financial assets/liabilities held for trading	(933)	1,772
Derivatives – hedge component	(11,541)	(17,286)
<b>Net gains/(losses) on financial instruments recognized in the statement of comprehensive income:</b>		
Derivatives – hedge component	(10,544)	22,558
<b>Interest income/expense (calculated using the effective interest method) accrued on financial assets/liabilities not at FVTPL</b>		
Interest income	437	507
Interest expense	3,072	2,870
<b>Expenses and fees not included in determining the effective interest rate</b>		
Financial liabilities	395	259
<b>Interest income accrued on financial instruments written-down</b>	-	-

## Provisions for impairment on financial assets

Receivables/loans

681

902

The table summarizes the effects on the income statement and shareholders' equity in reference to each category of outstanding financial instruments for the Group in the years 2010 and 2009.

## Derivatives

Total derivatives at the year end date were as follows.

Derivatives with a positive fair value:

Derivatives (assets)	31 December		Change
	2010	2009	
(In thousands of Euro)			
Long-term derivatives	2	-	2
Short-term derivatives	1,181	1,147	34
<b>TOTAL</b>	<b>1,183</b>	<b>1,147</b>	<b>36</b>

Derivatives with a negative fair value:

Derivatives (liabilities)	31 December		Change
	2010	2009	
(In thousands of Euro)			
Long-term derivatives	83	-	83
Short-term derivatives	1,367	573	794
<b>TOTAL</b>	<b>1,450</b>	<b>573</b>	<b>877</b>

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".

## Comments on the main consolidated income statement items

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 2010 and those for 2009.

### **Revenues from sales and services**

In the years ended 31 December 2010 and 31 December 2009 net revenues totaled 773,486 thousand Euro and 612,012 thousand Euro respectively and can be broken down as shown in the following table:

Revenues from sales and services	31 December	
	2010	2009
Wholesale sales	223,640	185,000
Retail sales	542,967	420,449
Sales to related parties	29	19
Royalties	3,384	3,632
Fees and services	1,923	1,622
Fees and services for associated and jointly controlled companies	1,459	1,267
Fees and services for related companies	84	23
<b>Total net revenues</b>	<b>773,486</b>	<b>612,012</b>

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.

### **Rental income investment properties**

In 2010 and 2009 rental income investment properties totaled 8.115 thousand Euro and 7.586 thousand Euro respectively and were wholly related to Ferragamo USA for the lease of space in owned and leased properties. The change was due almost exclusively to the Euro/US\$ exchange rate effect.

### **Cost of goods sold**

The analysis of the cost of goods sold is shown below:

Cost of goods sold	31 December	
	2010	2009
(In thousands of Euro)		

Change in inventories of finished, semi-finished products and work in progress		(5,663)	(20,240)
- Purchases of raw materials, accessories and consumables	(188,848)		(144,892)
- Sales of raw materials	24,209		17,333
- Change in inventories of raw materials, accessories and consumables	<u>5,625</u>		<u>(6,110)</u>
Raw materials, accessories and consumables used		(159,014)	(133,669)
- Manufacturing in outsourcing	(113,137)		(91,681)
- Other services	<u>(6,057)</u>		<u>(5,486)</u>
Costs for services		(119,194)	(97,167)
Personnel costs		(4,938)	(4,441)
Amortization and depreciation		(552)	(549)
<b>Cost of goods sold</b>		<b>(289,361)</b>	<b>(256,066)</b>

In 2010 the cost of goods sold (+13%) rose less than Group turnover and so its ratio to revenues decreased from 41.8% to 37.4%. In 2009 the percentage cost of goods sold (-5.8%) decreased less than 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 the United States and Japan.

The item “Raw materials, accessories and consumables used” mainly refers to the materials needed for production and the costs for manufacturing in outsourcing.

The production cycle of the traditional product categories (footwear, leather goods and clothing) 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 item “Costs for services”.

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

### **Other income and revenues**

	31 December	
Other income and revenues	2010	2009
(In thousands of Euro)		
- Cost recovery	703	761
- Rental income	1,919	1,725
- Advertising contributions	581	370
- Others	<u>4,438</u>	<u>15,003</u>
Other income and revenues	7,641	17,859
Other income and revenues - related parties	20	42

Gains on disposal of tangible/intangible assets	43	63
Gains on disposal of tangible assets - related parties	-	-
Extraordinary income	1,245	1,700
<b>Total other income and revenues</b>	<b>8,949</b>	<b>19,664</b>

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 (1.7 million Euro and 10.5 million Euro at 31 December 2009) connected with the settlement of some legal disputes resolved positively during the year. For more detailed information, 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".

### **Style, product development and logistics costs**

The item was made up as follows:

Style, product development and logistics costs	31 December	
	2010	2009
(In thousands of Euro)		
Purchases	(2,709)	(1,691)
Services	(12,866)	(11,471)
Personnel costs	(11,537)	(11,030)
Amortization and depreciation	(578)	(634)
Other operating costs	-	-
<b>Style, product development and logistics costs</b>	<b>(27,690)</b>	<b>(24,826)</b>

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.

### **Sales & distribution costs**

The item was made up as follows:

Sales & distribution costs	31 December	
	2010	2009

(In thousands of Euro)			
Purchases		(4,930)	(4,858)
- Rents	(110,743)		(90,289)
- Others	<u>(44,407)</u>		<u>(36,925)</u>
Services		(155,150)	(127,214)
Personnel costs		(83,144)	(70,233)
Amortization and depreciation		(19,319)	(18,529)
Other operating costs		-	-
<b>Sales &amp; distribution costs</b>		<b>(262,543)</b>	<b>(220,834)</b>

The item refers to the costs of the direct retail network, of retail and wholesale sales departments of the head office and of Group companies. It also includes the costs 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	
	2010	2009
(In thousands of Euro)		
Retail	(232,495)	(196,710)
Wholesale	(24,746)	(19,131)
Distribution logistics	(5,302)	(4,993)
<b>Sales &amp; distribution costs</b>	<b>(262,543)</b>	<b>(220,834)</b>

### **Marketing & communication costs**

The item was made up as follows:

Marketing & communication costs	31 December	
	2010	2009
(In thousands of Euro)		
Purchases	(3,729)	(3,072)
Services	(33,648)	(21,921)
Personnel costs	(6,654)	(6,448)
Amortization and depreciation	(64)	(61)
Other operating costs	-	-
<b>Marketing &amp; communication costs</b>	<b>(44,095)</b>	<b>(31,502)</b>

The item refers to costs for communication, communication management departments and 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).

### **General and administrative costs**

The item was made up as follows:

General and administrative costs	31 December	
	2010	2009
(In thousands of Euro)		
Purchases	(965)	(609)
- Rental and hire costs	(10,091)	(9,278)
- Others	<u>(22,409)</u>	<u>(20,216)</u>
Services	(32,500)	(29,494)
Personnel costs	(26,992)	(20,230)
Amortization and depreciation	(6,190)	(5,435)
Write-downs of tangible/intangible assets	-	(229)
Other operating costs	-	-
<b>General and administrative costs</b>	<b>(66,647)</b>	<b>(55,997)</b>

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

### **Other operating costs**

The item was made up as follows:

Other operating costs	31 December	
	2010	2009
(In thousands of Euro)		
Losses on disposal of fixed assets	(718)	(568)
Extraordinary charges	(247)	(1,736)
Provisions for future operating risks and charges	(2,980)	(1,418)
Write-down of current assets	(1,651)	(3,455)
- Entertainment expenses, gratuities and gifts	(1,776)	(600)
- Indirect taxes, duties and dues	(5,325)	(4,003)
- Other operating costs	<u>(1,080)</u>	<u>(1,781)</u>
Other operating costs	(8,181)	(6,384)
<b>Other operating costs</b>	<b>(13,777)</b>	<b>(13,561)</b>

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	
	2010	2009
(In thousands of Euro)		
Raw materials, finished products and consumables used	(177,010)	(164,139)
Costs for services	(353,358)	(287,267)
Personnel costs	(133,265)	(112,382)
Amortization and depreciation	(26,703)	(25,208)
Write-downs of tangible/intangible assets		(229)
Other charges	(13,777)	(13,561)
<b>Operating costs</b>	<b>(704,113)</b>	<b>(602,786)</b>

### 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 2010 these costs totaled 16.8 million Euro compared to 16.5 million Euro in 2009.

### Financial charges

The item was made up as follows:

Financial charges	31 December	
	2010	2009
(In thousands of Euro)		
Interest expense - loans from third parties	(2,337)	(2,669)
Discount charges and other financial charges – third parties	(1,905)	(1,293)
Write-down of investments in other companies	-	-
Provisions for risks on investments in other companies	-	-
Losses on exchange rate differences	(7,323)	(12,204)
Financial charges for fair value adjustment of derivatives	(2,358)	(1,902)
<b>Financial charges</b>	<b>(13,923)</b>	<b>(18,068)</b>

Interest expense derives wholly from short-term bank loans.

The item “Discount charges and other financial charges” refers mainly to bank charges and financial costs 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 1.25 million Euro for the medium-term advance of royalties due from the fragrances category 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 was characterized by a net impact of gains on exchange rate differences, net of losses on exchange rate differences, of 7.1 million Euro compared to a net impact of losses on exchange rate differences in 2009 of 0.4 million euro.

### **Financial income**

The item was made up as follows:

	31 December	
	2010	2009
<b>Financial income</b>		
(In thousands of Euro)		
Interest income	382	451
Other financial income	55	56
Gains on exchange rate differences	14,462	11,778
Financial income for fair value adjustment of derivatives	1,425	3,674
<b>Financial income</b>	<b>16,324</b>	<b>15,959</b>

### **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.

Share of net profit/(loss) on investments accounted for using the Equity Method	31 December	
	2010	2009
(In thousands of Euro)		
<b>Zefer S.p.A.</b>	<b>477</b>	<b>436</b>

### **Income taxes**

The taxes recorded in the income statement were as follows:

Income taxes	31 December	
	2010	2009
(In thousands of Euro)		
Current taxes	(30,991)	(17,525)
Deferred taxes	2,477	11,195
Previous years income taxes	-	(43,134)

<b>Income taxes</b>	<b>(28,514)</b>	<b>(49,464)</b>
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The amount charged in 2009 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 2009 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 2010 and 31 December 2009:

Receivables/payables for deferred taxes	31 December	
	2010	2009
(In thousands of Euro)		
Deferred tax assets	61,715	55,067
Deferred tax liabilities	5,863	6,359
<b>TOTAL</b>	<b>55,852</b>	<b>48,708</b>

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 2010 and 31 December 2009 is shown in the following table by nature, listing the entries which show underlying temporary differences:

Deferred tax assets and liabilities	31.12.10	31.12.09	31.12.10	31.12.09	2010	2009
	Balance sheet		Shareholders’ equity		Income statement	
(In thousands of Euro)						
<b>Deferred tax assets</b>						
- on employee benefits	959	657	404	351	177	(64)
- on tangible assets	11,107	8,389			2,150	(243)
- on intangible assets	729	608			121	118
- on cash flow hedge reserve/derivative contracts IAS 39	800	1,239	859	(2,041)	(1)	-
- for postponement of revenues under IAS 18	163	101			61	(19)
- on valuation of inventories	4,666	4,982			(517)	(561)
- on the elimination of the profit unrealized in inventories	26,467	24,524			1,943	2,530
- on tax losses	4,164	5,280			(1,574)	5,204
- on taxed provisions	2,275	1,030			1,245	(633)
- on write-downs of investments which are deductible over a	14	11			-	-

number of years						
- for other temporary differences	10,371	8,246			1,631	1,482
<b>Total deferred tax assets</b>	<b>61,715</b>	<b>55,067</b>	<b>1,263</b>	<b>(1,690)</b>	<b>5,236</b>	<b>7,814</b>
<b>Deferred tax liabilities</b>						
- on employee benefits	262	273			(11)	(37)
- on tangible assets	1,459	1,341			40	98
- on leased assets	353	360			(7)	(7)
- on intangible assets	-	-			-	(295)
- on cash flow hedge reserve/derivative contracts IAS 39	559	2,100			1,797	(2,678)
- on valuation of inventories	2,078	2,275			(199)	(192)
- for other temporary differences	1,152	10			1,139	(270)
<b>Total deferred tax liabilities</b>	<b>5,863</b>	<b>6,359</b>	<b>0</b>	<b>0</b>	<b>2,759</b>	<b>(3,381)</b>
Income/charge on deferred taxes					<b>2,477</b>	<b>11,195</b>
<i>Net effect on shareholders' equity</i>			<b>1,263</b>	<b>(1,690)</b>		
Represented in financial statements as follows:						
<i>Deferred tax assets</i>	61,715	55,067				
<i>Deferred tax liabilities</i>	5,863	6,359				
<b>Net result for deferred taxes</b>	<b>55,852</b>	<b>48,708</b>				

Tax losses of the Group companies at 31 December 2010 and 31 December 2009 on which deferred taxes have not been calculated and the related expiries are shown in the following table:

<b>PREVIOUS TAX LOSSES</b>						
<b>ON WHICH DEFERRED TAX ASSETS HAVE NOT BEEN CALCULATED</b>						
(In thousands of Euro)						
Total at						
<b>31 December 2010</b>	<b>Expiry</b>					
	<b>Without time limits</b>	<b>within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>over 5 years</b>	
<b>70,145</b>	47,488	435	1,255	2,540	18,427	

<b>PREVIOUS TAX LOSSES</b>						
<b>ON WHICH DEFERRED TAX ASSETS HAVE NOT BEEN CALCULATED</b>						
(In thousands of Euro)						
Total at						
<b>31 December 2009</b>	<b>Expiry</b>					
	<b>Without time limits</b>	<b>within 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>over 5 years</b>	
<b>69,542</b>	49,170	0	1,651	1,543	17,178	

Deferred tax assets on previous losses recorded in 2010 and 2009 were as follows:

PREVIOUS TAX LOSSES ON WHICH DEFERRED TAX ASSETS HAVE BEEN CALCULATED (IN THE INCOME STATEMENT) / Situation at 31-12-10			
(In thousands of Euro)			
<b>Expiry</b>	<b>Previous tax losses</b>	<b>Tax rate</b>	<b>Deferred tax assets</b>
Without time limits	719	27.50%	198
Over 5 years	9,597	41.33%	3,966
<b>Total</b>	<b>10,316</b>	<b>40.36%</b>	<b>4,164</b>

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

The reconciliation between the theoretical tax charge and the effective tax charge is as follows:

Reconciliation of taxes	31 December 2010	31 December 2009
Profit before taxes	89,315	34,803
<i>IRES rate in force for the year</i>	<i>27.50%</i>	<i>27.50%</i>
<b>Theoretical tax charge</b>	<b>24,562</b>	<b>9,571</b>
IRAP effect	3,502	2,536
Non-deductible costs	38	(1,095)
Differences arising from different rates – foreign countries	(4,196)	(3,368)
Other effects	295	(1,314)
Effects of taxation for transparency of income of foreign companies resident in countries/territories with a privileged tax regime	4,313	
Previous years income taxes		43,134
<b>Total differences</b>	<b>3,952</b>	<b>39,893</b>
<b>Total taxes from the income statement</b>	<b>28,514</b>	<b>49,464</b>
<b>Effective tax rate</b>	<b>31.9%</b>	<b>142.1%</b>

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

At 31 December 2010 and 31 December 2009 the Group did not have any discontinued operations.

### **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.

<b>BASIC EARNINGS PER SHARE</b>	<b>2010</b>	<b>2009</b>
Net profit (loss) - shareholders of the Parent company	48,877,000	(20,907,000)
Less: increase of dividend for preferred shares (5% of par value)	(404,184)	-
	<u>48,472,816</u>	<u>(20,907,000)</u>
<b>Average number of ordinary and preferred shares</b>	16,841,000	16,841,000
<b>Basic earnings per share ordinary shares</b>	<b>2.88</b>	<b>(1.24)</b>
Plus: increase of dividend for preferred shares	0.05	0.00
<b>Basic earnings per share preferred shares</b>	<b>2.93</b>	<b>(1.24)</b>

<b>DILUTED EARNINGS PER SHARE</b>	<b>2010</b>	<b>2009</b>
<b>Average number of ordinary and preferred shares</b>	16,841,000	16,841,000
Plus: effect of stock options	-	-
<b>Diluted average number of ordinary and preferred shares</b>	<b>16,841,000</b>	<b>16,841,000</b>
<b>Diluted earnings per share ordinary shares</b>	<b>2.88</b>	<b>(1.24)</b>
Plus: increase of dividend for preferred shares	0.05	0.00
<b>Diluted earnings per share preferred shares</b>	<b>2.93</b>	<b>(1.24)</b>

<b>EARNINGS PER SHARE FROM CONTINUING OPERATIONS</b>		
Net profit (loss) from continuing operations	48,877,000	(20,907,000)

Less: increase of dividend for preferred shares (5% of par value)	(404,184)	-
	<u>48,472,816</u>	<u>(20,907,000)</u>
<b>Average number of ordinary and preferred shares</b>	16,841,000	6,841,000
Plus: effect of stock options	-	-
<b>Diluted average number of ordinary and preferred shares</b>	<b>16,841,000</b>	<b>16,841,000</b>
<b>Basic earnings from continuing operations per ordinary share</b>	<b>2.88</b>	<b>(1.24)</b>
Plus: increase of dividend for preferred shares	0.05	0.0
<b>Basic earnings from continuing operations per preferred share</b>	<b>2.93</b>	<b>(1.24)</b>
<b>Diluted earnings from continuing operations per ordinary share</b>	<b>2.88</b>	<b>(1.24)</b>
Plus: increase of dividend for preferred shares	0.05	0.0
<b>Diluted earnings from continuing operations per preferred share</b>	<b>2.93</b>	<b>(1.24)</b>
<b>EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS/ASSETS OF DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE</b>		
Net profit (loss) from discontinued operations/assets of disposal group classified as held for sale	-	-
<b>Average number of ordinary and preferred shares</b>	16,841,000	16,841,000
Plus: effect of stock options	-	-
<b>Diluted average number of ordinary and preferred shares</b>	<b>16,841,000</b>	<b>16,841,000</b>
<b>Net profit/(loss) from discontinued operations/non current assets classified as held for sale ordinary shares</b>	-	-
<b>Net profit/(loss) from discontinued operations/non current assets classified as held for sale preferred shares</b>	-	-
Average number of ordinary shares	8,757,320	8,757,320
Average number of preferred shares	8,083,680	8,083,680
	<u><b>16,841,000</b></u>	<u><b>16,841,000</b></u>

### Share-based payments

As provided for by IFRS 2, below is a description of the cash-settled share-based remuneration plan in favor of a director, which is reflected in the Group consolidated annual report and attributable to the Parent company Salvatore Ferragamo Italia S.p.A. 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 following 3 years resolve to increase the share capital servicing the stock option, the subscription of new ordinary shares to be issued to carry out 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 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 was dependent on the company being listed on a regulated market at the time of exercise of the option; should the company not be admitted to a regulated market for any reason or should the company not request such listing, the option right would 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 could 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 if the company were 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 was 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 consideration whose value is based on the value of the company's shares compared to the value per share assessed at the grant date.

In particular, the aforementioned price is to be divided into 3 tranches, offered for subscription between 1 January and 28 February of the three-year period between 28 May 2009 and 28 February 2013:

1st tranche) vesting from 29 May 2009 to 31 December 2010, exercise period from 1 January 2011 to 28 February 2011;

2nd tranche) vesting from 29 May 2009 to 31 December 2011, exercise period from 1 January 2012 to 28 February 2012;

3rd tranche) vesting from 29 May 2009 to 31 December 2012, exercise period from 1 January 2013 to 28 February 2013

There is still the possibility of postponing exercise of the right to obtain payment on the subsequent expiries up to 28 February 2013, on the understanding that in this case the right will have to be exercised for the whole amount accrued up to that moment.

Should the company be listed at the time of exercising the right, the value of the company will correspond to the weighted average of the share price in the 2 months preceding and in the 2 months following exercise.

In choosing the accounting model, management considered that this plan structure can be referred to a cash-settled share-based payment transaction. 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.

In the 2010 consolidated annual report a payable of 3,134 thousand Euro and a cost of 2,756 thousand Euro were recorded.

The value of this liability accrued to the beneficiary has been estimated on the basis of a company assessment at 31 December 2010, carried out by an independent expert.

### **Put and Call Agreements on Minority Interests**

In recent years the Salvatore Ferragamo Italia Group has expanded largely through internal growth. In some areas, mainly in Asia, it has also grown through partnerships with local distributors. In relation to these partnerships, the Shareholders' Agreements, regulating dealings between the partners, define the governance rules and contain some provisions on put and call options which shareholders can exercise under certain conditions.

The subsidiaries affected by these agreements are Ferragamo Japan K.K., Ferrimag Limited, Ferragamo Moda (Shanghai) Co. Ltd., Ferragamo Korea Limited, Ferragamo (Malaysia) Sdn Bhd, Ferragamo (Singapore) Pte. Ltd., Ferragamo (Thailand) Limited and Ferragamo Retail India Private Limited.

Below is a summary of the effects of the options leading to recognitions in the company's consolidated annual report.

Ferragamo Japan K.K.'s Shareholders' Agreement allows minority shareholders, collectively holding a 29% stake, to sell their shares to Salvatore Ferragamo Italia at a contractually set price in the case of proven financial need or in the case of a change in their investment strategies in the luxury sector.

Consequently, at 31 December 2010 a financial liability was recorded taking into account the possibility of minority shareholders exercising the put option on their 29% stake.

Due to this recognition, at 31 December 2010 a financial payable of 3,050 thousand Euro was recorded, minority interests were eliminated (6,367 thousand Euro), and a positive Group shareholders' equity reserve was set up (3,317 thousand Euro). The corresponding effects at 31 December 2009 were not considered significant in reference to the financial position or to gross and net debt of the Salvatore Ferragamo Italia Group.

In reference to the investment in the subsidiary Ferragamo Retail India Private Limited, in March 2010 the Salvatore Ferragamo Italia Group modified the outstanding Shareholders' Agreement with the partner by signing new agreements providing for, among other things, the right of the Salvatore Ferragamo Italia Group to immediately acquire the minority interests (equal to a 49% stake) at a preset price (34,324,000 Indian rupees), plus interest calculated based on preset parameters. The Salvatore Ferragamo Italia Group may exercise the call option up to 30 June 2016; in the case the call option is not exercised by that date, the partner may exercise a put option on similar terms.

Given a preset option price and contract terms ensuring the minority shareholder solely a return on capital, the Salvatore Ferragamo Italia Group believes it already has access to the economic benefits connected to the share of capital covered by the option. For this reason, as from 1 April 2010, the Salvatore Ferragamo Italia Group has consolidated the investment in Ferragamo Retail India Private Limited on a line-by-line basis.

This transaction has had the following effects: elimination of minority interests (290 thousand Euro), recognition of a negative reserve in the Group shareholders' equity (277 thousand Euro) and recognition of a financial payable (567 thousand Euro).

### **Segment reporting**

IFRS 8 – Operating segments requires the company to base segment information on the elements which management uses to take its operating decisions. The identification of the operating segments on the basis of internal reporting is regularly reviewed by management to allocate resources to the various segments and to analyze performance. As from 2010 a single operating segment has been identified which includes the activity related to fragrances production and sale.

This approach is in line with the way in which management takes decisions and allocates resources: in this context, fragrances represent a different product category in the range offered to the public and are, among other things, an effective promotional and image builder tool.

The communication strategy generally sees “fragrances” associated with other Ferragamo-branded products, thus suggesting to customers a coherent product range.

The corresponding segment reporting items relating to previous years have consequently been restated.

This business segment is composed of the creation, development and production of footwear, leather goods, clothing and accessories for men and women distributed mainly through the direct retail network, and, to a lesser extent, through franchisees and qualified resellers, and of fragrances under the Ferragamo brand and, on license, the Ungaro brand, whose sales are handled by a network of selected, mainly multibrand, distributors.

(In thousands of Euro)	31 December	
	2010	2009
Net revenues - Wholesale	223,669	185,019
Net revenues - Retail	542,967	420,449
Licenses and services	6,850	6,544
Rental income investment properties	8,115	7,586
<b>Total sales</b>	<b>781,601</b>	<b>619,598</b>
<b>Gross profit</b>	<b>492,240</b>	<b>363,532</b>
<b>%</b>	<b>63.0%</b>	<b>58.7%</b>
Personnel costs	(125,098)	(104,893)
Rental costs	(120,911)	(99,635)
Amortization, depreciation and write-downs of non-current assets	(26,105)	(24,848)
Communication costs	(39,685)	(26,433)
Other costs	(94,004)	(71,247)
<b>EBIT</b>	<b>86,437</b>	<b>36,476</b>
Net financial (charges)/ income	2,401	(2,109)
Share of net profit/(loss) of associated companies	477	436
<b>Profit before taxes</b>	<b>89,315</b>	<b>34,803</b>
Income taxes	(28,514)	(49,464)
<b>Net profit/ (loss)</b>	<b>60,801</b>	<b>(14,661)</b>

(In thousands of Euro)	31 December	
	2010	2009
Inventories	182,780	162,307
Trade receivables	75,377	57,347
Tangible assets and investment property	115,171	113,738
Intangible assets with finite and indefinite life	14,888	13,817
Other assets	105,150	106,055

<b>Total assets including cash and cash equivalents</b>	<b>493,366</b>	<b>453,264</b>
Net financial debt	17,901	80,746
Trade payables	103,607	77,260
Other liabilities	131,422	101,947
Shareholders' equity	240,436	193,311
<b>Total liabilities and shareholders' equity (net of cash and cash equivalents)</b>	<b>493,366</b>	<b>453,264</b>

#### Other sector information

Investment in tangible assets	18,202	18,320
Investment property	8	-
Investment in intangible assets	3,548	2,600

### Information by geographic area

The secondary segment reporting is based on geographic areas: 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
(In thousands of Euro)						
31 December 2010						
<b>Revenues</b>	<b>182,292</b>	<b>174,018</b>	<b>126,849</b>	<b>267,872</b>	<b>30,570</b>	<b>781,601</b>
<b>Other sector information</b>						
<b>Sector assets</b>	<b>51,485</b>	<b>47,865</b>	<b>4,792</b>	<b>35,565</b>	<b>3,372</b>	<b>143,079</b>
<b>Investments:</b>						
Tangible assets	5,483	2,481	43	8,929	1,266	18,202
Investment property	-	8	-	-	-	8
Intangible assets	3,304	153	16	75	-	3,548

(In thousands of Euro)

<b>Revenues</b>	<b>150,913</b>	<b>136,093</b>	<b>111,018</b>	<b>193,857</b>	<b>27,717</b>	<b>619,598</b>
<b>Other sector information</b>						
<b>Sector assets</b>	<b>49,956</b>	<b>51,568</b>	<b>5,447</b>	<b>29,572</b>	<b>2,763</b>	<b>139,306</b>
<b>Investments:</b>						
Tangible assets	5,906	5,044	39	6,200	1,131	18,320
Intangible assets	2,215	176	93	116	-	2,600

### Management of financial risks

The Ferragamo Group is exposed in different measure to the various financial risks related to its business, and in particular to the following types of risk:

- market risks, which can be further divided into:
  - interest rate risks relating to the impact of changes in market interest rates; and
  - exchange rate risks, due to operations in currency areas other than that of the accounting currency;
- liquidity risks relating to the availability of financial resources and the ease of access to the credit market and connected to the need to fulfill the Group's financial commitments in the short term;
- credit (or counterparty) risks, representing the risks of default on commercial or financial obligations assumed by the various counterparties and arising from normal commercial transactions or from use, financing and risk hedging activities.

Financial risks are managed on the basis of guidelines defined by the Parent company, in compliance with the goals set centrally by the Board of Directors. This enables the control and coordination of the operations of the individual subsidiaries, also through more effective financial planning and control, the systematic monitoring of the Group's levels of exposure to financial risks as well as the trend in cash management, and the provision of useful indications in order to optimize the management of dealings with the reference credit institutes.

In accordance with these directives, the Group specifically controls the management of individual financial risks and intervenes to contain their impact, also by using derivatives. Derivatives are used only for hedging purposes. In application of IFRS, some derivatives have been classified as held for trading, although they have been entered into for hedging purposes.

Financial liabilities largely consist of bank loans, trade payables and, to a residual extent, payables due to other lenders. The management of these liabilities is largely aimed at financing the Group's operations.

### ***Interest rate risk***

Movements in market interest rates affect the level of net financial charges and the market value of financial assets and liabilities.

Interest rate risk can be classified as follows:

- cash flow risk, which refers to the variability in interest income and expense received and paid following changes in interest rates;
- fair value or price risk, relating to the sensitivity of the assets and liabilities market value to changes in the level of market interest rates (it refers to fixed rate assets or liabilities).

The Ferragamo Group is exposed to cash flow risk, i.e. to the risk of recording on the income statement an increase in financial charges due to an unfavorable change in interest rates. Group companies use third-party financial resources largely in the form of floating rate bank debt and deploy the available liquidity mainly in money market instruments. Changes in market interest rates only affect the cost of loans and the yield on uses and thus the level of the Group's financial charges and income, and not their fair value.

Bank debt is wholly represented by short-term, floating-rate loans. The cost of bank debt is generally benchmarked to the Euribor/Libor market rate for the period increased by a spread which depends on the type of line of credit used. Uses of the lines range from a few days to a maximum of one year. The margins applied are comparable to the best market standards.

Cash surpluses are used in short-term time deposit transactions with reference banks, referring to the Euribor/Libor rate for the period.

As part of the general policy of optimizing financial resources, the Group seeks a balance between companies with surplus liquidity and others with financial requirements, using the least costly forms of financing.

Sensitivity to interest rate risk is monitored at Group level, by keeping the overall exposure in due consideration, through coordinated management of debt and available liquidity and of the relevant expiries, which are in any case kept within 12 months.

At the balance sheet date there were no outstanding interest rate risk hedge derivatives aimed at transforming floating rate debt into fixed rate debt, nor did the Group make use of such derivatives in the previous two years.

### **Sensitivity Analysis**

#### **Market risk**

*(Amounts in thousands of Euro)*

<b>Sensitivity analysis of interest rate risk on floating rate items</b>	<b>Underlying asset</b>	<b>Increase/ reduction in underlying interest rates</b>	<b>Impact on the income statement</b>
<b>2010</b>			
POSITIVE CHANGE	EURO	0.07%	(27)
	USD	0.05%	2
	JPY	0.01%	(4)
	<b>Total</b>		<b>29</b>
NEGATIVE CHANGE	EURO	-0.07%	27
	USD	-0.05%	(2)
	JPY	-0.01%	4
	<b>Total</b>		<b>29</b>
<b>2009</b>			
POSITIVE CHANGE	EURO	0.2500%	(176)
	USD	0.2200%	(8)
	JPY	0.0500%	( 18)
	<b>Total</b>		<b>(202)</b>
NEGATIVE CHANGE	EURO	-0.2500%	176
	USD	-0.2200%	8
	JPY	-0.0500%	18
	<b>Total</b>		<b>202</b>

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 rate interests and by assuming parallel increases or decreases in the reference interest rate curves by individual currency in proportion to the respective annual volatility observed on the market.

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 amounting to 29 thousand Euro for 2010 compared with potential gains or losses amounting to 202 thousand Euro for 2009.

The decreasing impact on the income statement of interest rate changes in the three years observed is largely explained by changes in the amounts of sensitive assets and liabilities and the downward trend in the US dollar and Euro rates, following the very loose monetary policies adopted by the main countries after the financial crisis which affected the global economy and which brought money market rates close to zero. The official rate set by the Federal Reserve for the dollar has remained in the range between 0 and 0.25 percent since 2008. The official rate set by the European Central Bank for the Euro has been unchanged at 1 percent since May 2009.

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

### ***Exchange rate risk***

The exposure to exchange rate risk derives from operations in currencies other than the accounting currency.

In particular, the exchange rate risk can be classified based on the nature of the exposure and of the relevant effects:

- on operating results due to the different relevance of costs and revenues in foreign currency compared to the moment when the price conditions were defined (economic risk) and due to the translation of trade or financial receivables and payables denominated in foreign currency (settlement risk);
- on the consolidated annual report, operating result and shareholders' equity, due to the translation of assets and liabilities of companies which prepare their

financial statements in a different currency from the Group's functional currency (translation risk).

As part of economic exchange rate risk, it is possible to identify the competitive exchange rate risk, by this meaning the sensitivity to exchange rates compared to competitors, i.e. to the impact of exchange rate changes on the company's competitive position in a given market.

The Group operates internationally and therefore is exposed to risks arising from exchange rates fluctuations, which have an impact on the operating results and on the value of shareholders' equity.

The functional and presentation currency for the Group's financial data is the Euro.

In accordance with the IFRS, for companies whose presentation currency is different from the Group's functional currency:

- income statements are translated into Euro at the average exchange rate for the period; if revenues and margins are equal in local currency, exchange rate changes may affect the value in Euro of revenues, costs and operating results;
- assets and liabilities are translated into Euro at the year-end exchange rate and therefore may have different countervalues as a consequence of exchange rate movements. The impact of this change is recorded on the statement of comprehensive income and then under shareholders' equity, in the item 'Translation reserve'.

Besides absolute amounts, capital ratios may also vary, if the proportions between profit, assets, debt and shareholders' equity in the various currencies change due to exchange rate changes.

It is not the Group's policy to hedge its exposure to translation exchange risk.

The objective of the exchange rate risk hedging policy is to minimize the economic and settlement exchange rate risks, i.e. the risks arising from the possibility that currency parity change unfavorably during the period between the moment in which a commitment to pay or collect a currency other than the Euro for a future date arises (definition of budgets, setting of price lists, arrangement of orders), the registration of the accounting document (invoicing) and the moment in which the receipt or payment effectively occurs, generating an effect in terms of translation differences, with an impact on the income statement.

The Group manages exchange rate risk arising from its commercial business, in line with the provisions of the exchange rate risk management policy and the objectives periodically set for managing risk, through the systematic hedging of commercial flows arising from sales forecast in currencies other than the Euro, with the aim of mitigating the expected risk of variability in margins arising from sales relating to future collections.

The Group has a strong presence on international markets, including through commercial companies located in countries which use currencies other than the Euro, mainly the US dollar and the Japanese yen. In the year ended 31 December 2010, the percentage of net revenues realized by the Parent company in US dollars was around 58% of net revenues and the percentage of net revenues realized in Japanese yen was around 15% of net revenues. In the year ended 31 December 2009 the percentages of net revenues of the Parent company in US dollars were around 57% and in Yen around 15%. The currency risks originate mainly from exports of the Parent company in US dollars and Japanese yen.

In relation to its business model, the Group incurs a significant part of its costs in Euro (costs relating to production and management of the corporate structure), while the revenues and costs recorded by Group companies are mainly expressed in the local currencies of the respective reference markets. In particular, the Group is exposed to changes in the exchange rate between the Euro and the US dollar, in relation both to sales in dollars on the North American market, and to sales on markets in which the US dollar still represents the common currency for trade, especially the Far East.

In this context, the Ferragamo Group is exposed to changes in the exchange rates of the currencies in which sales are denominated. This implies the risk that the corresponding value in Euro of revenues determined at the moment of collection is insufficient to cover production costs or 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, which extends up to 18 months.

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 with an estimated period of

maximum 24 months. In the years under examination, the Group covered its exchange rate risk solely with currency forward exchange contracts.

For this purpose, depending on market expectations and conditions, hedges are arranged before establishing price lists generally for a total of between 50% and 90% of the currency sales expectations, which is supplemented in the period 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.

To the above operations we may add those of some Asian and Latin American subsidiaries which make purchases in US dollars or in Euro and sell in the currency of the country in which they operate. The values of the contracts involved are significantly lower than those of the Parent company.

Ferragamo Parfums SpA carries out exchange rate risk hedging by taking out loans in foreign currency.

In addition, the Group controls and hedges exposure deriving from changes, due to exchange rate changes, in the value of assets or liabilities denominated in currencies other than the accounting currency of the individual company, which may affect the income statement (typically intercompany financial receivables/payables) through financial instruments, whose recognition in accordance with IFRS follows the rules of Fair Value Hedge: the profit or loss arising from subsequent assessments of the present value of the hedging instrument is recorded on the income statement as well as the profit or loss on the hedged item.

The hedges of the Parent company's future transactions in foreign currencies (which can be classified as Cash Flow Hedge pursuant to IFRS) are accounted for in accordance with hedge accounting rules.

The following table shows the development of the cash flow hedge reserve for the years ended 31 December 2010 and 31 December 2009:

<b>Exchange rate risk</b>	<b>Cash flow hedge reserve</b>	
	<b>31 December</b>	
<i>(Amounts in thousands of Euro)</i>	<b>2010</b>	<b>2009</b>
<b>Opening balance</b>	<b>7,419</b>	<b>(15,139)</b>

+ increases for recognition of new positive effectiveness	4,740	11,711
- decreases for recognition of new negative effectiveness	(26,825)	(6,439)
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in the profit & loss	(4,530)	(3,048)
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in the profit & loss	16,071	20,334
<b>Closing balance</b>	<b>(3,125)</b>	<b>7,419</b>

The cash flow hedge reserve, which consists of the value changes in hedges for expected transactions in foreign currency, decreased overall by 10,544 thousand Euro during 2010, while it had increased by 22,588 thousand Euro during 2009, reflecting the highly volatile trend in exchange rates being hedged during the years under consideration, mainly between the Euro and the US dollar, which during the two-year period reached highs of over 1.51 and lows of under 1.19 and between the Euro and the Yen, which went from highs of around 140 in 2008 to a low of 106 during 2010.

The effectiveness transferred directly from the reserve to the income statement under the item "Revenues from sales" during the two years on occasion of the occurrence of the underlying flows amounted to 11,541 thousand Euro in 2010 and to 17,286 thousand Euro in 2009.

During 2010-2009 no hedge was interrupted due to the cancellation of the expected underlying value. Hedges were one hundred percent effective for the whole duration of the underlying asset.

The following table sets out the average time horizon and the relevance by risk factor of exchange rate hedges which the Group held at the end of 2010 and 2009.

<b>Cash flow analysis (hedged items)</b>						
<i>(Amounts in currency/000)</i>						
<b>31 December 2010</b>						
<b>Cash flow analysis (hedged items)</b>	<b>Total expected flows</b>	<b>within 3 months</b>	<b>3 to 6 months</b>	<b>6 to 9 months</b>	<b>from 9 months to 1 year</b>	<b>over 1 year</b>
<b>Exchange rate risk</b>						
Sales expected in USD	<b>300,000</b>	68,000	57,000	77,000	58,000	40,000
Sales expected in JPY	<b>6,000,000</b>	1,300,000	1,100,000	1,500,000	1,200,000	900,000
Sales expected in GBP	<b>6,350</b>	1,450	1,650	1,500	1,300	450
Sales expected in MXN	<b>200,000</b>	35,000	45,000	40,000	50,000	30,000
Sales expected in CHF	<b>8,750</b>	1,750	1,500	1,500	1,500	2,500
Sales expected in AUD	<b>3,370</b>	370	750	750	650	850
<b>31 December 2009</b>						

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
<b>Exchange rate risk</b>						
Sales expected in USD	<b>180,000</b>	49,000	51,000	57,000	23,000	
Sales expected in JPY	<b>4,200,000</b>	1,000,000	1,000,000	1,700,000	400,000	100,000
Sales expected in GBP	<b>4,800</b>	1,400	1,600	1,500	300	
Sales expected in MXN	<b>130,000</b>	35,000	35,000	30,000	30,000	
Sales expected in CHF	<b>8,400</b>	1,500	1,900	1,500	1,500	2,000
Sales expected in AUD	<b>2,250</b>	250	500	500	880	120

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 rates between the Euro and the following currencies: US dollar, Yen, Pound sterling and the Mexican peso.

From a time viewpoint, hedges lasting over one year are included within eighteen months.

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.

### **Sensitivity Analysis**

#### **Sensitivity analysis on currency risk**

(Amounts in thousands of Euro)		Increase/ decrease in foreign exchange rates	Items	Impact on the income statement	Impact on shareholder s' equity
<b>31 December 2010</b>					
POSITIVE CHANGE	EUR/JPY	14.7%	Derivatives	118	6,468
			Non-derivatives	167	
	EUR/USD	13.0%	Derivatives		24,364
			Non-derivatives	(111)	
	USD/KRW	13.0%	Derivatives	768	
			Non-derivatives	90	
EUR/MXN	14.0%	Derivatives		1,410	
		Non-derivatives	(8)		
			<b>Total</b>	<b>1,024</b>	<b>32,242</b>
NEGATIVE CHANGE	EUR/JPY	-14.7%	Derivatives	(158)	(8,689)
			Non-derivatives	(224)	

	EUR/USD	-13.0%	Derivatives		(31,611)
			Non-derivatives	140	
	USD/KRW	-13.0%	Derivatives	(1,173)	
			Non-derivatives	(90)	
	EUR/MXN	-14.0%	Derivatives		(1,869)
			Non-derivatives	10	
			<b>Total</b>	<b>(1,495)</b>	<b>(42,169)</b>

### 31 December 2009

	EUR/JPY	16.0%	Derivatives		4,040
			Non-derivatives	(230)	
POSITIVE CHANGE	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		
			<b>Total</b>	<b>(1,813)</b>	<b>18,524</b>

	EUR/JPY	-16.0%	Derivatives		(5,580)
			Non-derivatives	318	
NEGATIVE CHANGE	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		
			<b>Total</b>	<b>4,235</b>	<b>(24,438)</b>

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, proportional to their annual volatility, applied to all significant financial assets and liabilities expressed in original currencies. In particular the analysis involved all currencies and the following items:

- exchange rate derivatives;
- trade and other receivables;
- trade and other payables;
- cash and cash equivalents;
- short and long-term financial liabilities.

In addition, the table shows the most important effects and the related currencies and refers to the exposure to exchange rate risk in accordance with the requirements of IFRS7 and therefore does not take into account the effects arising from the translation

of financial statements of foreign companies whose functional currency is different from the Euro.

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 profit of 1,024 thousand Euro at 31 December 2010 and losses of 1,813 thousand Euro at 31 December 2009; in the same way, a negative change in exchange rates would have produced a loss of 1,495 thousand Euro at 31 December 2010 and a profit of 4,235 thousand Euro at 31 December 2009. The greater impact on the income statement which would have occurred in 2009 following the assumed percentage changes in the EUR/USD exchange rate is due to a single forward contract in US dollars against the Euro entered into to cover an intercompany loan in a currency other than the accounting currency and which was accounted for in accordance with the rules of Fair Value Hedge.

The increase in shareholders' equity generated from the hedge derivatives as a consequence of the assumed positive changes in exchange rates would have been 32,242 thousand Euro at 31 December 2010 and 18,524 thousand Euro at 31 December 2009; the decrease in shareholders' equity as a consequence of the assumed negative changes in exchange rates would have been 42,169 thousand Euro at 31 December 2010 and 24,438 thousand Euro at 31 December 2009. The sensitivity analysis carried out as described above, whose results are significantly affected by the market volatility of the exchange rates under consideration, shows a significant impact 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 years, on the actual occurrence of the expected sales.

The higher or lower impact on the income statement and on equity in each of the years under consideration derives largely from the trend in the individual currencies at the reference dates and the change in financial assets and liabilities exposed to fluctuations in exchange rates.

### ***Liquidity risk***

Liquidity risk represents the risk that the company cannot meet its financial obligations due to problems in obtaining funds at current market price conditions (funding

liquidity risk) or in liquidating assets on the market to find the necessary financial resources (asset liquidity risk).

The first consequence is a negative impact on the income statement, should the company be forced to incur additional costs to meet its commitments.

The factors which mainly influence the Group's liquidity are the resources generated or absorbed by current operating and investing activities and the expiry and possibility of renewal of debt or the expiry and possibility of liquidation of financial investments of surplus cash.

Liquidity needs or surpluses are monitored on a daily basis by the Parent company in order to guarantee effective sourcing of financial resources or adequate investment of liquidity.

The negotiation and management of lines of credit is coordinated by the Parent company with the aim of satisfying the short and medium-term needs of the individual companies according to efficiency and cost-effectiveness criteria.

At 31 December 2010, the company had, with several banking counterparties, one stand-by revolving, committed, multicurrency and multiborrower credit line (original term: 5 years) for a total amount of 100,000 thousand Euro, besides committed credit lines, including multicurrency and multiborrower short and medium-term lines, for a total of 195,000 thousand Euro, and short-term revolving lines on the Parent company and on some subsidiaries for a total of 110,863 thousand Euro.

At 31 December 2010 the Group had unused committed credit lines for 172,470 thousand Euro and uncommitted lines for 87,164 thousand Euro, against gross debt of around 146,229 thousand Euro and a net financial position of 18,151 thousand Euro.

The year saw the renewal and signing of new committed credit lines with various counterparties, for a total amount of just over the amount expiring and with a simultaneous extension of the terms. At 31 December 2010 the committed credit lines had a maximum residual duration of twenty-five months and a weighted average residual duration of twelve months. The credit lines and the related financial business are spread among leading national and international banks. At the date of this document there were no outstanding uses of lines over more than twelve months.

It has always been the Group's policy to sign and constantly maintain with various and diversified banks a total amount of committed credit lines that is considered consistent

with the needs of the individual companies and suitable to ensure at any time the liquidity needed to satisfy and comply with all the Group's financial commitments, at the established economic conditions, as well as guaranteeing the availability of an adequate level of operational flexibility for any expansion programs.

Cash surpluses are used with relationship banks in short-term (usually between one and three months) time deposit transactions, referring to the Euribor/Libor rate for the period. Liquidity investments are carried out with the prime objectives of making resources available at short notice and neutralizing the risk of capital losses, avoiding speculative transactions.

These choices, which also take account of the likely future trend in cash flows together with prompt renegotiation of credit lines which are close to expiry, enable a significant reduction in the exposure to risk. The Group has constantly maintained access to a wide range of financing sources at competitive costs, despite the external scenario, which continues to be characterized by rigidity in the credit market and tension over the spreads applied. Thanks to the constant availability of an adequate amount of committed credit lines, the most turbulent market phases and the credit crunch could be faced calmly.

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

Management believes that the funds and credit lines currently available, with the addition of the funds which are likely to be generated from current operations, will enable the Group to safely address the repayment of loans at their natural expiries and to meet the needs arising from investment activities and working capital management, and to support any policies relating to dividend distribution and risk capital remuneration.

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**Liquidity risk**

*(Amounts in thousands of Euro)*

**31 December 2010**

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**Maturity Analysis**

	<b>&lt; 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
Trade payables	102,720				102,720

Financial liabilities due to banks	141,856	4,737		146,593
Payables to shareholders for loans		916		916
Payables to other lenders				
Payables to third parties	3,666			3,666
Derivatives – non-hedge component	460	178		640
Derivatives – hedge component	2,840	3,427	131	6,397
<b>Total</b>	<b>251,543</b>	<b>9,258</b>	<b>131</b>	<b>260,931</b>

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**31 December 2009**

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<b>Maturity Analysis</b>	<b>&lt; 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
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
Payables to third parties					
Derivatives – non-hedge component	117	108			226
Derivatives – hedge component	95	1,110	5		1,211
<b>Total</b>	<b>196,139</b>	<b>41,284</b>	<b>5</b>		<b>237,428</b>

(\*) The item represents a finance lease for the purchase of office equipment for the Chinese company Ferragamo Fashion Trading (Shanghai) Co. Ltd.

The analysis carried out on the balance sheet items relating to financial liabilities showed a concentration of maturities within three months, with nil or non significant values at 31 December 2010 and 31 December 2009 for maturities of over 12 months.

Financial assets recorded in the balance sheet have a similar residual life.

### **Credit risk**

Credit risk represents the company's exposure to potential losses arising from failure to meet trade or financial obligations taken on by counterparties.

The Group's exposure to credit risk depends on the nature of the activities which have generated the receivable.

The Group's exposure to commercial credit risk refers only to wholesale sales and to receivables arising from revenues generated by licensing activities, which together represent around 30 percent of global turnover: the remaining turnover refers to retail sales with payment in cash or through credit and debit cards.

Credit management is entrusted to the responsibility of the individual business units, including credit recovery and the handling of any disputes.

The Group generally favors trade dealings with customers with whom it has well-established and consolidated relations. It is the Group's policy to check credit ratings of customers who ask for extended payment terms, based both on information which can be obtained from specialist agencies and on the observation and analysis of historical data of established customers. In addition, the balance of trade receivables is constantly monitored during the year in order to ensure prompt intervention and to reduce the risk of losses.

Trade receivables are recorded net of write-downs, which are estimated based on the counterparty's insolvency risk, determined by considering the information available on the customer's solvency and its past history.

The last years 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 Documentary Letters of Credit, which are less risky for the creditor. The commercial credit risk is also managed through the subscription of insurance policies aimed at preventing the risk of default in payments by accurately selecting the customer portfolio together with the insurance company or the factoring company (for relationships relating to guarantees only), which agree to guarantee payment of the indemnity in the case of insolvency.

In general, the Company believes that the credit risk management policies implemented enabled overdue and bad debts, which required the adoption of legal credit collection measures, to be kept within reasonable limits. During 2009 a single significant exception occurred, relating to the bankruptcy of the Japanese distributor of fragrances, which caused a loss of 2,274 thousand Euro.

The credit risk connected to financing, investment and operating activities in derivatives to hedge exchange rate risks is represented by the inability of the counterparty or the issuer of the instruments to meet their obligations. The Group manages this type of risk by selecting counterparties with high credit ratings and who are considered solvent by the market and with whom it has routine and ongoing trade and banking service relations. The Group negotiated and entered into master agreements, in accordance with the international standards (ISDA Master Agreement), with all foreign counterparties of derivatives, in order to regulate the various cases.

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 risk equal to the book value of these assets in case of insolvency of the counterparty.

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**Credit risk**

*(Amounts in thousands of Euro)*

Maximum credit risk exposure	2010		31 December 2009	
	Current portion	Non current portion	Current portion	Non current portion
Financial assets at fair value through profit or loss:				
Other financial assets	19		17	
Receivables and loans:				
Receivables from others (M/L term)	250	1,250	1,400	1,100
Trade receivables	75,377		57,347	
Cash and cash equivalents	132,895		77,403	
Guarantee deposits		6,769		5,721
Derivatives	3,918	91	7,826	
<b>Total</b>	<b>212,459</b>	<b>8,110</b>	<b>143,993</b>	<b>6,821</b>

The table shows how the Group's exposure to credit risk is defined by the book value of the items representing outstanding financial assets at 31 December 2010 and at 31 December 2009, and is almost exclusively limited to the current portion.

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**Credit risk**

**Concentration of credit risk by geographic area**

*(Amounts in thousands of Euro)*

	Book value at 31 Dec. 2010	%	Book value at 31 Dec. 2009	%
Italy	10,800	14.3%	10,374	18.1%
Europe	6,392	8.5%	5,365	9.4%
North-America	7,416	9.8%	6,547	11.4%
East Asia	43,489	57.7%	30,462	53.1%
Others	7,280	9.7%	4,600	8.0%
<b>Total</b>	<b>75,377</b>	<b>100.0%</b>	<b>57,347</b>	<b>100.0%</b>

The table shows the concentration of credit risk by geographic area of the Group activity in the three years analyzed.

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**Credit risk**

**Trade receivables analysis**  
(Amounts in thousands of Euro)

	Receivables neither past due nor impaired		Book value					Total
			Receivables past due but not impaired					
	<i>renegotiated</i>	<i>non-renegotiated</i>	<30 days	30-60 days	60-90 days	90-120 days	>120 days	
2010	-	59,175	11,219	3,201	379	611	793	<b>75,377</b>
2009	-	46,053	7,218	1,031	740	564	1,741	<b>57,347</b>
Percentage								
2010	-	78.5%	14.9%	4.2%	0.5%	0.8%	1.1%	<b>100.0%</b>
2009	-	80.3%	12.6%	1.8%	1.3%	1.0%	3.0%	<b>100.0%</b>

The analysis carried out on the expiry dates of receivables which are past due but not impaired shows they are concentrated within thirty days for the years ended 31 December 2010 and 31 December 2009.

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	2010	2009
Percentage of revenues with the biggest customer	1.9%	2.1%
Percentage of revenues with the 3 biggest customers	4.7%	5.2%
Percentage of revenues with the 10 biggest customers	11.0%	11.5%

### Capital management activity

The main objective of the Group's capital management activity is to ensure that a solid credit rating as well as adequate levels of share capital indicators are maintained in order to support business and optimize value for shareholders. The Group manages the capital structure and modifies it in relation to changes in economic conditions. To maintain or adjust the capital structure, the Group can modify the dividends paid to shareholders, repay the capital or issue new shares. No change was made to the objectives, policies or procedures during 2010 and 2009.

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

Capital management	31 December	
	2010	2009
(In thousands of Euro)		
Interest-bearing loans	150,796	158,149
Trade and other payables	152,578	100,977
Cash and cash equivalents	132,895	77,403
<b>Net debt</b>	<b>170,479</b>	<b>181,723</b>
Group shareholders' equity	193,070	146,578
Minority interests	47,366	46,733
<b>Total shareholders' equity</b>	<b>240,436</b>	<b>193,311</b>
<b>Share capital and net debt</b>	<b>410,915</b>	<b>375,034</b>
<b>Debt/shareholders' equity</b>	<b>71%</b>	<b>94%</b>

## Transactions with related parties

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

Transactions with related parties	31 December 2010			
(In thousands of Euro)	Revenues and income	Costs and charges	Receivables	Payables
<b>Company with significant influence on the Group:</b>				
Ferragamo Finanziaria S.p.A.	-	-	218	(10,832)
<b>Associated/related companies:</b>				
Palazzo Feroni Finanziaria S.p.A.	36	(4,849)	6	-
Lungarno Alberghi S.r.l.	84	(499)	28	(7)
Zefer S.p.A.	1,459	-	1,459	-
<b>Group directors:</b>				
Caretti & Associati S.p.A.	-	(200)	-	(37)
Il Borro S.r.l.	1	(70)	1	(9)
Wanda Miletta Ferragamo	-	(77)	-	-
Fulvia Ferragamo Visconti	-	-	-	-
Nautor Med S.r.l.	12	-	-	-
Bacco S.r.l.	-	(3)	-	-
Castiglion del Bosco S.r.l.	-	(3)	-	-
Rubino S.r.l.	-	(94)	-	-

Transactions with related parties	31 December 2009			
(In thousands of Euro)	Revenues and income	Costs and charges	Receivables	Payables
<b>Company with significant influence on the Group:</b>				
Ferragamo Finanziaria S.p.A.	-	-	683	(915)
<b>Associated/related companies:</b>				
Palazzo Feroni Finanziaria S.p.A.	58	(4,683)	32	(27)
Lungarno Alberghi S.r.l.	16	(599)	18	(5)
Zefer S.p.A.	1,267	(3)	1,267	(3)
<b>Group directors:</b>				
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)
Rubino S.r.l.	-	(91)	-	(3)

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 S.p.A. is the holding of the Parent company Salvatore Ferragamo Italia SpA; payables and receivables refer to the domestic fiscal unity regime;
- Palazzo Feroni Finanziaria SpA is owned by the same shareholders who directly and indirectly own Salvatore Ferragamo Italia SpA; revenues refer to product sales and IT and administrative services; costs refer to rents for the premises of the headquarters in Florence and for some stores of the Italian chain;
- Lungarno Alberghi srl 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 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 Med srl 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 purchase of goods.
- Rubino srl is a company in which Fulvia Ferragamo Visconti (company director) and Massimo Ferragamo (company director) hold an investment; costs refer to rents.

## Fees paid to Directors and Statutory Auditors

The Directors of the Parent company (Salvatore Ferragamo Italia SpA) do not receive any fees from any other company included in the consolidation area; therefore their fees, amounting to 1.3 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 “Share-based payments” in these notes, it should be noted that during the previous year the award terms for the Managing Director were changed by redefining the exercise windows and modifying the consideration for the services provided by the beneficiary. This consideration is no longer represented by Parent company’s ordinary shares but by a cash payment whose amount is based on the value of the company’s shares compared to a value determined on the grant date.

The members of the Board of Statutory Auditors, besides the fees paid by the Parent company (Salvatore Ferragamo Italia SpA), amounting to 99 thousand Euro, receive 14 thousand Euro from other companies included in the consolidation area for the same position.

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

Balance sheet	31 December 2010	Related parties	%
(In thousands of Euro)			
<b>Non current assets</b>			
Trade receivables	75,377	35	0.05%
Other receivables	23,213	1,677	7.22%
<b>Total current assets</b>	<b>421,310</b>	<b>1,712</b>	<b>0.41%</b>
<b>Total assets</b>	<b>626,261</b>	<b>1,712</b>	<b>0.27%</b>
<b>Non current liabilities</b>			
Trade payables	103,607	53	0.05%
Other payables	48,971	10,832	21.84%
<b>Total current liabilities</b>	<b>331,951</b>	<b>10,885</b>	<b>3.31%</b>
<b>Total liabilities and shareholders' equity</b>	<b>626,261</b>	<b>10,885</b>	<b>1.74%</b>

Balance sheet	31 December 2009	Related parties	%
(In thousands of Euro)			

<b>Non current assets</b>			
Trade receivables	57,347	18	0.03%
Other receivables	32,646	1,989	6.09%
<b>Total current assets</b>	<b>336,294</b>	<b>2,007</b>	<b>0.60%</b>
<b>Total assets</b>	<b>530,667</b>	<b>2,007</b>	<b>0.38%</b>
Trade payables	77,260	176	0.23%
Other payables	23,717	927	3.91%
<b>Total current liabilities</b>	<b>276,458</b>	<b>1,103</b>	<b>0.40%</b>
<b>Total liabilities and shareholders' equity</b>	<b>530,667</b>	<b>1,103</b>	<b>0.21%</b>

Income statement	31 December 2010	Related parties	Directors	Total	%
(In thousands of Euro)					
Revenues from sales and services	773,486	1,572		1,572	0.20%
Rental income investment properties	8,115			-	-
Cost of goods sold	(289,361)			-	-
<b>Gross profit</b>	<b>492,240</b>	<b>1,572</b>	<b>-</b>	<b>1,572</b>	<b>0.32%</b>
Other income and revenues	8,949	20		20	0.22%
Style, product development and logistics costs	(27,690)	(14)		(14)	0.05%
Sales & distribution costs	(262,543)	(3,035)		(3,035)	1.16%
Marketing & communication costs	(44,095)	(25)		(25)	0.06%
General and administrative costs	(66,647)	(2,701)	(1,309)	(4,010)	6.02%
Other operating costs	(13,777)	(20)		(20)	0.15%
<b>Operating profit</b>	<b>86,437</b>	<b>(4,203)</b>	<b>(1,309)</b>	<b>(5,512)</b>	
Financial charges	(13,923)			-	-
Financial income	16,324			-	-
Share of net profit/(loss) on investments accounted for using the Equity Method	477			-	-
<b>Profit before taxes</b>	<b>89,315</b>	<b>(4,203)</b>	<b>(1,309)</b>	<b>(5,512)</b>	
Income taxes	(28,514)			-	-
<b>Net profit/(loss) for the year</b>	<b>60,801</b>	<b>(4,203)</b>	<b>(1,309)</b>	<b>(5,512)</b>	
Profit/(loss) - Group	48,877	(4,203)	(1,309)	(5,512)	
Profit/(loss) - minority interests	11,924			-	-

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)		-	-	
<b>Gross profit</b>	<b>363,532</b>	<b>1,309</b>	<b>-</b>	<b>1,309</b>	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)	(2,302)	(1,270)	(3,572)	6.38%
Other operating costs	(13,561)	(12)		(12)	0.08%
<b>Operating profit</b>	<b>36,476</b>	<b>(4,364)</b>	<b>(1,270)</b>	<b>(5,634)</b>	
Financial charges	(18,068)			-	-
Financial income	15,959			-	-
Share of net profit/(loss) on investments accounted for using the Equity Method	436			-	-
<b>Profit before taxes</b>	<b>34,803</b>	<b>(4,364)</b>	<b>(1,270)</b>	<b>(5,634)</b>	
Income taxes	(49,464)			-	-
<b>Net profit/(loss) for the year</b>	<b>(14,661)</b>	<b>(4,364)</b>	<b>(1,270)</b>	<b>(5,634)</b>	
Profit/(loss) - Group	(20,907)	(4,364)	(1,270)	(5,634)	
Profit/(loss) - minority interests	6,246			-	-

## Commitments and risks

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

### MEMORANDUM ACCOUNTS

	2010	2009
(In thousands of Euro)		
Bank sureties provided by third parties in the interests of Group companies	6,924	7,885
Guarantees provided by third parties in the interests of Group companies	1,441	1,247
Guarantees provided by Group companies in the interests of third parties	8,724	8,489
<b>TOTAL</b>	<b>17,089</b>	<b>17,621</b>

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 (4.5 million Euro) relating to a lease contract of the Ferragamo USA Group and the remainder is in favor of banks to guarantee credit lines 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 2010 and 2009, broken down by expiry date:

<b>Operating lease contracts Minimum payments</b>	<b>31 December</b>	
(In thousands of Euro)	<b>2010</b>	<b>2009</b>
Within 1 year	63,712	62,220
1 to 5 years	147,632	138,218
Over 5 years	139,422	154,532
<b>Total</b>	<b>350,766</b>	<b>354,970</b>

### **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)		2010			2009		
Company	Currency	Net revenues	Net profit/(loss)	Shareholders' equity	Net revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Ltd	AUD	10,268	195	6,090	9,864	(186)	5,896
M Mendrisio Moda SA	CHF	1,193	100	-	4,159	(438)	1,702
Ferragamo Japan KK	JPY	13,864,602	(282,258)	2,389,235	14,090,800	(240,457)	2,671,493
Ferragamo Korea Ltd	KWON	80,142,791	11,467,656	49,756,913	68,578,362	8,066,500	45,429,257
Ferragamo Espana S.L.	Euro	6,915	(523)	2,528	5,637	(251)	3,052
Ferragamo Latin America Inc	USD	821	(259)	1,783	853	28	2,042
Ferragamo St. Thomas Inc	USD	507	(310)	(639)	503	(314)	(329)
Ferrimag Limited	HKD	-	171,615	124,081	-	28,479	127,185
Ferragamo Retail HK Ltd	HKD	424,541	49,495	110,918	320,535	17,708	162,823
Ferragamo Retail Taiwan Ltd	TWD	744,552	80,116	304,169	630,896	42,087	267,438
Ferragamo Mexico SL de CV	MXN	350,890	28,925	74,343	305,565	20,551	45,405
Ferragamo Retail Nederland BV	Euro	2,320	(214)	(141)	1,639	(427)	73
Ferragamo Fashion Trading Shanghai Ltd	CNY	557,192	91,622	244,624	467,678	84,396	206,368
Ferragamo Singapore	SGD	22,430	(1,492)	6,219	17,673	(76)	7,711
Ferragamo Thailand	THB	107,479	(6,104)	(1,935)	94,976	(14,238)	4,169
Ferragamo Malaysia	MYR	19,953	1,627	16,300	17,784	810	14,674
Ferragamo HK Ltd	USD	194,035	28,037	120,549	152,709	17,978	92,512
Ferragamo USA Inc	USD	210,360	(2,993)	57,419	176,598	(9,944)	60,352
Ferragamo Deutschland GmbH	Euro	6,806	(47)	3,253	5,303	(1,127)	2,173
Ferragamo Belgique SA	Euro	1,572	144	845	1,329	(46)	702
Ferragamo Montecarlo SAM	Euro	1,425	93	209	1,176	(111)	(103)
Ferragamo Suisse SA	CHF	9,595	358	1,713	6,524	(1,228)	(448)
Ferragamo UK Ltd	GBP	12,429	1,414	3,843	10,269	184	2,429
Ferragamo France SAS	Euro	18,255	65	3,599	14,875	(2,914)	5,834
Ferragamo Parfums SpA	Euro	44,926	(864)	8,609	33,977	(1,970)	9,495
Ferragamo International BV	Euro	44	1,429	-	106	(51,974)	4,892
Ferragamo Chile SA	CLP	649,766	(145,079)	615,309	463,898	(87,254)	760,389
Ferragamo Austria GmbH	Euro	2,530	456	1,307	2,068	53	851
Ferragamo Parfum SA	CHF	-	(37)	632	-	(3)	668
Ferragamo Retail India Private Ltd	INR	242,695	(103,120)	(56,479)	219,647	(42,363)	46,641
Ferragamo Retail Macau Ltd	MOP	49,486	8,674	4,808	2,408	(3,891)	(3,866)
Ferragamo Moda Shangai Ltd	CNY	163,826	9,669	22,512	128,436	(2,698)	12,843
Ferragamo Argentina SA	ARS	4,793	(1,235)	(2,424)	3,142	(2,559)	(1,189)

## **Post-balance-sheet events**

In the first few months of 2011 there was no prejudicial effect to the profit for the current year originating from the financial statements valuations at 31 December 2010 and in particular from the changes which occurred in exchange rates.

On 15 February 2011 the remaining part of the tax payable (10.9 million Euro + interest), originally to be paid in installments, was paid in full, as per the agreement with the Florence Revenue Office signed in 2009 for the total settlement of the tax dispute, as set out in more detail in the section “Significant events occurred during the year” of the report on operations relating to the previous year.

The Board of Directors of the Parent company met on 18 February 2011 and, after the illustration of the listing project development by Director F. Caretti, resolved to entrust the Chairman and the Managing Director with the task of appointing two banks as Global Coordinators.

On 28 February 2011 the company signed a share purchase agreement with Imaginex Holdings Limited and Imaginex Overseas Limited for the acquisition of a 25% stake in Ferrimag Limited of Hong Kong and Ferragamo Moda Shanghai Ltd (both already held at 50%), and a 15.2% stake in Ferragamo Retail Macau Ltd (already held at 60%). The closing of this transaction, with the purchase of these investments by the Parent company or by subsidiaries it has designated, has been set for 1 January 2013, the date by which the distribution contracts directly existing between Ferragamo Hong Kong and Ferragamo Moda Shanghai and the subsidiaries of Ferrimag will expire.

The price to be paid based on this transaction, which is determined right now and is due on 1 January 2013, reflects the companies’ value at 31 December 2010.

The agreement also provides for the renewal of the distribution contracts until 31 December 2019.

On the same date Peter Woo, owner of the Imaginex Group, signed, through a subsidiary, a share purchase agreement to acquire a 8% stake in Salvatore Ferragamo Italia SpA and was appointed as Director of the company.

SALVATORE FERRAGAMO ITALIA SpA

Signed by: Ferruccio Ferragamo - Chairman