Salvatore Ferragamo Group

2012 Consolidated Annual Report

Salvatore Ferragamo S.p.A.

Palazzo Feroni
Florence

Contents

General information

Registered office of the Parent company

Salvatore Ferragamo S.p.A.
Via Tornabuoni, 2
50123 Florence

Legal information about the Parent company

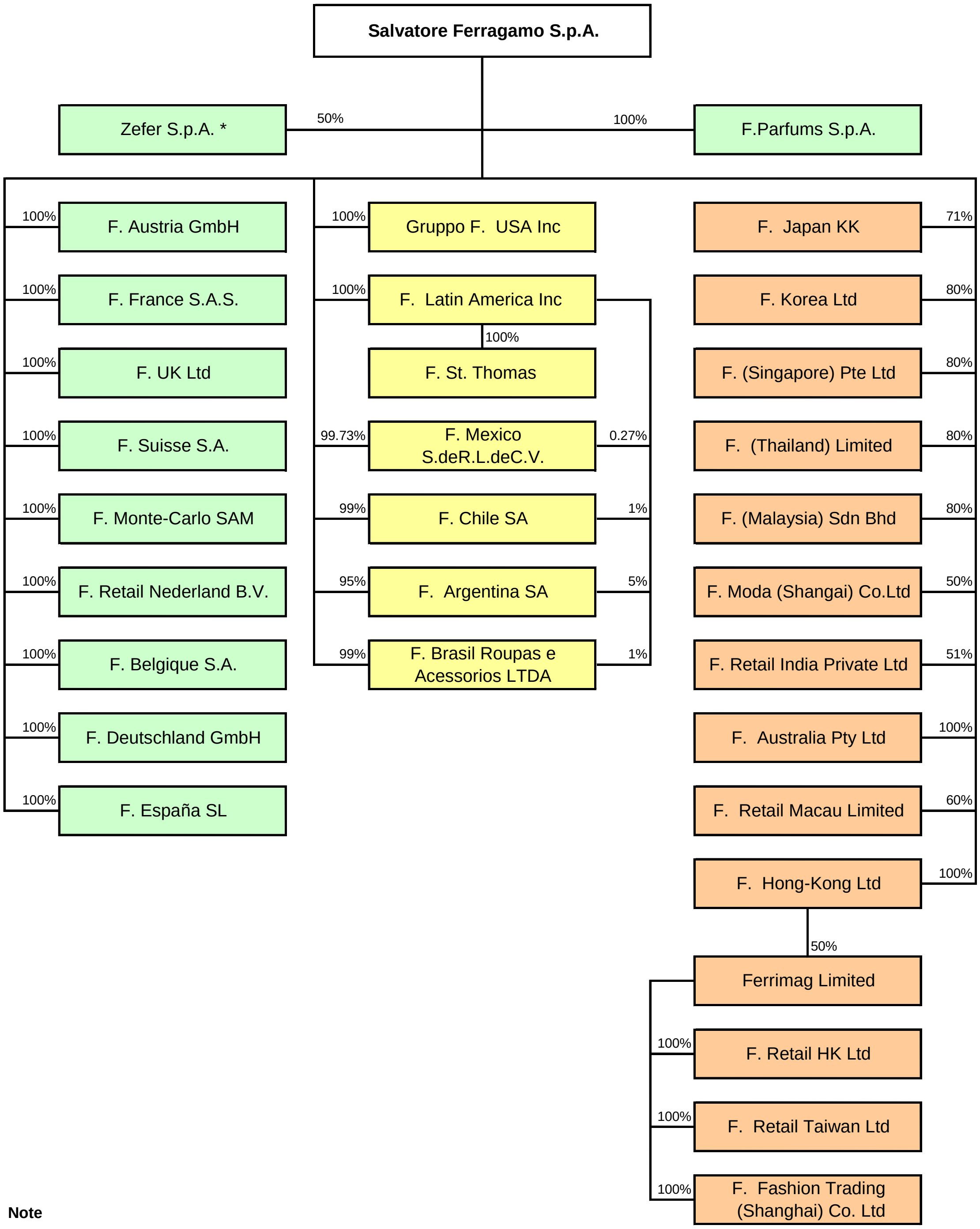
Authorized share capital 16,891,000 Euro
Subscribed and paid-up share capital 16,841,000 Euro
Tax code and Florence Company Register no.: 02175200480
Registered with the Florence Chamber of Commerce under REA (Economic and Administrative Register) no. 464724
Corporate website www.group.ferragamo.com

Corporate boards

Honorary Chairman (1)	Wanda Miletti Ferragamo	
Board of Directors (1)	Ferruccio Ferragamo (4)	Chairman
	Michele Norsa (4)	Managing Director
	Giovanna Ferragamo (5)	Deputy Chairman
	Fulvia Ferragamo (5)	
	Leonardo Ferragamo (5)	
	Francesco Caretti (5)	
	Raffaela Pedani (5)	
	Diego Paternò Castello di San Giuliano (5)	
	Peter Woo Kwong Ching (5)	
	Umberto Tombari (5)(6)	
	Marzio Saà (5)(6)	
	Piero Antinori (5)(6)	
Control and Risk Committee (1)	Marzio Saà	Chairman
	Piero Antinori	
	Umberto Tombari	
Nomination and Remuneration Committee(1)	Umberto Tombari	Chairman
	Piero Antinori	
	Marzio Saà	
Board of Statutory Auditors (2)	Mario Alberto Galeotti Flori	Chairman
	Gerolamo Gavazzi	Acting Statutory Auditor
	Fulvio Favini	Acting Statutory Auditor
	Deborah Sassorossi	Substitute Statutory Auditor
	Guido Alberto Gonnelli	Substitute Statutory Auditor
Independent Auditors (3)	Reconta Ernst & Young S.p.A.	
Manager responsible for corporate financial reporting	Ernesto Greco	

(1) Appointed by the Shareholders’ Meeting on 26 April 2012 and serving for the 2012-2014 period
(2) Appointed by the Shareholders’ Meeting on 30 March 2011 and 28 April 2011 and serving for the 2011-2013 period
(3) Appointed for the 2011-2019 period
(4) Executive director
(5) Non-executive director
(6) Independent director pursuant to art. 148, paragraph 3 of the Consolidated Law on Finance and the Corporate Governance Code

Group structure



Note

European companies
North/Centre/South American Companies
Asia Pacific and Japanese companies
* 50% owned company accounted for using the equity method

Disclaimer

This document contains forward-looking statements, in particular in the sections headed "Outlook" and "Significant events occurred after 31 December 2012" relating to future events and the operating, income and financial results of the Salvatore Ferragamo Group. These statements are based on the Group's current expectations and forecasts regarding future events and, by their nature, involve risks and uncertainties since they refer to events and depend on circumstances which may, or may not, happen or occur in the future and, as such, they must not be unduly relied upon. The actual results could differ significantly from those contained in these statements due to a variety of factors, including the volatility and deterioration in the performance of securities and financial markets, changes in raw material prices, changes in macroeconomic conditions and in economic growth and other changes in business conditions, in the legal and institutional framework (both in Italy and abroad), and many other factors, most of which are beyond the Group's control.

Board of Directors' report on operations

Introduction

The consolidated annual report of the Ferragamo Group 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 dated 19 July 2002 as subsequently integrated and amended. The annual report consists of:

- Consolidated statement of financial position
- Consolidated income statement
- Consolidated statement of comprehensive income
- Consolidated statement of cash flows
- Statement of changes in consolidated shareholders' equity
- Explanatory notes to the Consolidated Annual Report as at 31 December 2012 and 2011.

The Group's activities

The Group is active in the creation, production and sale of luxury goods for men and women: footwear, leather goods, clothing, silk goods, other accessories, fragrances and jewels. The product range also includes eyewear and watches manufactured under license by third parties. The product range stands out for its uniqueness which is the result of the combination of creative and innovative style with the quality and craftsmanship that are the hallmark of luxury goods made in Italy.
The Ferragamo Group is present in 92 countries worldwide and sells its products mainly through:

- a network of single Salvatore Ferragamo brand stores, managed both directly (DOS) and by third parties;
- a presence in department stores and multibrand specialty stores.

As for the fragrances product category, which involves the creation, development and production (completely outsourced) of fragrances and related products under the Ferragamo brand and, on license, the Ungaro brand, sales are handled by Group distributors and third parties which serve a network of selected, mainly multibrand stores 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.

At 31 December 2012 directly operated stores (DOS) amounted to 338, while stores or stores-in-stores managed by third parties (TPOS) amounted to 268.

Distinctive features of the Group

The main factors which have enabled the development and consolidation of the Group's competitive positioning can be summarized as follows:

Brand heritage as a synonym of glamour, elegance, craftsmanship, creativity and innovation

- the legendary status of the founder Salvatore Ferragamo which is inseparably linked to the world of luxury footwear;

- over 80 years' history associated with high quality, classic luxury products which have always been known for their "*Made in Italy"* excellence;

- continuous product innovation with a high level of customization and use of rare and high quality materials, often incorporating particular and unusual details;

- abundant archive of designs and models to draw on as inspiration for new collections;

- use of Ferragamo products by leading personalities from the world of cinema, theatre and entertainment.

Global brand awareness

- high and consolidated level of brand awareness;

- worldwide distribution of products and presence, through tailored single brand stores, in the key shopping streets and prestigious locations for the luxury sector;

- significant and consolidated presence in Europe, America and Asia.

Ongoing search for quality applied to the whole product range

- "Made in Italy" production process realized through a number of expert and carefully selected manufacturers which have been working with the Group for several years;

- particular attention to quality control, both in choosing and processing materials, and on the finished product;

- introduction of new product categories (with particular attention to the development of those with high growth and profit potential), while maintaining the integrity and identity of the brand over time;

- RTW products and accessories (especially in silk) made with sophisticated and prestigious materials in order to enhance the footwear and leather product ranges;

- granting of a limited number of licenses solely to highly qualified and prestigious companies.

Consolidated, extended distribution network that is diversified across different channels

Consolidated, extended distribution network that is diversified across different channels (DOS-TPOS-multibrand channel):

- consolidated presence of Ferragamo brand stores in the main luxury sector locations around the world;

- presence in the digital channel (Internet) with a website (www.ferragamo.com) in seven languages (Italian, French, Spanish, English, Chinese, Korean and Japanese) and e-commerce functions (directly managed by the Group) for various European countries (Eurozone and United Kingdom), United States and South Korea;

- significant presence in the travel retail channel with Ferragamo brand stores in the main airports around the globe.

Geographically balanced distribution with a significant historic presence both in developed and developing markets thanks to the Group's pioneering attitude which has driven it to enter new markets timely:

- significant and consolidated presence in markets with high growth rates, such as, in particular, Asia (China and Asia Pacific) and Latin America.

Strategy

The Group's strategy aims to enhance its competitive position among the leaders in the global luxury market, by leveraging its creativity, glamour, Italian craftsmanship, and standing in the footwear and accessories sector, in order to create value for shareholders through sustainable and profitable growth. The main guidelines can be summarized as follows:

Consolidation of its position in the luxury market, enhancing its classical elegance and glamour with a contemporary style that keeps pace with the times

The Group aims to maintain its position in the high-end luxury segment at global level, by emphasizing the specific and central role played in its product range by the excellent quality of Italian products.

Expansion of the distribution network in emerging markets and optimization of retail and wholesale performance at global level

The Group intends to leverage its distribution network, which is strategically well balanced in terms of channels and geographic areas, in order to take advantage of the opportunities offered by high growth countries and to improve the effectiveness of each distribution channel, through:

- further expansion of its commercial presence in emerging countries, above all in Asia Pacific and South America;

- improvement in the performance of the retail channel, which is to be achieved through more effective management of product categories in stores, the realization of larger stores, the opening of stores dedicated exclusively to men and women's products as well as, above all in historic luxury markets, renewal of the stores' image;

- constant control of the wholesale channel, consolidating its presence in the most prestigious department stores in historic luxury markets and continuing to exploit this channel to penetrate emerging countries; particular importance is also attached to the travel segment;

- development of the e-commerce channel.

Optimization of the product range and the collection structure

The Group believes that it can increase sales volumes and operating profits also by making changes to the product range and the collection structure:

- by supplementing the collections so as not only to satisfy new purchasing opportunities and the needs of specific geographic areas/markets, but also to optimize the price structure and profits from the collection;

- by increasing the focus on the Group's core product categories (men and women's footwear and leather goods) and which, at the same time, are among those with the highest profits and forecast growth.

Ongoing modernization of the supply chain and the organizational structure to allow the Group to achieve its operational performance objectives

The Group intends to continue to leverage the Italian spirit of the brand and the flexibility of its production structure, based on integration with the external manufacturing workshops with which it maintains consolidated and long-standing relations.

In order to achieve the strategic objectives, the Group intends to focus even more on the development of its human resources who have always been one of the company's main assets, through a series of initiatives to train and develop in-house staff, as well as on the ability to recruit new, expert professionals.

The organizational model

The success of the Ferragamo Group is based on pursuing a coherent strategy over time, centered on constant monitoring of the value chain through the adoption of a shared Group organizational model for the various product categories. In particular, the Ferragamo Group has always operated with the aim of offering its customers products that are characterized by a high quality level, based on a solid tradition of craftsmanship, exclusive design and a style aimed at preserving the brand's strong identity. This approach has been applied in the choice of materials, in the design phase, in production processes and in the design and architecture of stores and production structures.

The production system

The organizational model adopted by the Group entrusts the production process entirely to expert staff in external workshops, although keeping in-house the management and organization of the most important stages in the value chain.

The Group's operating model ensures flexibility and efficiency in the production and logistics cycle through the use of a broad network of selected and expert Italian manufacturers which have been working with the Group for many years. This strong integration between the Parent company Salvatore Ferragamo S.p.A. (the only manufacturing company in the Group) and the network of suppliers has enabled broad control to be maintained over the critical stages of the value chain in the production process.

With reference to production, the Group directly manages the product development and industrialization stage and undertakes quality controls, both during the production process and on 100% of the finished products.

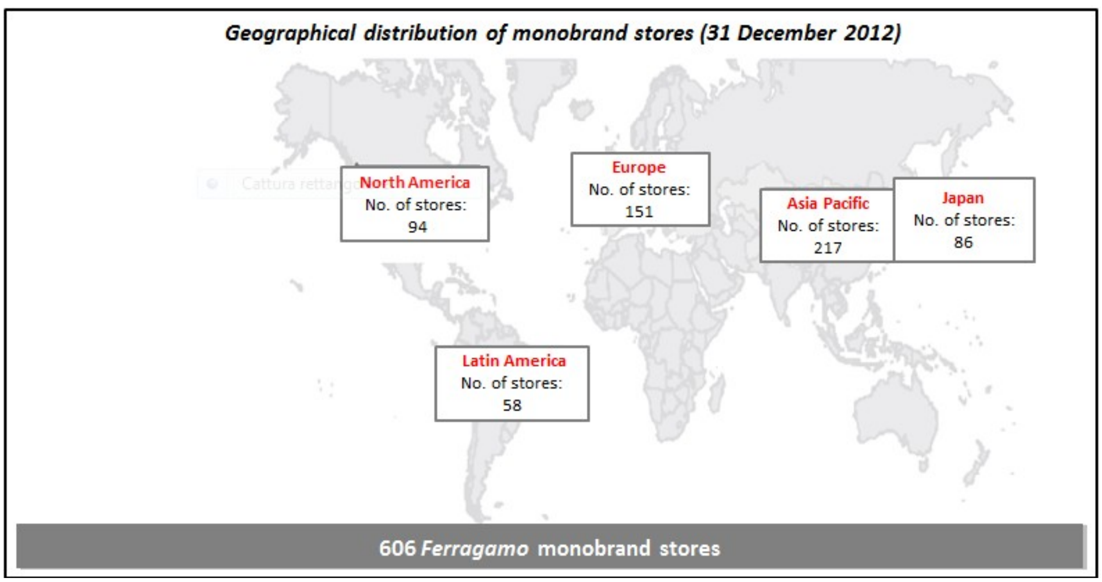
The distribution system

The organization of distribution and sales is one of the Group's strengths, by virtue of its extensive and consolidated presence both in so-called traditional markets (Europe, United States and Japan) and in emerging markets (such as Asia Pacific and Latin America), but also because it is extremely well positioned in terms of store locations.

The Group attaches great importance to the monitoring of distribution which is done through:

- a network of directly operated Ferragamo brand stores (DOS), which at 31 December 2012 numbered 338 (the so-called retail channel);
- a network of tailored single brand stores or stores-in-stores managed by third parties (TPOS), which at 31 December 2012 numbered 268, as well as through a multibrand channel (taken as a whole the so-called wholesale channel).

Therefore, the total number of tailored Ferragamo monobrand stores (DOS and TPOS) at 31 December 2012 was 606, distributed across the various geographic areas as shown in the graph below.



At 31 December 2012, the existing network enabled the Group to distribute its products in 92 countries worldwide.

Stores are selected on the basis of their coherence with the positioning of the "Salvatore Ferragamo" brand, their location, and the visibility which they can guarantee the brand.

2012 income performance

In 2012 consolidated net revenues of the Ferragamo Group totaled 1,152,965 thousand Euro, up by 16.9% compared to the prior year. This increase, despite the negative impact of the recognition in the income statement, as an adjustment to revenues, of hedge derivative contracts on sales in currencies other than the Euro (hedging impact), is one of the highest percentage increases in the sector in which the Group operates. The world-class quality of its product range, based on "Made in Italy" excellence, together with the extensive distribution network also in countries with the highest sales growth rates in the luxury sector (China and South Eastern Asia), contributed to achieve these outstanding results.

The considerable growth in sales volumes together with a rise in gross profit and a limited change in operating costs caused a significant rise in both operating profit (24.0%) and net profit for the period (21.3%).

Net revenues and operating profit were even more outstanding if we recall that in 2011 they were already strongly up on the previous year (net revenues +26.2%, operating profit +81.2%). In addition, it should be noted that these results were achieved in an economic framework marked by worsening social conditions and by a falling propensity to consume in many Western countries and especially in Europe.

(In millions of Euro)	Year ended 31 December					
	2012	2011	2010	% change 2012 vs 2010	% change 2012 vs 2011	% change 2011 vs 2010
Revenues	1,153.0	986.4	781.6	47.5%	16.9%	26.2%
Operating profit	194.3	156.6	86.4	124.8%	24.0%	81.2%

Operating performance

In 2012 significant sales and positive income results were achieved compared to those recorded in 2011.

It should be noted that such results have been achieved despite renewed and significant uncertainty perceived at macroeconomic level as from the last quarter of 2011 and some markets have been experiencing a gradual deterioration in the economic situation. In particular, note should be taken of the situation of European countries which, owing to high budget deficits and high levels of sovereign debt, have increased taxation with a consequent negative impact on consumption. Other negative factors arise from the slow and lower-than-expected recovery in the American economy and the lack of a solid recovery in Japan. The Chinese market too, above all since the start of the summer, has shown signs of a slowdown in its economic cycle, probably influenced by the change in the political leadership of the country.

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

(In thousands of Euro)	Year ended 31 December				
	2012	**% of revenues**	**2011**	**% of revenues**	**% change**
Total revenues	1,152,965	100.0%	986,375	100.0%	16.9%
Total gross profit	742,002	64.4%	633,457	64.2%	17.1%
EBITDA*	228,284	19.8%	183,694	18.6%	24.3%
Total operating costs (net of other income)	(547,680)	(47.5%)	(476,808)	(48.3%)	14.9%
Operating profit	194,322	16.9%	156,649	15.9%	24.0%
Net profit/(loss) for the period	125,279	10.9%	103,259	10.5%	21.3%
Cash flow generated from operations	121,140		115,961		4.5%

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Net financial debt	57,942	29,390	97.1%

(*) 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's 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.

In 2012 revenues totaled 1,152,965 thousand Euro compared to 986,375 thousand Euro in 2011, up by 16.9%.
In the fourth quarter of 2012 revenues from sales totaled 320,397 thousand Euro, up by 12.4% compared to the prior-year quarter, despite the impact of the recognition in the income statement, as an adjustment to revenues, of hedge derivative contracts on sales in currencies other than the Euro (hedging impact); in the fourth quarter of 2012 this impact was a negative for 7,387 thousand Euro, while in the fourth quarter of 2011 it was positive for 1,673 thousand Euro.

For the Ferragamo Group there are two main currencies besides the Euro in which most revenues are realized: the US dollar and the Japanese yen. In 2012 these currencies saw the following trend compared to the prior year: the US dollar appreciated by 7.7%[(1)] and the Japanese yen appreciated by 7.6%[(2)] compared to the Euro, i.e. the currency in which the figures in the consolidated financial statements are expressed.

Revenues, on a constant exchange rate basis (applying the average exchange rate of 2012 to the revenues of 2011), saw a total rise of 13.4% thanks to the contribution of all the markets, except for Japan.

In 2012 gross profit was 742,002 thousand Euro compared to 633,457 thousand Euro in the prior year, up by 17.1% mainly due to the increase in sales revenues. Gross profit as a percentage of revenues rose from 64.2% in 2011 to 64.4% in 2012 thanks to the increased impact of full-price sales compared to discounted sales and better profitability in the mix of the products sold, and this despite the negative effect caused by the increased impact of sales in the wholesale channel as a percentage of total revenues (31.7 % in 2011 to 33.0% in 2012). In the fourth quarter of 2012 gross profit amounted

[1] With reference to the average Euro/US$ exchange rate in 2011: 1.392; 2012: 1.285
[2] With reference to the average Euro/Yen exchange rate in 2011: 110.96; 2012: 102.49

to 210,964 thousand Euro, 65.8% of revenues compared to 64.7% in the fourth quarter of 2011, also due to a different mix in distribution channels in the two quarters being compared.

Total operating costs (net of other income) for 2012 rose by 14.9% compared to 2011, whose ratio to revenues decreased from 48.3% in the prior year to 47.5% . In the third quarter of 2012 total net operating costs rose from 140,965 thousand Euro to 148,863 thousand Euro (+5.6%).

The marked improvement in revenues and gross profit enabled better absorption of fixed costs and led to an increase in EBITDA and operating profit which rose, respectively, from a ratio to revenues of 18.6% and 15.9% in 2011 to a ratio of 19.8% and 16.9% in 2012. In the fourth quarter of 2012, EBITDA was 71,292 thousand Euro compared to 51,283 thousand Euro in the fourth quarter of 2011, up by 39.0%.

In 2012 operating profit totaled 194,322 thousand Euro compared to 156,649 thousand Euro in 2011, up by 24.0%. With reference to the fourth quarter of 2012 only, operating profit amounted to 62,101 thousand Euro compared to 43,547 thousand Euro in the fourth quarter of 2011 (+42.6%).

The effective tax rate in 2012 was 33.5% and was affected, compared to 2011, by previous years income taxes for a net amount recognized in the income statement of 6,283 thousand Euro in relation to the assessment with acceptance between the Parent company and the Italian tax authorities as set out in detail in the section *"Significant events occurred during the year"* and by the income tax (IRES) refund claim made by Italian companies relating to the regional manufacturing tax (IRAP) deduction of personnel costs from 2007 to 2011 for 2,025 thousand Euro. Net of these effects, the effective tax rate would have been 31.2%, compared to the prior year period rate of 33.1%.

In 2012 the Group recorded consolidated net profit of 125,279 thousand Euro, up by 21.3% compared to 103,259 thousand Euro in 2011. The Group's share amounted to consolidated profit of 105,552 thousand Euro compared to 81,290 thousand Euro in the prior year, up by 29,8%. In the fourth quarter of 2012, net profit amounted to 40,626 thousand Euro compared to 24,939 thousand Euro in the fourth quarter of 2011, despite a net negative impact of financial charges/income, which in the fourth quarter stood at 5,047 thousand Euro and were mainly due to the exchange rate differences recorded on receivables and payables in foreign currency. In the fourth quarter of 2012 the Group share of net profit was 35,920 thousand Euro compared to 18,542 thousand Euro in the fourth quarter of 2011, which was positively influenced by the purchase of a further 30% stake in the companies in Korea and South-East Asia as indicated in detail in the section "Significant events occurred during the year".

2012 ended with net financial debt of 57,942 thousand Euro (19.3% of consolidated shareholders' equity), after the payment of dividends amounting to 67,372 thousand Euro and after the outlay of US$ 25.5 million (19,295 thousand Euro) relating to the purchase of a further 30% stake in the companies in Korea and South-East Asia. This amount includes the recognition of the financial debt of 41,235 thousand Euro (40,136 thousand Euro as at 31 December 2011), relating to the signing on 28 February 2011 with Imaginex Holding Limited and Imaginex Overseas Limited of a contract to acquire a further 25% of Ferrimag Limited, 25% of Ferragamo Moda Shanghai Co. Limited and

15.2% of Ferragamo Retail Macau Limited, whose total price has already been established at 41,235 thousand Euro and which was paid in a single amount on 3 January 2013, as set out in detail in the section "Significant events occurred after 31 December 2012". As at 31 December 2011 net debt amounted to 29,390 thousand Euro, 11.5% of consolidated shareholders' equity.
Compared to 30 September 2012 net financial debt fell by 6,033 thousand Euro, falling from 63,975 thousand Euro to 57,942 thousand Euro.

Effect of exchange rate changes on operations

The European sovereign debt crisis seriously affected the performance of the Euro also during 2012; the consequences of the strong risk aversion surrounding the main global financial markets and the widespread withdrawal of investments in Government bonds of the peripheral countries of the European Union seemed to cast doubt over the very survival of European Monetary Union. In terms of annual average, the Euro/US$ exchange rate fell to 1.28 in 2012 compared to 1.39 in 2011. The difference between the peak in the year, close to 1.35 in February, and the minimum, just above 1.20 at the end of July, was altogether quite limited compared to the seriousness of the events which occurred during the year. However, the difficulties of the North American economy did not help the dollar in its role as the reference currency for investors; in addition, the soundness of other economies, albeit small, such as Switzerland and the Scandinavian countries, enabled diversification from the Euro risk, thus avoiding all the tensions being shifted on to the Euro/US$ exchange rate. Finally, German Government bonds represented the main store of value during the crisis, limiting the outflow of liquidity from the Eurozone. At the end of the year and, above all at the beginning of 2013, attention moved from the debt crisis to the traditional comparison between growth and interest rates in Europe and the United States as factors influencing the exchange rate, thus quickly driving the exchange rate over 1.35. According to the main forecasts, in 2013 the Euro should appreciate, albeit only moderately and around the levels reached in the first month of the year.
The Yen, on the other hand, remained extraordinarily high against both the US dollar and the Euro throughout 2012, helped by the financial markets' risk aversion. The average annual exchange rate of the Japanese currency against the Euro was 102, after having reached ten-year lows around 94 in July, against an average of 111 in 2011. The change of government in Japan led to a strongly expansive monetary policy aimed at supporting growth and pushing up inflation. This policy, together with the fear that the Government might adopt further fiscal stimulus measures and the prospects of a slowdown in the Japanese economy, caused, at the start of 2013, a rapid depreciation of the Yen against both the Euro and the US dollar in a one-way direction, with the Euro/Yen exchange rate reaching peaks of over 127 which had not been recorded since 2010.

Group structure

During 2012 the Group structure underwent the following changes:

- on 19 April 2012 Ferragamo Brasil Roupas e Acessorios Ltda was set up; it is 99% owned by Salvatore Ferragamo S.p.A. and the remaining 1% is held by Ferragamo Latin America Inc. The company was incorporated with a view to the Group's potential direct presence on the Brazilian market;

- in June 2012 the liquidation of Ferragamo Parfums S.A. was completed and the company was excluded from consolidation;

- on 20 December 2012 Salvatore Ferragamo S.p.A.'s stake in Ferragamo Korea Ltd, Ferragamo Singapore Pte Ltd, Ferragamo Malaysia Sdn Bhd and Ferragamo Thailand Limited rose by 30% from 50% to 80%. In addition, upon the increase in the Group's stake, Ferragamo Thailand Limited increased its share capital by THB 55,000,000 which was subscribed and paid-up in new stakes (20% by other shareholders and 80% by Salvatore Ferragamo S.p.A).

Income performance

The following table shows the income statement data for the years ending 31 December 2012 and 31 December 2011. These show that operating profit rose from 156,649 thousand Euro to 194,322 thousand Euro which was achieved mainly thanks to the considerable increase in revenues, the improvement of gross profit levels (64.4%) and a decrease in net operating costs as a percentage of revenues from 48.3% to 47.5%.

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Revenues from sales and services	1,144,653	99.3%	978,997	99.3%	16.9%
Rental income investment properties	8,312	0.7%	7,378	0.7%	12.7%
Revenues	**1,152,965**	100.0%	**986,375**	100.0%	**16.9%**
Cost of goods sold	(410,963)	(35.6%)	(352,918)	(35.8%)	16.4%
Gross profit	**742,002**	64.4%	**633,457**	64.2%	**17.1%**
Style, product development and logistics costs	(39,173)	(3.4%)	(34,197)	(3.5%)	14.6%
Sales & distribution costs	(344,382)	(29.9%)	(296,309)	(30.0%)	16.2%
Marketing & communication costs	(70,966)	(6.2%)	(58,187)	(5.9%)	22.0%
General and administrative costs	(91,477)	(7.9%)	(83,144)	(8.4%)	10.0%
Other operating costs	(14,832)	(1.3%)	(15,025)	(1.5%)	(1.3%)
Other income and revenues	13,150	1.1%	10,054	1.0%	30.8%
Operating profit	**194,322**	16.9%	**156,649**	15.9%	**24.0%**
Financial charges	(32,659)	(2.8%)	(21,024)	(2.1%)	55.3%
Financial income	26,066	2.3%	18,015	1.8%	44.7%
Share of net profit/(loss) on investments accounted for using the Equity Method	637	0.1%	700	0.1%	(9.0%)
Profit before taxes	**188,366**	16.3%	**154,340**	15.6%	**22.0%**
Income taxes	(63,087)	(5.5%)	(51,081)	(5.2%)	23.5%
Net profit/(loss) for the period	**125,279**	10.9%	**103,259**	10.5%	**21.3%**
Net profit/(loss) – Group	105,552	9.2%	81,290	8.2%	29.8%
Net profit/(loss) – minority interests	19,727	1.7%	21,969	2.2%	(10.2%)
EBITDA (*)	**228,284**	19.8%	**183,694**	18.6%	**24.3%**

Net earnings per share are shown at the foot of the consolidated income statement, to which reference should be made.

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

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Revenues	1,152,965	100.0%	986,375	100.0%	16.9%
Cost of goods sold	(410,963)	(35.6%)	(352,918)	(35.8%)	16.4%
Gross profit	**742,002**	**64.4%**	**633,457**	**64.2%**	**17.1%**
Other income and revenues	13,150	1.1%	10,054	1.0%	30.8%
Operating costs	(560,830)	(48.6%)	(486,862)	(49.4%)	15.2%
Operating profit	**194,322**	**16.9%**	**156,649**	**15.9%**	**24.0%**
Amortization, depreciation and write-downs of tangible/intangible assets	33,962	2.9%	27,045	2.7%	25.6%
EBITDA (*)	**228,284**	**19.8%**	**183,694**	**18.6%**	**24.3%**

(*) 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's 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.

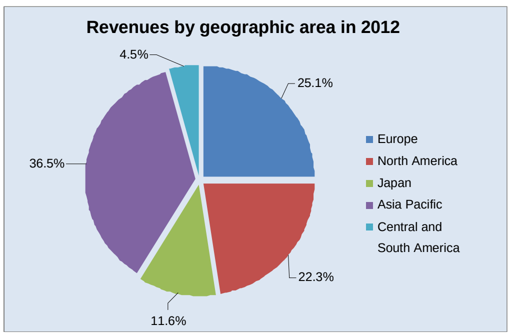
EBITDA as a percentage of revenues rose from 18.6% in 2011 to 19.8% in 2012.

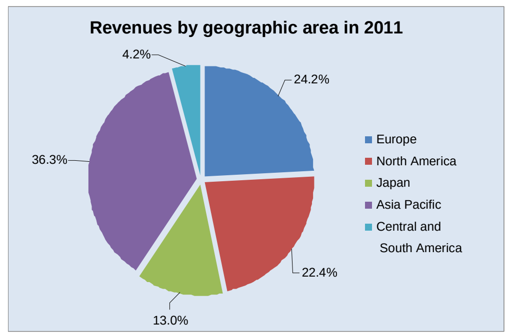
Sales performance

Revenues

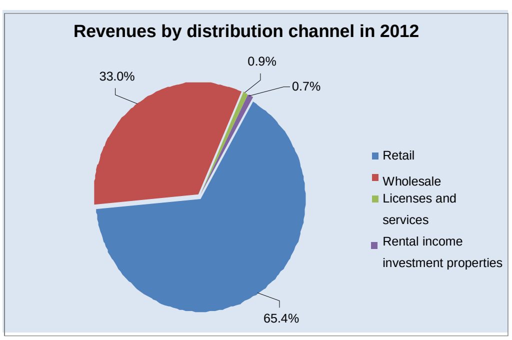
In 2012 revenues from sales, services and rental income on investment property reached 1,152,965 thousand Euro compared to 986,375 thousand Euro in 2011, and can be broken down by geographic area, distribution channel and product category as detailed below.

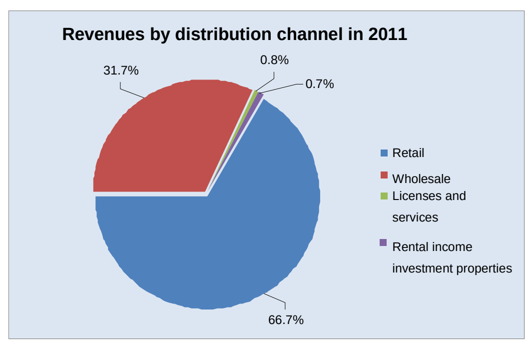
Revenues by geographic area as at 31 December 2012 and 31 December 2011



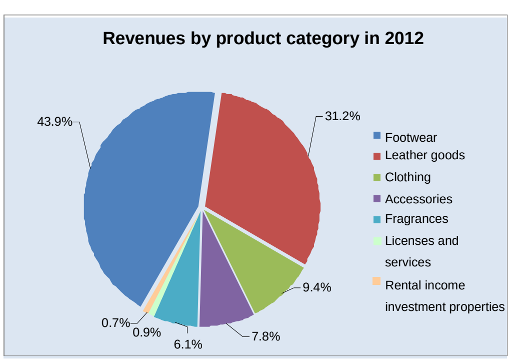


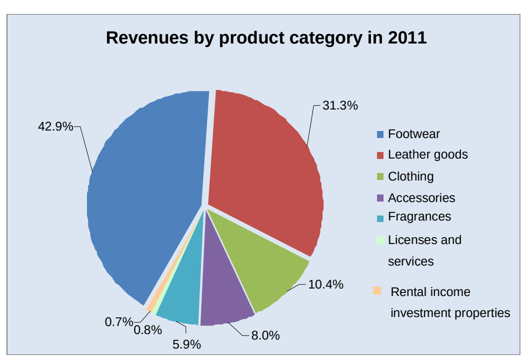
Revenues by distribution channel as at 31 December 2012 and 31 December 2011





Revenues by product category as at 31 December 2012 and 31 December 2011





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
	2012	% of revenues	2011	% of revenues	% change	% change
Europe	289,374	25.1%	238,364	24.2%	21.4%	20.4%
North America	256,903	22.3%	221,337	22.4%	16.1%	15.2%
Japan	134,195	11.6%	127,832	13.0%	5.0%	(2.0%)
Asia Pacific	420,291	36.5%	357,698	36.3%	17.5%	12.4%
Central and South America	52,202	4.5%	41,144	4.2%	26.9%	23.8%
Total	**1,152,965**	**100.0%**	**986,375**	**100.0%**	**16.9%**	**13.4%**

The growth in revenues was due to both organic growth and the opening of new directly operated stores.

In all markets there was a double-digit increase in turnover both at current and constant exchange rates, with the sole exception of Japan where sales remained broadly stable.

Europe saw an increase in revenues of 21.4% at current exchange rates, bringing the ratio to total revenues from 24.2% to 25.1%.

The North American market saw an increase in revenues of 16.1% at current exchange rates (15.2% at constant exchange rates), thanks also to the marked improvement in the wholesale channel.

Revenues in Japan were broadly stable with an increase of 5.0% at current exchange rates and a fall of 2.0% at constant exchange rates.

The Asia Pacific region was once again a fast growing market (17.5% at current exchange rates and 12.4% at constant exchange rates) and accounted for 36.5% of total revenues.

The Central and South American market recorded the highest percentage growth rate of revenues (26.9% at current exchange rates and 23.8% at constant exchange rates) and accounted for 4.5% of total revenues.

Sales by distribution channel can be broken down as follows:

(In thousands of Euro)	Year ended 31 December					at constant exchange rates
	2012	% of revenues	2011	% of revenues	% change	% change
Retail	753,339	65.4%	658,322	66.7%	14.4%	10.4%
Wholesale	380,761	33.0%	313,061	31.7%	21.6%	19.3%
Licenses and services	10,553	0.9%	7,614	0.8%	38.6%	38.6%
Rental income investment properties	8,312	0.7%	7,378	0.7%	12.7%	4.0%
Total	**1,152,965**	**100.0%**	**986,375**	**100.0%**	**16.9%**	**13.4%**

Retail sales refer to revenues generated by sales in directly operated stores.

Wholesale sales are targeted mainly at retailers and, to a lesser extent, at distributors. Wholesale customers consist of:

- franchisees, which ensure the presence on markets which are still not sufficiently large or developed to justify a direct retail presence, for example in some areas of the People's Republic of China;

- stores opened inside airports (travel retail/duty free);
- specific operators in the fragrances sector;
- department stores and luxury specialist retailers, in order to strengthen the presence in countries where the Group has its own network of directly operated stores; the business in the United States is of particular importance.

Licenses and services mainly refer to revenues for the licensing of the Ferragamo brand that was granted to the Marchon Group in the eyewear sector and to the Timex Group in the watch sector. In addition, it includes the fees for technical consultancy rendered to the company Zefer S.p.A.

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

Retail

During 2012 retail sales rose by 14.4% at current exchange rates and 10.4% at constant exchange rates mainly thanks to the increase in sales in the primary direct stores channel, in particular in Asia Pacific with an increase of 20.1% at current exchange rates and 14.1% at constant exchange rates.
Compared to the situation as at 31 December 2011 the number of directly operated stores (DOS) increased by 15 units.

Wholesale

The wholesale channel rose by 21.6% at current exchange rates and 19.3% at constant exchange rates. In particular, the European market rose by 29.6% at current exchange rates and 28.8% at constant exchange rates and North America rose by 25.6% at current exchange rates and 24.9% at constant exchange rates.

Licenses and services

Revenues from licenses and services in 2012 rose by 38.6% compared to 2011; the license assessment mechanism for revenues from licenses is proportional to the revenues earned by the licensee and therefore licenses were positively affected by the general increase in sales.

Rental income investment properties

Revenues from rental income investment properties refer solely to property located in the United States and leased/sub-leased to third parties; the item increased by 12.7% at current exchange rates and by 4.0% at constant exchange rates. In local currency, revenues totaled 10.7 million US dollars in 2012 compared to 10.3 million US dollars in 2011.

Here below is a breakdown of revenues from sales and services and rental income investment properties, which shows the contribution and growth by product category in 2012 and 2011.

(In thousands of Euro)	Year ended 31 December					at constant exchange rates
	2012	% of revenues	2011	% of revenues	% change	% change
Footwear	506,190	43.9%	423,057	42.9%	19.7%	15.9%
Leather goods	359,807	31.2%	309,040	31.3%	16.4%	13.0%
Clothing	108,055	9.4%	102,519	10.4%	5.4%	1.6%
Accessories	89,804	7.8%	78,417	8.0%	14.5%	11.0%
Fragrances	70,244	6.1%	58,350	5.9%	20.4%	19.2%
Licenses and services	10,553	0.9%	7,614	0.8%	38.6%	38.6%
Rental income investment properties	8,312	0.7%	7,378	0.7%	12.7%	4.0%
Total	**1,152,965**	**100.0%**	**986,375**	**100.0%**	**16.9%**	**13.4%**

All the product categories, with the sole exception of clothing, saw double-digit percentage growth in revenues both at current exchange rates and at constant exchange rates compared to the previous year period. In particular, note should be taken of the positive trend in footwear which rose by 19.7% at current exchange rates (+15.9% at constant exchange rates). Significant increases were also recorded by revenues from fragrances (+20.4% at current exchange rates) and leather goods (+16.4% at current exchange rates).

Cost of goods sold and gross profit

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Consumables	(226,051)	(19.6%)	(181,857)	(18.4%)	24.3%
Costs for services	(177,259)	(15.4%)	(164,193)	(16.6%)	8.0%
Personnel costs	(7,093)	(0.6%)	(6,341)	(0.6%)	11.9%
Amortization and depreciation	(560)	(0.0%)	(527)	(0.1%)	6.3%
Cost of goods sold	**(410,963)**	**(35.6%)**	**(352,918)**	**(35.8%)**	**16.4%**
Gross profit	**742,002**	**64.4%**	**633,457**	**64.2%**	**17.1%**

In 2012 the **cost of goods sold** totaled 410,963 thousand Euro. The increase of 16.4% was due in part to the increase in sales volumes and in part to the rise in raw material prices and manufacturing costs.
In 2012 **gross profit** stood at 64.4% of revenues compared to 64.2% in 2011. The increase was mainly due to the improved mix in full-price sales compared to discounted sales and to a lesser extent to the mix of products sold.
For completeness it should be noted that as from the second half of 2011 the prices of raw materials/components experienced a rising trend which continued in 2012, despite at a slower pace.

Style, product development and logistics costs

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Purchases	(3,960)	(0.3%)	(3,491)	(0.4%)	13.4%
Services	(19,896)	(1.7%)	(17,082)	(1.7%)	16.5%
Personnel costs	(14,901)	(1.3%)	(13,253)	(1.3%)	12.4%
Amortization and depreciation	(416)	(0.0%)	(371)	(0.0%)	12.1%
Total	**(39,173)**	**(3.4%)**	**(34,197)**	**(3.5%)**	**14.6%**

These costs include the expenses of the creative departments and for the freight to deliver the products to their sales markets. In 2012 they rose by 14.6%, increasing by

4,976 thousand Euro, while the ratio of costs to revenues was in line with the previous year.

Sales & distribution costs

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Retail	(303,916)	(26.4%)	(261,100)	(26.5%)	16.4%
Wholesale	(34,847)	(3.0%)	(29,387)	(3.0%)	18.6%
Distribution logistics	(5,619)	(0.5%)	(5,822)	(0.6%)	(3.5%)
Total	**(344,382)**	**(29.9%)**	**(296,309)**	**(30.0%)**	**16.2%**

In 2012 and 2011 the costs relating to the network of directly operated stores amounted respectively to 88.2% and 88.1% of sales and distribution costs.
The total increase in costs was a direct consequence of the rise in sales volumes and to a lesser extent of the expansion of the retail network.

Here below is a breakdown by nature of sales and distribution costs:

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Purchases	(6,221)	(0.5%)	(5,771)	(0.6%)	7.8%
Services	(203,840)	(17.7%)	(173,676)	(17.6%)	17.4%
Personnel costs	(110,751)	(9.6%)	(97,743)	(9.9%)	13.3%
Amortization and depreciation	(23,570)	(2.0%)	(18,702)	(1.9%)	26.0%
Write-downs of fixed assets	-	-	(417)	(0.0%)	-
Total	**(344,382)**	**(29.9%)**	**(296,309)**	**(30.0%)**	**16.2%**

Marketing & communication costs

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Purchases	(6,808)	(0.6%)	(4,792)	(0.5%)	42.1%
Services	(55,866)	(4.8%)	(45,860)	(4.6%)	21.8%
Personnel costs	(8,246)	(0.7%)	(7,463)	(0.8%)	10.5%
Amortization and depreciation	(46)	(0.0%)	(72)	(0.0%)	(36.1%)
Total	**(70,966)**	**(6.2%)**	**(58,187)**	**(5.9%)**	**22.0%**

In 2012 total marketing & communication costs rose by 22.0% compared to the prior year, or by 12,779 thousand Euro, of which 10,006 thousand Euro related to the increase in costs for services, mainly attributable to higher media costs (press advertising, production and photographic expenses, catalogues), relating to communication activities to support the Ferragamo brand during this period of strong expansion.

General and administrative costs

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Purchases	(1,333)	(0.1%)	(613)	(0.1%)	117.5%
Services	(49,764)	(4.3%)	(49,069)	(5.0%)	1.4%
Personnel costs	(31,010)	(2.7%)	(26,506)	(2.7%)	17.0%
Amortization and depreciation	(9,370)	(0.8%)	(6,956)	(0.7%)	34.7%
Total	**(91,477)**	**(7.9%)**	**(83,144)**	**(8.4%)**	**10.0%**

General and administrative costs rose by 10.0% or by 8,333 thousand Euro, mainly due to the increase in amortization and depreciation and personnel costs resulting from new hiring needs for the headquarters after the listing of the Parent company during 2011 and, to a lesser extent, to the costs as set out in the stock grant plan (for details reference should be made to the section *"Significant events occurred during the year"* and to note 38). The item includes the fees for the Board of Directors, including the costs accrued in the period relating to the cash-settled share-based remuneration plan and other amounts accrued relating to the Managing Director.

Other operating costs

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Losses on disposal of tangible and intangible assets	(583)	(0.1%)	(1,124)	(0.1%)	(48.1%)
Windfall losses	(310)	(0.0%)	(400)	(0.0%)	(22.5%)
Provisions for risks and charges	(776)	(0.1%)	(2,785)	(0.3%)	(72.1%)
Write-down of current assets	(1,437)	(0.1%)	(1,264)	(0.1%)	13.7%
Other operating costs	(11,726)	(1.0%)	(9,452)	(1.0%)	24.1%
Total	**(14,832)**	**(1.3%)**	**(15,025)**	**(1.5%)**	**(1.3%)**

Other operating costs fell by 1.3% or 193 thousand Euro, with the ratio to revenues falling to 1.3% from 1.5% in the previous year. This was due in part to the lower allocations made to the provisions for risks and charges following the final settlement of the tax dispute between the Italian tax authorities and the Parent company.

Other income and revenues

(In thousands of Euro)	Year ended 31 December				
	2012	% of revenues	2011	% of revenues	% change
Other income and revenues	10,531	0.9%	8,372	0.8%	25.8%
Gains on disposal of tangible/intangible assets	71	0.0%	40	0.0%	77.5%
Windfall profit	2,548	0.2%	1,642	0.2%	55.2%
Total	**13,150**	**1.1%**	**10,054**	**1.0%**	**30.8%**

Other income rose by 30.8% or 3,096 thousand Euro, while the ratio to total revenues remained broadly stable at 1.1%, due in part to the use of the provisions for risks and charges.

Net financial income and charges

For ease of reference, financial income and charges are shown net; reference should be made to the Explanatory Notes for separate and detailed information on charges and income.

(In thousands of Euro)	Year ended 31 December		
	2012	2011	% change
Net interest	(3,560)	(1,903)	87.1%
Other net (charges)/income	(2,869)	(2,274)	26.2%
Net gains/(losses) on exchange rate differences	(2,143)	2,299	(193.2%)
Net financial income/(charges) for fair value adjustment of derivatives	1,972	(1,100)	(279.3%)
Restatement value/(Write-downs) of available-for-sale financial assets	7	(31)	(122.6%)
Total	**(6,593)**	**(3,009)**	**119.1%**

Net financial income and charges rose by 3,584 thousand Euro.

The item "Net interest" is negatively affected by 1,533 thousand Euro relating to interest expense on the assessment with acceptance between the Parent company and the Italian tax authorities; for details reference should be made to the section *"Significant events occurred during the year"*.

Net gains and losses on exchange rate differences largely reflect the impact of commercial transactions in foreign currency, especially the US dollar, in the two years being compared. In 2011 net gains amounted to 2,299 thousand Euro while in 2012 the item recorded a net loss of 2,143 thousand Euro.

Net financial income/(charges) for fair value adjustment of derivatives mainly refers to the premium or discount on transactions to hedge the exchange rate risk undertaken by the Parent company. The balance went from charges of 1,100 thousand Euro in 2011 to income of 1,972 thousand Euro in 2012.

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:

(In thousands of Euro)	**Year ended 31 December**		
	2012	**2011**	**% change**
Profit before taxes	**188,366**	**154,340**	**22.0%**
Current and deferred taxes	(58,829)	(50,656)	16.1%
Allocation to the provision for risks for previous years income taxes	-	(6,000)	
Previous years income taxes (refund)	2,025	5,575	(63.7%)
Previous years income taxes	(6,283)	-	
Total income taxes	**(63,087)**	**(51,081)**	**23.5%**
Tax rate	**33.5%**	**33.1%**	

The effective tax rate for 2012 was 33.5% and was influenced compared to the prior period:
- positively by the recognition in the income statement of the income tax (IRES) refund claim made by Italian companies relating to the regional manufacturing tax (IRAP) deduction of personnel costs from 2007 to 2011 for 2,025 thousand Euro;
- negatively by the recognition of previous years income taxes for a net value in the income statement of 6,283 thousand Euro in relation to the settlement of the dispute between the Parent company and Italian tax authorities as indicated in detail in the section "Significant events occurred during the year".

Net of these effects, the tax rate for 2012, comparable with that for 2011, would have been 31.2%.

Net profit/(loss), minority interests and Group net profit/(loss)

(In thousands of Euro)	**Year ended 31 December**				
	2012	**% of revenues**	**2011**	**% of revenues**	**% change**
Net profit/(loss) for the period	**125,279**	10.9%	**103,259**	10.5%	21.3%
Net profit/(loss) – Group	105,552	9.2%	81,290	8.2%	29.8%
Net profit/(loss) – minority interests	19,727	1.7%	21,969	2.2%	(10.2%)

Net profit for the period rose by 21.3%, up by 22,020 thousand Euro.

Investment and financial operations

Here below is the statement of financial position as at 31 December 2012 reclassified by sources and uses, compared to the position as at 31 December 2011:

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Property, plant and equipment, investment property, intangible assets with a finite useful life	167,297	146,295	14.4%
Net working capital **(1)**	197,307	185,932	6.1%
Other non current assets/(liabilities), net	18,700	21,071	(11.3%)
Other current assets/(liabilities), net	(25,864)	(67,789)	(61.8%)
Net invested capital (2)	**357,440**	**285,509**	**25.2%**
Group shareholders' equity	267,290	211,403	26.4%
Minority interests	32,208	44,716	(28.0%)
Shareholders' equity (A)	**299,498**	**256,119**	**16.9%**
Net financial debt (B) (3)	**57,942**	**29,390**	**97.1%**
Total sources of financing (A+B)	**357,440**	**285,509**	**25.2%**
Net financial debt/shareholders' equity	(19.3%)	(11.5%)	

(1) Net working capital is calculated as inventories plus trade receivables, net of trade payables, excluding other current assets and liabilities and financial assets and liabilities. It should be noted that it has been determined in accordance with the provisions of CESR's Recommendation on alternative performance measures 05-178/b of 3 November 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses". Working capital is not identified as an accounting measurement under IFRS. The determination criterion applied by the Group may differ from that adopted by other groups and, therefore, the balance may not be comparable.
(2) Net invested capital is calculated as net working capital, tangible assets, investment property, intangible assets with a finite useful life, other current and non current assets, net of other current and non current liabilities. Net invested capital is not identified as an accounting measurement under IFRS. The determination criterion applied by the Group may differ from that adopted by other groups and, therefore, the balance may not be comparable.
(3) Pursuant to the provisions of CONSOB Communication no. DEM/6064293 of 28 July 2006, it should be noted that net financial debt is calculated as the sum of cash and cash equivalents, current financial receivables including the positive fair value of financial instruments and current financial assets, non current financial liabilities and the negative fair value of financial instruments and has been determined in accordance with the provisions of CESR's Recommendation on alternative performance measures 05-178/b of 3 November 2005 "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses".

Property, plant and equipment, investment property and intangible assets with a finite useful life

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Property, plant and equipment	139,580	120,768	15.6%
Investment property	7,039	7,476	(5.8%)
Intangible assets with a finite useful life	20,678	18,051	14.6%
Total	**167,297**	**146,295**	**14.4%**

The item "Property, plant and equipment" as at 31 December 2012 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 44,420 thousand Euro;
- furnishings and restructuring work for the chain of directly operated stores as well as the moulds for the Fragrances product category, for 77,720 thousand Euro;
- other assets, mainly for IT equipment, plant and equipment and tangible assets in progress for 17,440 thousand Euro.

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

Intangible assets with a finite useful life consist of costs incurred to acquire the right to enter into shop rental contracts (the so-called key money) for a net value of 5,024 thousand Euro as at 31 December 2012, while the remainder includes mainly 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 (Capital expenditures)

During 2012, the Group made investments in tangible and intangible assets for a total amount of 59,393 thousand Euro, of which 51,717 thousand Euro in tangible assets and 7,676 thousand Euro in intangible assets, compared to a total of 42,325 thousand Euro in the previous year.

The most significant investments of the year concerned the opening and restructuring of stores (around 71% of total investments in tangible assets for around 36.7 million Euro) and the so-called “Marlin Project”, aimed at standardizing the Group’s retail information systems (around 39% of total investments in intangible assets for around 3.0 million Euro).

During 2012, the Group did not make any investments in financial assets.

Amortization and depreciation totaled 33,962 thousand Euro as at 31 December 2012 and 26,628 thousand Euro as at 31 December 2011.

Investments in tangible assets under construction mainly concerned the refurbishment and opening of new stores.

The main investment in intangible assets under construction by the Group is represented by the so-called “Marlin Project”, aimed at standardizing the Group’s retail information systems.

Net working capital

Here below is the breakdown and change in net working capital as at 31 December 2012 compared with the figure as at 31 December 2011.

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Inventories	249,804	242,564	3.0%
Trade receivables	105,184	97,711	7.6%
Trade payables	(157,681)	(154,343)	2.2%
Total	**197,307**	**185,932**	**6.1%**

The increase in net working capital was 6.1% given an increase in revenues of 16.9%. As a matter of fact, inventories rose by 7,240 thousand Euro (+3.0%) and concerned the stocks of raw materials used for production which increased by 4,565 thousand Euro and stocks of finished products which rose by 2,675 thousand Euro.

Trade receivables mainly refer to wholesale sales: the increase in the year of 7.6% was closely related to a significant rise in such sales. Trade payables are mainly due to purchases of production materials, products and manufacturing in outsourcing and their increase related to the rise in production.

Other non current assets/(liabilities), net

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Investments in associated and jointly controlled companies	1,331	1,393	(4.5%)
Available-for-sale financial assets	27	20	35.0%
Other non current assets	4,430	4,909	(9.8%)
Other financial assets	9,915	7,793	27.2%
Deferred tax assets	67,745	69,997	(3.2%)
Total other non current assets	**83,448**	**84,112**	**(0.8%)**
Provisions for risks and charges	(5,424)	(14,131)	(61.6%)
Employee benefit liabilities	(11,429)	(10,695)	6.9%
Other non current liabilities	(41,212)	(35,196)	17.1%
Deferred tax liabilities	(6,683)	(3,019)	121.4%
Total other non current liabilities	**(64,748)**	**(63,041)**	**2.7%**
Other non current assets, net	**18,700**	**21,071**	**(11.3%)**

Other non current assets mainly consist of:

- the straight lining of rental income from the American real estate business for 3,680 thousand Euro (3,903 thousand Euro in 2011);
- the portion of receivables due after more than 12 months stemming in 2005 from the advance on fees for Ungaro fragrances amounting to 750 thousand 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 (1,000 thousand Euro in 2011).

Other financial assets consist of guarantee deposits mainly relating to existing lease contracts.

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 period and the taxable income of the Group companies.

Other non current liabilities mainly refer to the straight lining of rental expense (35,057 thousand Euro).

Other current assets/(liabilities), net were as follows:

(In thousands of Euro)	31 December 2012	31 December 2011	% change
Tax receivables	9,157	10,239	(10.6%)
Other current assets	34,932	18,978	84.1%
Total other current assets	**44,089**	**29,217**	**50.9%**
Tax payables	(21,036)	(20,968)	0.3%
Other current liabilities	(48,917)	(76,038)	(35.7%)
Total other current liabilities	**(69,953)**	**(97,006)**	**(27.9%)**
Other current assets/(liabilities), net	**(25,864)**	**(67,789)**	**(61.8%)**

“Other current assets” mainly consist of:

- the fair value assessment of hedge derivative contracts for 10,965 thousand Euro (660 thousand Euro in 2011) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro;
- receivables from the Holding company Ferragamo Finanziaria S.p.A. (2,025 thousand Euro) concerning the income tax (IRES) refund claim made by Italian

companies (online request sent on 5 February 2013) regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, as set out in Law Decree no. 201 of 6 December 2011.

- advances to suppliers (1,775 thousand Euro), receivables from credit card management companies for retail sales (4,720 thousand Euro), accrued income and prepaid expenses (12,920 thousand Euro).

The item “Other current liabilities” mainly refers to payables to employees for amounts accrued but not yet paid, payables to social security institutions for contributions to be paid immediately after the reporting date, provisions for other payables to suppliers, accrued expenses and deferred income, the fair value assessment of hedge derivative contracts entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro. The item also includes payables to the Holding company Ferragamo Finanziaria S.p.A. (4,432 thousand Euro as at 31 December 2012 and 9,468 thousand Euro as at 31 December 2011) as part of the domestic fiscal unity.

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

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**% change**
Group shareholders’ equity	267,290	211,403	26.4%
Minority interests	32,208	44,716	(28.0%)
Total	**299,498**	**256,119**	**16.9%**

The changes in the Group’s share of shareholders’ equity were due to the increase of 105,552 thousand Euro in the profit of the period, the decrease of 18,019 thousand Euro due to the effect of translating into Euro the subsidiaries' financial statements denominated in other currencies (mainly the US dollar and the Japanese yen), the decrease of 47,155 thousand Euro due to dividends declared by the Parent company, the decrease of 6,333 thousand Euro arising from the net impact for the period of the acquisition of minority interests in subsidiaries which are consolidated on a line-by-line basis, changes in the fair value of the put options assigned to pre-existing minority shareholders, the increase of 22,341 thousand Euro due to the valuation of hedge derivatives in accordance with IAS/IFRS, net of the related tax effect, the stock grant reserve for 1,252 thousand Euro and other minor reductions for 1,751 thousand Euro.

Net financial debt as at 31 December 2012 and 31 December 2011 was as follows:

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**Change 2012 vs. 2011**
A. Cash	488	553	(65)
B. Other cash equivalents	110,376	72,924	37,452
C. Cash and cash equivalents (A)+(B)	**110,864**	**73,477**	**37,387**
Derivatives – non-hedge component	1,925	2,338	(413)
Other financial assets	17	35	(18)
D. Current financial receivables	**1,942**	**2,373**	**(431)**
E. Current bank payables	125,133	59,394	65,739
F. Derivatives – non-hedge component	440	1,014	(574)
G. Other current financial payables	45,175	44,829	346
H. Current financial debt (E)+(F)+(G)	**170,748**	**105,237**	**65,511**
I. Current financial debt, net (H)-(C)-(D)	**57,942**	**29,387**	**28,555**
J. Non current bank payables	-	-	-
K. Derivatives – non-hedge component	-	3	(3)
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	**-**	**3**	**(3)**
O. Net financial debt (I)+(N)	**57,942**	**29,390**	**28,552**

The increase in net current financial debt is mainly due to the payment of dividends for a total of 67,372 thousand Euro, the purchase of a further 30% stake in the distribution companies in Korea and South-East Asia for 19,295 thousand Euro, the significant investment in tangible and intangible assets in 2012 (+40.3%) compared to the prior year, and the increase in working capital.

Income and financial indicators for the years ended 31 December 2012 and 31 December 2011

Profitability ratios

The tables below set out the trend in the main profitability ratios for the years ended 31 December 2012 and 31 December 2011.

	Year ended 31 December	
	2012	**2011**
ROE	44.1%	40.2%
(Group net profit for the period / average Group shareholders' equity for the period)		
ROI	60.4%	57.6%
(operating profit / net average invested capital for the period)		
ROS	16.9%	15.9%
(operating profit / revenues)		

Equity ratios

<u>Financial ratios</u>

This analysis aims to ascertain the Group's ability to maintain, in the medium/long-term, a constant balance between outgoing cash flows, due to the reimbursement of sources, and incoming cash flows, arising from the return on investments, in such a way as not to compromise the economic balance of operations.

	Year ended 31 December	
	2012	**2011**
Coverage of shareholders' equity / fixed assets ratio	119.4%	111.2%
(shareholders' equity / total fixed assets)		
Liquidity ratio	65.8%	56.9%
(current assets excluding inventories / current liabilities)		

<u>Turnover ratios</u>

Turnover ratios expressed in days	Year ended 31 December	
	2012	**2011**
Turnover of trade receivables	32	32
Average value of trade receivables in the period / revenues x days		
Turnover of trade payables	76	73
Average value of trade payables in the period / purchases of goods and services x days		
Inventory turnover	219	220
Average value of inventories in the period / cost of goods sold x days		
Turnover of average invested capital	102	101
Average value of average invested capital / revenues x days		

Reconciliation statement between the Parent company's profit/(loss) for the period and shareholders' equity and the corresponding consolidated values of the Group

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

(In thousands of Euro)	Year ended 31 December 2012	
	Shareholders' equity	Profit/(loss) for the period
Financial statements of the Parent company	**236,503**	**106,877**
Difference between the shareholders' equity of the consolidated investments and the book value of the investee companies	155,112	
Profit/(loss) recorded by the investee companies		132,108
Valuation of associated companies using the Equity Method	774	(63)
Dividends distributed among Group companies		(86,565)
Elimination of write-downs on consolidated investments		(12,600)
Exclusion from the consolidation area of the already liquidated subsidiary		(246)
Elimination of unrealized profits, deriving from transactions between Group companies, relating to inventories, net of the deferred tax effect	(89,945)	(12,752)
Effect of IAS 39 - cash flow hedge reserve, net of deferred tax effect		24
Other consolidation entries	(2,946)	(1,504)
Total consolidated shareholders' equity	**299,498**	**125,279**
Minority interests - shareholders' equity and profit/(loss)	32,208	19,727
Total Group shareholders' equity and profit/(loss)	**267,290**	**105,552**

Significant events occurred during the year

On 24 February 2012 the Shareholders' Meeting of Ferragamo Argentina S.A. approved a reduction in share capital for 11,528,127 Argentine Pesos to cover previous losses.

By means of a deed dated 19 April 2012, which was registered on 25 April 2012, Ferragamo Brasil Roupas e Acessorios Ltda. was incorporated with an initial share capital of 1,000.00 Brazilian Real (around 400.00 Euro) divided into 1,000 shares, with a nominal value of 1.00 Brazilian Real each, subscribed for 99.0% by Salvatore Ferragamo S.p.A. (990 shares) and 1.0% by Ferragamo Latin America Inc. (10 shares). On 26 July 2012 the Brazilian company Ferragamo Brasil Roupas e Accessorios Ltda. resolved to increase its share capital from 1,000 Real to 715,000 Real (288 thousand Euro), subscribed for 99.0% by the Parent company, following the resolution of the Board of Directors of 11 July 2012, and for the remaining 1.0% by Ferragamo Latin America Inc. The company was incorporated with a view to the Group's potential direct presence on the Brazilian market.

In June 2012 the liquidation of Ferragamo Parfums S.A. was completed and the company was excluded from consolidation.

With an agreement signed on 20 December 2012 the Group (through Salvatore Ferragamo S.p.A.) acquired a further 30% stake in Ferragamo Korea Ltd, Ferragamo Singapore Pte Ltd, Ferragamo Malaysia Sdn Bhd and Ferragamo Thailand Limited, which operate in the strategic markets of Korea and South-East Asia. In this way, the Group increased its stake from 50% to 80% for a total outlay of US$ 25.5 million based on the estimated net depreciated asset value of the companies as at 31 December 2012. The total amount paid shall be adjusted according to the effective net depreciated asset value of the individual companies as at 31 December 2012. At the same date it also participated, to the extent of its stake (80%), in the share capital increase of 55,000,000 THB of Ferragamo Thailand Limited.

Appointment of corporate boards

On 26 April 2012 the Shareholders' Meeting of the Parent company Salvatore Ferragamo SpA appointed the Company's Board of Directors for the 2012-2014 period and confirmed Ms. Wanda Miletti Ferragamo as the Company's Honorary Chairman for the same period.

On the same date the Board of Directors confirmed the appointment of Ferruccio Ferragamo as Chairman, Giovanna Ferragamo as Deputy Chairman and Michele Norsa as Managing Director assigning the related powers, and also approved the establishment of the Control and Risk Committee and the Nomination and Remuneration Committee, both consisting of the independent directors Piero Antinori, Marzio Saà and Umberto Tombari.

Approval of the 2012-2014 Stock Grant Plan

On 26 April 2012 the Shareholders' Meeting approved a Stock Grant Plan for the three-year period 2012-2013-2014, concerning the allocation to the top management of the Ferragamo Group of the right to receive free of charge a maximum of 500,000 ordinary shares of the Company subject to the achievement of set performance targets at the end of the 2012-2013-2014 period, and transferred to the Board of Directors all the powers needed for implementation of the plan. At the same time a resolution was approved to set up a specific profit reserve relating to the free share capital increase in order to service the aforementioned Plan.

Therefore, the Extraordinary Shareholders' Meeting approved the free share capital increase as an instrument to implement the 2012 Stock Grant Plan, pursuant to article 2349 of the Italian Civil Code, in tranches, for a nominal maximum amount of 50,000 Euro, corresponding to a maximum number of 500,000 ordinary shares of the Company with a nominal value of 0.10 Euro each, to be issued by the Board of Directors in a single tranche, within the timeframes and pursuant to the terms provided for by the Plan.

On 26 April 2012 the Board of Directors identified 14 beneficiaries of the Plan and determined the rights assigned to them for a total of 440,000 ordinary shares.

Tax dispute

With reference to the tax audit carried out on the Parent company Salvatore Ferragamo S.p.A. by agents of the Florence Tax Police from 6 October 2010 to 17 October 2011 and the assessment notices relating to the 2006 tax year received on 27 December 2011, reference should be made to the detailed analysis included in the Directors' report on operations as at 31 December 2011 and the Half-year Report as at 30 June 2012. In particular, it should be recalled that on 17 February 2012 the Company, in order to see its reasons against these notices acknowledged, submitted petitions for assessment with acceptance in order to verify the possibility of reaching an out-of-court settlement of the tax claims and sanctions issued by tax authorities, in relation both to 2006 and to the other years subject to tax audit.

This out-of-court settlement was reached on 16 May 2012 through the enforceability of the so-called CFC provisions with regard to the subsidiary Ferragamo Hong Kong Limited for the years from 2006 to 2009, by means of an assessment with acceptance

(for 2006) and the acceptance of three summons to appear (for the years 2007, 2008 and 2009), in which the Financial administration recognized the validity of many objections raised by the Company, first of all that which requested the non-application of the administrative sanctions. This agreement does not imply acceptance of the grounds of the Financial administration's claims, either in terms of personal responsibility or the purely objective aspect. In particular, the Company is certain that it has always run its business correctly and in good faith, as proven by the non-application of administrative sanctions. Nonetheless, an assessment with acceptance was deemed appropriate, which is based on an assessment of cost-effectiveness and business efficiency, in particular to eliminate the risk of facing a long and costly tax dispute.
The agreement reached entails the payment of 13.6 million Euro (for taxes and interest as at 31 May 2012 without sanctions being applied) in 12 quarterly installments, and has the legal effect of making distributable – without Italian taxes being applied – the retained earnings set aside by Ferragamo Hong Kong Limited in relation to the years covered by the assessment with acceptance, for a total amount of around 59.9 million US dollars. As at 31 December 2012 the first three installments were paid; residual debt amounts to 10.3 million Euro, including interest.
The economic impact on the 2012 result amounted to 7.6 million Euro, considering the allocation to the provision for previous years income taxes of 6 million Euro recorded in 2011.
As regards the alleged omitted withholding taxes on fees for artistic and independent services provided to the Company by non-resident subjects, the Company complied with the notice relating to 2006 and to the order applying the related sanctions, paying a total amount of 88,208 Euro. Regarding withholding taxes, whose omission was challenged for 2007, 2008 and 2009, the Company received three different notices to appear from the Regional Tax Office, in which the reasons put forward by the Company during the proceedings were partially acknowledged. The Company declared acceptance of these notices pursuant to art. 5 of Legislative Decree no. 218/1997 and so benefited from a reduction to 1/6 of the applicable sanctions. The Regional Tax Office also notified the Company of three different orders imposing sanctions concerning failure to pay, which by law cannot be reduced or made part of a settlement.
This agreement does not imply acceptance of the grounds of the tax authorities. Nevertheless, following an assessment of cost-effectiveness and business efficiency, in particular to eliminate the risk of facing a long and costly tax dispute, it was deemed appropriate to accept the notices and consequently accept the orders imposing sanctions.
This led to the total payment, which has already been made, of 1.6 million Euro (for taxes, sanctions and interest).
With these final procedures, all pending issues related to the tax audit have been settled.

On 26 April 2012 the Parent company Salvatore Ferragamo S.p.A. received an assessment notice from the Municipality of Sesto Fiorentino, claiming higher property tax (ICI - for 2007), with sanctions and interest, for a total of 90 thousand Euro. The amount claimed relates to building areas which, as from 2008, are no longer owned by the Company. The notice contained material errors and, in addition, did not match the value of the property subject to the assessment which was determined by the Municipality of Sesto Fiorentino for the previous tax years. Part of the Company's grounds to challenge the notice was accepted in the assessment with acceptance procedure, which started on 12 June 2012 and ended with a reduction in the Municipality's claims and led to the payment of 36 thousand Euro by the Company in November 2012.

As regards the tax audit carried out on Ferragamo France S.A.S., relating to the tax years 2008-2010 that was started in 2011, and which was referred to in the Directors' report on operations as at 31 December 2011 and in the Half-year Report as at 30 June 2012, it should be noted that the audit ended with the notification of an initial adjustment proposal. This does not include challenges to accounting procedures and ordinary taxation, but it challenges the transfer price policy adopted between the Parent company and Ferragamo France S.A.S. The adjustment proposal cancels previous years' tax losses (for which, in any case, no deferred taxes were recorded) and establishes a taxable amount for two tax years.
French law envisages complex proceedings between the tax authorities and the taxpayer, which started with the notification and which could last some years. Since, as already pointed out, the outcomes of these proceedings are not foreseeable at this (initial) stage, it is not possible to make estimates regarding any tax liabilities arising from the audit.

Other information

Information on corporate governance and ownership structure

Disclosure pursuant to art. 123-bis of the Consolidated Law on Finance no. 58/1998 (TUF).

On 21 March 2013 the Board of Directors approved the annual report on corporate governance and ownership structure (the "Report"), which was prepared pursuant to art. 123-bis of the Consolidated Law on Finance (TUF).
The Report includes a general description of the corporate governance system adopted by Salvatore Ferragamo S.p.A., information on the ownership structure and on compliance with the Corporate Governance Code, the main governance policies in force as well as the characteristics of the risk management and internal control system in relation to the financial reporting process.

Corporate Governance

The Company is structured according to the traditional management and control model, with the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.
The bylaws in force were approved by the Extraordinary Shareholders' Meeting on 30 March 2011 and subsequently amended by the Extraordinary Shareholders' Meeting on 26 April 2012.

The bylaws establish the essential features of the Company and set the main rules for its management and operation, they provide a description of the membership of corporate bodies, their powers and reciprocal relationships. The by-laws also include the description of shareholders' rights and the related means of exercising them.

From its admission to listing on 29 June 2011, the Company complied with the Corporate Governance Code issued by Borsa Italiana S.p.A. and adjusted its corporate governance structure to the recommendations contained therein.

The main corporate governance body is the Board of Directors which has the primary responsibility for determining and pursuing the strategic objectives of the Company and of the Group. The current Board was elected by the Shareholders' Meeting of 26 April 2012 according to the single list submitted by the majority shareholder Ferragamo Finanziaria S.p.A. and consists of the directors Ferruccio Ferragamo, Michele Norsa, Giovanna Ferragamo, Fulvia Ferragamo, Leonardo Ferragamo, Francesco Caretti, Diego釣ernò Castello di San Giuliano, Peter K.C. Woo, Raffaela Pedani, Umberto Tombari

(Independent director), Marzio Saà (Independent director), and Piero Antinori (Independent director). The Board of Directors will serve for three years and therefore until the date of the Shareholders' Meeting called to approve the financial statements as at 31 December 2014.

On 26 April 2012 the Shareholders' Meeting also appointed, pursuant to article 17 of the bylaws, Wanda Miletti Ferragamo as Honorary Chairman of the Company by way of recognition of her exceptional commitment to the Group over many years. The term of office of the Honorary Chairman is in line with that of the Board of Directors and so ends with the approval of the financial statements as at 31 December 2014.

On 26 April 2012 the first meeting of the newly elected Board of Directors was held which confirmed the appointment of Ferruccio Ferragamo as Chairman, Giovanna Ferragamo as Deputy Chairman and Michele Norsa as Managing Director of the Company.

At its first meeting the Board of Directors also approved resolutions on corporate governance and, in particular, it resolved to:

- combine the functions of the Remuneration Committee and the Nomination Committee in a single committee to be called the Nomination and Remuneration Committee;
- set up a Control and Risk Committee, in place of the previous Internal Control Committee;
- adjust the powers and functions of the aforementioned Committees, also taking account of the recommendations of the Corporate Governance Code as updated in December 2011;
- confirm as members of the aforementioned Committees the non-executive independent directors Piero Antinori, Marzio Saà and Umberto Tombari;
- confirm the appointment of the director Marzio Saà as the Lead Independent Director;
- confirm the establishment of a Product and Brand Strategy Committee which provides advisory services and makes proposals to the Board of Directors and is composed of the directors Ferruccio Ferragamo (Chairman of the Committee), Michele Norsa, Fulvia Ferragamo and Leonardo Ferragamo.

The Board also adjusted the internal control and risk management system to the new provisions of the Corporate Governance Code and, in particular, it:

- confirmed, with the approval of the Control and Risk Committee, the Managing Director Michele Norsa as the director responsible for the internal control and risk management system and adjusted his duties and responsibilities;
- confirmed, with the approval of the Control and Risk Committee and having consulted the Board of Statutory Auditors, Leonardo Faini as the Internal Audit Manager;
- confirmed Filippo Cei, Fulvio Favini and Leonardo Faini as members of the Supervisory Board for the years 2012-2013-2014.

Following the aforementioned resolutions, the Company's corporate governance system is in line with the corporate governance best practices recommended by the Corporate Governance Committee of Borsa Italiana S.p.A. which are included in the Corporate Governance Code for listed companies, as updated in December 2011.

Main features of the systems of risk management and internal control

The internal control system of Salvatore Ferragamo is structured so as to guarantee, through a process aimed at identifying and managing the main risks, the achievement of corporate objectives, thus helping to ensure the efficiency and effectiveness of corporate activities, the reliability of financial information and the compliance with the laws and regulations in force.

Salvatore Ferragamo, in managing and coordinating its subsidiaries, establishes the general principles governing the Group's internal control system, in compliance with local laws and rules, implementing operational and organizational procedures that are suitable for the specific context.

In this light, a Code of Ethics has also been adopted, including the principles and general rules that characterize the organization and its business and to which the whole Group must conform.

The following must be considered as specific elements and integral parts of the overall internal control system:

- the risk management system in relation to the financial disclosure process adopted in compliance with the provisions of art. 154-bis of the Consolidated Law on Finance;
- the organization, management and control model adopted for the purposes of preventing the crimes as set out in Leg. Decree 231/2001.

The Board of Directors as a whole is responsible for establishing the guidelines for the internal control system and assessing its adequacy and the effectiveness.

Without prejudice to the responsibilities of directors and managers, the internal control system also identifies specific positions with specific duties, as detailed below.

- <u>Director responsible for the internal control and risk management system</u>

  He has the duty of overseeing the internal control system, identifying the main corporate risks, as well as planning, implementing and managing the internal control system in compliance with the Board of Directors' guidelines, continuously verifying their adequacy and effectiveness and implementing their adjustment over time.

- <u>Control and Risk Committee (formerly Internal Control Committee)</u>

  In its advisory and consultative role, it supports the Board of Directors on risk management and internal control issues and, among other duties, expresses its views on the planning, implementation and management of the system, and on a half-yearly basis reports to the Board of Directors on the activities it has undertaken, as well as on the adequacy of the internal control system.

- <u>Internal audit manager (formerly Head of internal control)</u>

  Reporting to the Board of Directors, the manager is responsible – through the relevant department – for verifying the adequacy and effectiveness of the risk management and internal control system, liaising with the Control and Risk Committee and the Board of Statutory Auditors regarding the system management procedures and its suitability in order to achieve an acceptable overall risk profile.

- <u>Manager responsible for corporate financial reporting (in accordance with art. 154-bis of the TUF)</u>

He is responsible for defining, implementing and maintaining suitable and effective specific control procedures to manage risks entailed in financial reporting, i.e. the activities undertaken to identify and assess the actions or events, the occurrence or absence of which may hinder, partially or wholly, the achievement of the goals of trustworthiness, accuracy, reliability and timeliness of financial reporting.

- Supervisory Body pursuant to Legislative Decree 231/01
  It is responsible for checking the effectiveness, adequacy and compliance of the Organization, Management and Control Model pursuant to Leg. Decree 231/01 and ensuring it is constantly updated.

For further information on corporate governance and the main features of the risk management and internal control systems adopted, reference should be made to the Report on corporate governance and ownership structure published in the specific section of the website www.ferragamo.com.

Disclosure pursuant to art. 36 of the Markets Regulation

The Issuer has adopted measures to comply with the provisions set out in article 36 of the Markets Regulation. In particular, the Issuer a) discloses the accounting records of the subsidiaries prepared for the purposes of drawing up the consolidated financial statements, including at least the statement of financial position and the income statement; b) receives from the subsidiaries their by-laws and information about the structure and powers of the corporate bodies; c) verifies that the subsidiaries:

i) provide the Independent Auditors with the information they need to audit the annual and interim financial statements of the Company;

ii) adopt an administrative and accounting system that can ensure the regular provision to the management and to the Independent Auditors of the income, equity and financial data needed to draw up the Company's consolidated financial statements.

Financial reporting and Investor relations

Salvatore Ferragamo, in order to maintain constant dialogue with its Shareholders, potential investors and financial analysts and in compliance with the recommendation of CONSOB, has set up the Investor Relations function which ensures continuous information exchange between the Group and financial markets.
Financial data, corporate presentations, interim reports, official press releases and updates in real time on the share price are available on the Group's website www.ferragamo.com in the Investor Relations section.

Main Stock Market indicators – Salvatore Ferragamo S.p.A.

Official price as at 28 December 2012: 16.7490 Euro
Minimum price (9 January 2012): 9.6800 Euro ([3]).
Maximum price (30 April 2012): 19.0700 Euro ([3]).
Stock Market capitalization as at 31 December 2012: 2,820,699,090.00 Euro
Number of outstanding shares: 48,146,190 (free float)
Number of shares making up the share capital as at 31 December 2012: 168,410,000

[3] Minimum and maximum prices recorded during the day's trading session and, therefore, not coinciding with official and reference prices on the same date.

Stakes in the Company

As at 31 December 2012 Ferragamo Finanziaria S.p.A. held a majority stake in the share capital of Salvatore Ferragamo S.p.A. with 57.75% as per the communication received from Ferragamo Finanziaria S.p.A. pursuant to art. 120 A of the CONSOB Issuers' Regulation.

Management and coordination

The Parent company Salvatore Ferragamo 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. The company complies with the requirements as set out in article 37 of the Markets Regulation for the listing of subsidiaries which are subject to management and coordination. In particular, it should be noted that the Company:

(i) has fulfilled the disclosure obligations envisaged by article 2497-bis of the Italian Civil Code;
(ii) has independent power to negotiate with customers and suppliers;
(iii) has no centralized cash management arrangement with Ferragamo Finanziaria S.p.A.;
(iv) has an internal control committee consisting of independent directors, pursuant to art. 148, paragraph 3 of the TUF and the Corporate Governance Code;
(v) has a nomination committee to appoint directors consisting of independent directors, pursuant to art. 148, paragraph 3 of the TUF and the Corporate Governance Code;
(vi) has a committee for remuneration and share-based incentives consisting of independent directors, pursuant to art. 148, paragraph 3 of the TUF and the Corporate Governance Code.

Tax consolidation

The Parent company Salvatore Ferragamo S.p.A adopted the domestic fiscal unity provided for by articles 117 ff. of the TUIR-Presidential Decree no. 117 of 22 December

1986 with the Holding company Ferragamo Finanziaria S.p.A. as the consolidating entity and Ferragamo Parfums S.p.A.

Shares held by Directors, Statutory Auditors and Managers with strategic responsibilities

For information relating to the shares held by Directors, Statutory Auditors and Managers with strategic responsibilities, reference should be made to the Remuneration Report, prepared in accordance with CONSOB resolution of 23 December 2011 and available on the website www.ferragamo.com in the Investor Relations section.

Treasury shares and shares or stakes in parent companies

It should be noted that the Group does not hold directly or indirectly treasury shares or shares in parent companies and that during the year it did not buy or sell treasury shares or shares in parent companies.

Non recurring costs and revenues

In 2012 the Group did not incur any non recurring costs and no non recurring revenues and income were recorded.

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 S.p.A.
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 aware of the issue, in part through specific training courses.

Staff

Here below is the Group's staff divided by category as at 31 December 2012 and 31 December 2011.

Staff	31 December 2012	31 December 2011
Top managers, middle managers and store managers	570	568
White collars	2,545	2,315
Blue collars	207	242
TOTAL	**3,322**	**3,125**

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. Over the years, taking advantage of tax benefits, the Parent company has introduced at its Osmannoro-Sesto Fiorentino plant several photovoltaic systems (solar panels) to produce hot water and electricity 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 under costs of production.
In 2012 research and development costs totaled 23,024 thousand Euro compared to 19,673 thousand Euro in 2011.

Transactions with related parties

In compliance with the provisions of the Regulation adopted by CONSOB with resolution no. 17221 of 12 March 2010 and subsequent amendments, the Company adopted a Related Party Transaction Procedure ("Related Party Procedure") available on the website www.ferragamo.com in the Investor Relations section.

The main body responsible for the correct application of Salvatore Ferragamo S.p.A.'s Related Party Procedure is the Company's Board of Directors. The Board, taking into account the notifications and observations of the other corporate bodies, assesses, on at least a three-yearly basis, the effectiveness of the Related Party Procedure and the need/advisability to update it.
The Related Party Procedure identifies the principles adopted by the Company in order to guarantee the transparency and the actual and procedural fairness of transactions with related parties undertaken by the Company, either directly or through its subsidiaries.
In particular, it establishes the "larger" transactions which must be approved in advance by the Board of Directors on the basis of the grounded and binding opinion of the Committee responsible for transactions with related parties – which is identified in the Control and Risk Committee, except for resolutions on remuneration for which the Remuneration Committee is responsible – and which entail the disclosure of an information document. The other transactions, unless they fall in the residual category

of low value transactions – i.e. those worth less than 100,000 Euro – are defined as "smaller" transactions and can be executed subject to a grounded and non-binding opinion of the aforementioned Committee.
In addition, the Related Party Procedure identifies the cases which are exempt from application of the procedure, including in particular ordinary transactions completed at market or standard conditions, transactions with or between subsidiaries and those with associated companies – provided that other related parties of the Company do not hold significant interests in these transactions – and low value transactions.
The Board of Statutory Auditors is responsible for overseeing the compliance of the Related Party Procedure with the principles indicated in the CONSOB Regulation and observance and correct application of the Procedure.

Transactions with related parties are set out in detail in note 41 at the bottom of the comments to the income statement items and cannot be considered as atypical or unusual, since they form part of Group companies' regular business and are regulated at market conditions.

Requirements provided for by Leg. Decree 196 of 30 June 2003 – Privacy Protection

Although there is no longer an obligation to prepare and update the Security Policy Document, it was nonetheless deemed necessary to arrange its updating. In particular, it should be noted that the Company arranged to supplement/update the formal appointment of the system administrators and those charged with processing CCTV images and to perform the annual check on access procedures.
The Security Policy Document was last updated on 4 December 2012.

Main risks and uncertainties

Here below are the main risk factors to which the Group is exposed, identified by type: strategic, operational, financial and compliance risks. For a description of the overall Risk management system through which risks are managed and controlled, reference should be made to the specific description in the Annual report on corporate governance and ownership structure.

Market and strategic risks

Market risks connected to social, economic and political changes

The luxury goods market, which is the key market for the Group's products, is highly dependent on disposable income and consumers' propensity to spend as well as the general economic trend.
Political instability and/or economic recession in a geographical market which is significant for Group sales, and events that can undermine the confidence of the Group's target customers could have a negative impact on the income, financial and equity position of Group companies. This market is also closely connected to changes in consumption trends and changes in lifestyles.

Risks of natural or malicious events and the connected effects on equity or on the business

The distribution of the business and, above all, of the distribution network across the main countries worldwide exposes the Group to a variety of risks related to natural events, such as earthquakes, floods, etc., or malicious events, such as acts of terrorism, which could directly or indirectly damage the Group's assets, when such events cause significant economic losses and/or social unrest in the populations affected, with a consequent negative impact on demand in this geographic area and/or on the undertaking of the Group's activities.

Risks connected to the definition and implementation of strategies

In formulating its strategy, the Group takes into account some assumptions on the economic trend and on the development in demand for luxury goods in the various geographic areas and on the prospects for the potential locations in which to base its stores.

The Group's ability to implement its strategy depends, among other things, on its ability to meet, through the development of its collections, the preferences of its customers and to launch communication campaigns aligned with its strategic positioning and brand awareness objectives.

Should the Group not be able to implement its strategy and/or should the underlying assumptions on which the Group has based its strategy prove not to be correct, the Group's business and prospects could be negatively affected.

Risk connected to trade channels managed by third parties

Part of the distribution network for "Salvatore Ferragamo" branded products consists of stores managed by third parties with whom the Group generally has long-standing business relationships. As far as the wholesale channel is concerned, the Group's sector is characterized by a limited number of large operators, such as major department stores, mainly from the United States, but also important distributors on the Chinese market and duty free and travel retailers.

The lack of commercial relations with the main indirect distributors, the impossibility of developing new commercial relations, or a marked fall in the related revenues could impact the Group's business. In addition, the failure by indirectly managed stores to comply with a commercial policy that is in line with the image of the brand could damage the positioning of the brand, as well as the related sales.

Risks of external events with an impact on the image and reputation of the brand

The Group's success depends on the image of its brand, which is influenced not only by its own activity, i.e. by the definition and implementation of its strategies, but also by a variety of external factors or events which may harm or damage the business ethics and values associated with the reputation of the brand. These include: the dissemination of partial, untrue or defamatory information, which nowadays may be amplified through new web-based channels (social networks, blogs) and possible crimes connected to the production chain which, although entrusted to external workshops, may have an indirect impact on the brand.

Operating risks (connected to typical processes)

Risks relating to the protection of intellectual property and parallel market rights

The Group's intellectual property is protected, in terms of rights relating to design, processes and manufacturing technologies, utility models and brands and other trademarks, all of which are key elements for the success of products and the Group's competitive positioning, by the law on industrial and intellectual property. In this regard, the Group generally arranges to protect its rights in the areas where it operates through the deposit of applications to register brands, designs and utility and ornamental models and patent requests for inventions in order to be able to obtain the related intellectual property rights. However, this does not eliminate the risk that false or imitation products may be illegally marketed and, in some cases, products which are formally different but substantially the same may be marketed, with the consequence that these might not infringe and, therefore, invalidate the Group's industrial or intellectual property rights.

The risk of violation of the intellectual property rights of products and the brand held by the Group is amplified via the Internet through their improper use on third-party websites. This risk can take several forms: unauthorized e-commerce websites which sell official products; e-commerce websites which sell counterfeit products; and unauthorized use of the "Ferragamo" name in the website address.

Finally, legal protection cannot, in any case, prevent the possibility that Ferragamo brand products sold to wholesale customers are then sold on so-called parallel channels, with possible repercussions on the corporate image as a result of the lack of control over these retail sales by a commercial policy that is in line with the brand image developed by the Group, as well as a negative impact on Group revenues.

Risks connected to changing regulation and to compliance with the identification requirements for "Made in Italy" products

All the products manufactured and sold by the Group are "Made in Italy", except for a very limited range of products manufactured abroad to take advantage of local traditions and quality (for example "Swiss Made" watches). This is considered a competitive advantage compared to rival products which cannot make the same claim.

A change in the law on the origin of goods could, however, change the current identification requirements for "Made in Italy" products. Should these requirements become more restrictive, this could oblige the Group to adapt to the new laws, with a negative impact in terms of higher production costs. Likewise, should the law identifying "Made in Italy" products become less restrictive, this could undermine the competitive advantage over competitors who could use the same definition with a consequent negative impact on sales and the market share that is currently held.

Despite the activities undertaken to control the production chain, through systematic inspections by in-house technical staff, it is impossible to rule out the risk of potential violation of the "Made in Italy" identification requirements by external workshops or suppliers to whom the realization of the finished products is outsourced, in particular in cases in which a production stage is further subcontracted. The repercussions of any public disclosure of this violation could have a significant and negative impact on the Group's reputation and image.

Dependence on key suppliers in the production process

The organizational model adopted by the Group entrusts the production process entirely to expert staff in external workshops, although keeping in-house the management and organization of the most important stages in the value chain.

The outsourcing of the production process and the consequent possibility of the termination of dealings with third parties, owing to bankruptcy or discontinuance, and also due to default or voluntary interruption of the collaboration, could represent a going-concern risk in particular business areas, at least in the short term.

In addition, any interruption in the relationship with these external subjects could lead to issues relating to claims of alleged employment and operational dependence which such external subjects could raise, should the Group consider it advisable to discontinue the collaboration.

In addition, note should be taken of the dependence of Ferragamo Parfums S.p.A. on a single manufacturer which handles the whole operational process, consisting of production, bottling and logistics activities.

Risks connected to the adequacy of the governance system of subsidiaries and to organizational development that is in line with the Group's growth

The risk is connected to the possibility that the governance system of subsidiaries, whether wholly or partially owned, or the instruments adopted for its implementation are not adequate or do not allow the activities undertaken by local managers to be maintained in line with the policies or expectations of the Group's top management. In particular, reference is made to actions undertaken by local managers in violation of the company's rules, ethical conduct and proper management rules, which could cause harm in terms of equity, financial performance and image.

The risk of an inadequate organizational model relates also to the possibility that the macro and micro organizational systems do not provide the best possible support for the company's activities in order to achieve the defined business goals. The risk of a lack of coherence in the Group's organizational structure and its inadequate development over time in regard to changing needs, is particularly important in the current phase of business growth.

Dependence on key staff

The risk is connected to the significant dependence which the Group may have in regard to some managers who are currently considered strategic resources, since they cannot be easily or rapidly replaced by internal or external staff. The ending of the contribution of such staff members could lead to significant missed business opportunities, lower revenues, higher costs or cause damage to the Company's image.

The risk of dependence on key staff is also connected to the potential loss of "technical know-how", in reference to the possibility of seeing a gradual reduction or loss of the competences and skills needed to manage design, development and production activities, in particular in regard to the Group's core business: the manufacture of footwear and leather goods. This risk is especially important in regard to the professional staff responsible for handling product development and industrial manufacture processes, in an external and local framework characterized by a gradual reduction in craftsmanship and professional skills.

Financial risks

Exchange rate risk

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 Group manages exchange rate risk arising from its commercial business 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 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.

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.

To the 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 S.p.A. 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 in the income statement as well as the profit or loss on the hedged item.
In addition, by virtue of the fact that the Company prepares its consolidated financial statements in Euro, fluctuations in the exchange rates used to translate the financial statement data of subsidiaries which were originally expressed in a foreign currency could have a significant impact on consolidated results, net financial debt, and shareholders' equity, as expressed in Euro in the Group's financial statements.

Credit risk

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 34 percent of global turnover: the remaining turnover refers to retail sales with payment mainly in cash or through credit and debit cards.
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.
The commercial credit risk is also managed through the subscription of insurance policies with insurance companies or factoring companies (for relationships relating to guarantees only), which agree to guarantee payment of the indemnity in the case of insolvency.
The credit risk connected to financing, investment and operating activities in derivatives to hedge the exchange rate risk 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 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.

Interest rate risk

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

The Ferragamo Group is exposed 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.

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 due dates, which are in any case kept within 12 months.

At 31 December 2012 there were no outstanding interest rate risk hedge derivatives aimed at transforming floating rate debt into fixed rate debt.

Liquidity risk

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.

The negotiation and management of credit lines 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. It is 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 the liquidity needed to satisfy and comply with the Group's foreseeable 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 reference banks in short-term (usually between one and three months) time deposit transactions, referring to the Euribor/Libor rate for the period or the specific benchmark of the investment currency. 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.

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

For information relating to the management of financial risks and for the other information provided for by IFRS 7, reference should be made to the specific section in the Explanatory notes, at the end of the paragraph on accounting standards.

Compliance risks

Tax risk

The Ferragamo Group has subsidiaries in over 20 countries worldwide and, therefore, its tax returns and obligations are usually subject to assessments by the tax authorities of the various countries. In addition, the high number and value of transactions between Group companies means that the compliance of the amounts envisaged for such transactions to local and international rules and principles on transfer pricing is subject to assessment and adjustment by tax authorities. The instruments adopted by the management to limit tax risk for both tax compliance and transfer pricing cannot completely rule out the risk of tax assessments, especially taking into account the lack of clear and established regulation of transfer pricing in local legal provisions and procedures. Currently some Group companies in various countries are subject to tax assessments. No guarantee can be given that the outcomes of these assessments or any other future assessments will not have a negative impact on the Group's financial position, operating results and prospects.

Risk due to failure to comply with laws and regulations that have become applicable following listing

The Group is subject, in the various jurisdictions where it operates, to legal provisions – including tax provisions which are described separately – and to technical rules which are applicable to the products manufactured and their distribution.

In terms of risk, of particular importance are the rules which recently became applicable to the Parent company following admission to listing on the Italian stock market and which are issued by market supervisory and regulation authorities (e.g. CONSOB and Borsa Italiana).

The application of new rules and regulations or changes to the law in force, which could lead to a delay in adjusting structures in order to ensure compliance with the new or subsequent requirements, result in further exposure to the risk of sanctions due to failure to comply with such provisions.

The Parent company has implemented the measures that it considers suitable to comply with applicable provisions. These include by way of example: the system of checks on the reliability of financial reporting under art. 154-bis of the TUF; the organization, management and control model adopted for the purposes of preventing the crimes as set out in Leg. Decree 231/2001; and the procedures strictly connected to the status of being a listed company (the internal dealing procedure, the procedure for the regulation of transactions with related parties, the internal regulation for the processing and disclosure of confidential and inside information).

However, the control procedures which have been adopted, although adequate to reduce risks, could be ineffective in eliminating them completely; this means that the Group is, in any case, potentially subject to non-compliance with the rules and regulations due to errors or failure to comply, as well as due to fraudulent conduct by its employees. This could lead to sanctions with a direct negative economic impact and, in the case of disclosure, to an even greater impact on the Group's reputation and image.

Significant events occurred after 31 December 2012

On 3 January 2013 the agreement signed on 28 February 2011 with Imaginex Holding Ltd. and Imaginex Overseas Ltd. was implemented regarding the increase to 75% of the Group's stake in the distribution companies operating on the strategic market of Greater China with payment of the agreed price of 41,235,000 Euro, as indicated in the Directors' report on operations under "Significant events occurred during the year" included in the 2011 Annual Report. The agreement involved 25% of Ferrimag Limited of Hong Kong (a holding company which owns 100% of Ferragamo Retail Hong Kong Ltd., Ferragamo Fashion Trading (Shanghai) Ltd. and Ferragamo Retail Taiwan Ltd), 25% of Ferragamo Moda (Shanghai) Ltd. and 15.2% of Ferragamo Retail Macau Ltd.

On 20 March 2013 the Parent company Salvatore Ferragamo S.p.A. signed an agreement under which it will sell to Zeleco S.p.A. (a company in the Ermenegildo Zegna Group) the 250,000 shares it holds of Zefer S.p.A. (equal to 50% of the company's share capital). The parties have agreed that the transfer of ownership of the shares will take place on 15 April 2013, the date of actual transfer of the shares, and that on that date Zeleco S.p.A. will acquire full ownership and availability of all the shares purchased, with dividend rights as from 1 January 2013. The sale price of the shares is contractually set at 13,855,000.00 Euro.

Macroeconomic situation and outlook

In 2012 the international macroeconomic situation continued to worsen. The International Monetary Fund cut its forecasts for 2012, estimating global growth at around 3.3%. The economy was affected above all by the climate of uncertainty and the problems of the main European economies, with the resurgence of tensions on financial markets and problems linked to the management of sovereign debts. Until the turnaround in the management of the financial crisis announced in June by the President of the ECB Mario Draghi, the relevant political commitment to increase European integration and the implementation of the various safeguarding mechanisms for the countries in difficulty, the very survival of the Euro had seemed in doubt. The strongly restrictive fiscal policies adopted greatly reduced domestic demand and GDP growth. At global level, a further problem was the slowdown in growth rates of the emerging economies, estimated at around 5.0% (well below expectations). The data on retail sales, industrial output, investments and foreign trade in the last quarter seem to indicate that the Chinese economy has bottomed out, even if the recovery still seems weak. Only Japan recorded above potential growth in 2012, driven by the impact of post-earthquake reconstruction. The United States saw its growth prospects slowed by the fiscal cliff, only partly offset by the strongly expansive policy adopted by the Federal Reserve, the gradual rebalancing of household budgets, the recovery in the residential construction sector and a slight improvement in labor market conditions.

The first months of 2013 and 2012 as a whole have several trends in common: moderate growth rates, which for the global economy will be around 3.4%, the restrictive approach of fiscal policies and, on the other hand, strongly expansive monetary policies, generally limited inflation pressure, and credit crunch. In the Eurozone, also as a result of the likely Italian political instability, it will take time for the progress in managing debt to translate into economic recovery, with falling GDP for all the main economies in the area. The most significant growth is expected to come once again from emerging economies, whose monetary policies will remain broadly neutral, with an estimated rise in GDP of around 6.1%, and with a particular boost from the BRIC countries. The Chinese economy’s leading indicators are all positive, suggesting the end of the economic slowdown. The change of Government in Japan – whose economy technically went into recession in the third quarter of 2012 but recorded an unexpected improvement in the fourth quarter – has led to an aggressive use of monetary policy according to an anti-deflationary approach, with a significant impact on the exchange rate of the Yen against all the main currencies. The continuity in strategy represented by the re-election of President Obama in the United States, together with a gradual improvement in the most recent macroeconomic indicators, make it less likely that the United States will once again be an instability factor for the global scenario. Nonetheless, growth is expected to remain low in 2013 at around 1.4% – due to tightening fiscal policies holding back a positive trend in the private sector – and to improve only as from 2014.

Sales in the luxury goods sector are likely to continue their positive growth trend in 2013 and the data and comments of the main players and analysts are essentially marked by cautious optimism.

The sales volumes recorded by the Ferragamo Group in this initial months of 2013 and the wholesale order campaign seem to support the forecast of a positive trend for the year as a whole both in terms of growth in sales volumes and profits.

Florence, 21 March 2013

The Chairman of the Board of Directors
Ferruccio Ferragamo

Financial Statements

Consolidated statement of financial position – assets

(In thousands of Euro)	**Notes**	**31 December 2012**	*of which with related parties*	**31 December 2011**	*of which with related parties*
NON CURRENT ASSETS					
Property, plant and equipment	5	139,580		120,768	
Investment property	6	7,039		7,476	
Intangible assets with a finite useful life	7	20,678		18,051	
Investments in associated and jointly controlled companies	8	1,331		1,393	
Available-for-sale financial assets	9	27		20	
Other non current assets	10	4,430		4,909	
Other non current financial assets	11	9,915	*172*	7,793	*109*
Deferred tax assets	35	67,745		69,997	
TOTAL NON CURRENT ASSETS		**250,745**	***172***	**230,407**	***109***
CURRENT ASSETS					
Inventories	12	249,804		242,564	
Trade receivables	13	105,184	*2,348*	97,711	*2,348*
Tax receivables	14	9,157		10,239	
Other current assets	15	34,932	*2,040*	18,978	*116*
Other current financial assets	16	1,942		2,373	
Cash and cash equivalents	17	110,864		73,477	
TOTAL CURRENT ASSETS		**511,883**	***4,388***	**445,342**	***2,464***
TOTAL ASSETS		**762,628**	***4,560***	**675,749**	***2,573***

Consolidated statement of financial position – liabilities and shareholders' equity

(In thousands of Euro)	Notes	31 December 2012	*of which with related parties*	31 December 2011	*of which with related parties*
SHAREHOLDERS' EQUITY					
GROUP SHAREHOLDERS' EQUITY					
Share capital	18	16,841		16,841	
Reserves	18	144,897		113,272	
Net profit/(loss) – Group		105,552		81,290	
TOTAL GROUP SHAREHOLDERS' EQUITY		**267,290**		**211,403**	
MINORITY INTERESTS					
Share capital and reserves – minority interests		12,481		22,747	
Net profit/(loss) – minority interests		19,727		21,969	
TOTAL MINORITY INTERESTS		**32,208**		**44,716**	
TOTAL SHAREHOLDERS' EQUITY		**299,498**		**256,119**	
NON CURRENT LIABILITIES					
Provisions for risks and charges	19	5,424		14,131	
Employee benefit liabilities	20	11,429		10,695	
Other non current liabilities	21	41,212		35,196	
Non current financial liabilities	22	-		3	
Deferred tax liabilities	35	6,683		3,019	
TOTAL NON CURRENT LIABILITIES		**64,748**	**-**	**63,044**	**-**
CURRENT LIABILITIES					
Trade payables	23	157,681	*733*	154,343	*323*
Interest-bearing loans & borrowings	24	125,133	-	60,017	*623*
Tax payables	25	21,036		20,968	
Other current liabilities	26	48,917	*13,575*	76,038	*18,264*
Other current financial liabilities	27	45,615	*41,235*	45,220	*40,136*
TOTAL CURRENT LIABILITIES		**398,382**	***55,543***	**356,586**	***59,346***
TOTAL LIABILITIES		**463,130**	***55,543***	**419,630**	***59,346***
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**762,628**	***55,543***	**675,749**	***59,346***

Consolidated income statement

(In thousands of Euro)	Notes	Year ended 31 December			
		2012	*of which with related parties*	2011	*of which with related parties*
Revenues from sales and services		1,144,653	*4,695*	978,997	*3,551*
Rental income investment properties		8,312	-	7,378	-
Revenues	29	**1,152,965**		**986,375**	
Cost of goods sold	30-32	(410,963)	-	(352,918)	-
Gross profit		**742,002**		**633,457**	
Style, product development and logistics costs	30-32	(39,173)	*(439)*	(34,197)	*(400)*
Sales & distribution costs	30-32	(344,382)	*(12,851)*	(296,309)	*(9,447)*
Marketing & communication costs	30-32	(70,966)	*(81)*	(58,187)	*(76)*
General and administrative costs	30-32	(91,477)	*(12,813)*	(83,144)	*(13,108)*
of which non recurring costs	31	-		(4,433)	*(454)*
Other operating costs	30-32	(14,832)	*(20)*	(15,025)	*(39)*
Other income and revenues		13,150	*18*	10,054	*14*
Operating profit		**194,322**		**156,649**	
Financial charges	33	(32,659)	*(1,110)*	(21,024)	*(933)*
Financial income	33	26,066	-	18,015	-
Share of net profit/(loss) on investments accounted for using the Equity Method	34	637	-	700	-
Profit before taxes		**188,366**		**154,340**	
Income taxes	35	(63,087)		(51,081)	
Net profit/(loss) for the period		**125,279**		**103,259**	
Net profit/(loss) – Group		105,552		81,290	
Net profit/(loss) – minority interests		19,727		21,969	

(In Euro)	Notes	Year ended 31 December	
		2012	2011
Earnings per share – ordinary shares	36	0.627	0.483
Diluted earnings per share – ordinary shares	36	0.627	0.483

Consolidated statement of comprehensive income

(In thousands of Euro)	**Year ended 31 December**	
	2012	**2011**
Net profit/(loss) for the period (A)	**125,279**	**103,259**
Currency translation differences of foreign operations	(18,589)	10,129
Net gain / (loss) from cash flow hedge	30,815	(17,774)
Income taxes	(8,474)	4,888
	22,341	(12,886)
Net gain / (loss) from recognition of defined-benefit plans for employees	(544)	(879)
Income taxes	91	239
	(453)	(640)
Total other income / (losses) for the period, net of taxes (B)	**3,299**	**(3,397)**
Total comprehensive income for the period, net of taxes (A+B)	**128,578**	**99,862**
Group	108,123	76,803
Minority interests	20,455	23,059

Consolidated statement of cash flows

(In thousands of Euro)	Notes	2012	*of which with related parties*	2011	*of which with related parties*
		Year ended 31 December			
NET PROFIT / (LOSS) FOR THE PERIOD		**125,279**		**103,259**	
Adjustments to reconcile net profit (loss) to net cash provided by (used in) operating activities:					
Amortization, depreciation and write-downs of tangible and intangible assets and investment property	5-6-7	33,962		27,045	
Allocation / (use) of deferred taxes	35	(2,905)		(5,455)	
Provision for employee severance indemnities		3,663		5,050	
Allocation to / (use of) the provision for obsolete inventory	12	1,136		4,328	
Losses and provision for bad debt		1,437		1,264	
Losses / (gains) on disposal of tangible and intangible assets		512		1,084	
Share of net (profit)/loss on investments accounted for using the Equity Method		63		(250)	
Other non-monetary items		(678)	1,099	9,822	921
Changes in operating assets and liabilities:				-	
Trade receivables		(7,763)	-	(20,941)	(2,313)
Inventories		(28,405)		(55,423)	
Trade payables		4,049	410	49,900	153
Tax receivables		1,043		(4,285)	
Tax payables		(42)		(6,760)	
Advance payments and settlements of employee severance indemnities		(3,302)		(4,730)	
Other assets and liabilities		(1,401)	(6,676)	11,860	5,148
Other – net		(5,508)		193	
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**121,140**	**(5,167)**	**115,961**	**3,909**
Cash flow from investing activities:					
Purchase of tangible assets		(51,717)		(35,627)	
Purchase of intangible assets		(7,676)		(6,698)	
Net change in non current assets and liabilities		(1,822)		(565)	
Cash from disposal of tangible and intangible assets		52		516	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		**(61,163)**	**-**	**(42,374)**	**-**
Cash flow from financing activities:					
Net change in financial receivables		(789)		(60)	
Net change in financial payables		64,152	(623)	(85,575)	623
Payment of dividends to Group shareholders	37	(47,155)	(35,086)	(24,015)	(24,015)
Payment of dividends to minority interests	37	(20,217)	(17,215)	(20,628)	(17,871)
Purchase of minority interests in companies consolidated on a line-by-line basis		(19,295)		-	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**(23,304)**	**(52,924)**	**(130,278)**	**(41,263)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**36,673**		**(56,691)**	**(37,354)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**73,179**		**132,469**	
Increase/(decrease) in cash and cash equivalents		36,673		(56,691)	
Effect of exchange rate translation differences		956		(2,599)	
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**110,808**		**73,179**	

ADDITIONAL INFORMATION	**2012**	**2011**
Interest paid	2,947	2,633
Income taxes paid	74,398	65,330
Interest received	556	730
Dividends received	700	450

Statement of changes in consolidated shareholders’ equity

Year ended 31 December 2012 (In thousands of Euro)	**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**	**Net profit/(loss) for the period**	**Group shareholders’ equity**	**Minority interests**	**Total shareholders’ equity**
As at 01.01.2012	**16,841**	**2,995**	**4,188**	**36,686**	**(15,152)**	**(17,654)**	**95,386**	**14,422**	**(1,675)**	**(5,924)**	**81,290**	**211,403**	**44,716**	**256,119**
Allocation of results	-	-	-	29,176	-	-	4,959	-	-	-	(34,135)	-	-	-
Net profit/(loss) for the period		-	-	-	-	-	-		-	-	105,552	105,552	19,727	125,279
Other comprehensive income (loss)	-	-	-	-	22,341	(18,019)	(1,268)	-	(483)	-	-	2,571	728	3,299
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**22,341**	**(18,019)**	**(1,268)**	**-**	**(483)**	**-**	**105,552**	**108,123**	**20,455**	**128,578**
Distribution of dividends	-	-	-	-	-	-	-	-	-	-	(47,155)	(47,155)	(20,211)	(67,366)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	(535)	(6,158)	360	-	-	-	(6,333)	(12,752)	(19,085)
Stock Grant Reserve								1,252				1,252	-	1,252
Specific reserve for share capital increase to serve the Stock Grant Plan	-	-	-	(50)	-	-	-	50	-	-		-	-	-
As at 31.12.2012	**16,841**	**2,995**	**4,188**	**65,812**	**7,189**	**(36,208)**	**92,919**	**16,084**	**(2,158)**	**(5,924)**	**105,552**	**267,290**	**32,208**	**299,498**

Year ended 31 December 2011 (In thousands of Euro)	**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**	**Net profit/(loss) for the period**	**Group shareholders’ equity**	**Minority interests**	**Total shareholders’ equity**
As at 01.01.2011	**16,841**	**2,995**	**4,188**	**31,933**	**(2,266)**	**(27,288)**	**110,303**	**14,446**	**(1,035)**	**(5,924)**	**48,877**	**193,070**	**47,366**	**240,436**
Allocation of results	-	-	-	28,768	-	-	20,109	-	-	-	(48,877)	-	-	-
Net profit/(loss) for the period		-	-	-	-	-	-		-	-	81,290	81,290	21,969	103,259
Other comprehensive income (loss)	-	-	-	-	(12,886)	8,892	147	-	(640)	-	-	(4,487)	1,090	(3,397)
Total comprehensive income (loss)	**-**	**-**	**-**	**-**	**(12,886)**	**8,892**	**147**	**-**	**(640)**	**-**	**81,290**	**76,803**	**23,059**	**99,862**
Distribution of dividends	-	-	-	(24,015)	-	-	-	-	-	-	-	(24,015)	(20,630)	(44,645)
Purchase of minority interests in companies consolidated on a line-by-line basis and accounting of options on minority interests	-	-	-	-	-	742	(35,173)	(24)	-	-	-	(34,455)	(5,079)	(39,534)
As at 31.12.2011	**16,841**	**2,995**	**4,188**	**36,686**	**(15,152)**	**(17,654)**	**95,386**	**14,422**	**(1,675)**	**(5,924)**	**81,290**	**211,403**	**44,716**	**256,119**

Explanatory Notes

1. Corporate information

The Parent company Salvatore Ferragamo S.p.A. is a legal entity organized under Italian law and is listed on the Italian Stock Exchange (MTA segment).
The Salvatore Ferragamo Group is one of the main players in the luxury sector and dates back to 1927.

The consolidated financial statements for the year ended 31 December 2012 were approved by the Board of Directors of Salvatore Ferragamo S.p.A. on 21 March 2013. The main Group activities are set out in the Directors' report on operations.

1.1 Management and coordination

The Parent company Salvatore Ferragamo 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 financial statements of the Holding company Ferragamo Finanziaria S.p.A. as at 31 December 2011 is given below.

Ferragamo Finanziaria S.p.A. (In Euro)		**31 December 2011**	**31 December 2010**
	STATEMENT OF FINANCIAL POSITION		
ASSETS			
B)	Fixed assets	199,604,948	173,833,716
C)	Current assets	51,089,579	11,303,976
D)	Accrued expenses and deferred income	132,527	-
	TOTAL ASSETS	**250,827,054**	**185,137,692**
LIABILITIES AND SHAREHOLDERS' EQUITY			
A)	Shareholders' equity		
	- Share capital	49,749,960	49,749,960
	- Reserves	15,388,771	9,062,561
	- Retained earnings (losses)		-
	- Profit (loss) for the year	94,922,222	6,326,209
B)	Provisions for risks and charges	-	-
D)	Payables	90,766,101	119,484,541
E)	Accrued expenses and deferred income	-	514,421
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**250,827,054**	**185,137,692**
	Guarantees, commitments and other risks	91,376	91,376
	INCOME STATEMENT		
A)	Value of production	-	-
B)	Costs of production	(2,781,455)	(1,837,546)
C)	Financial income and charges	12,539,493	7,243,534
D)	Adjustments to the value of financial assets	-	-
E)	Extraordinary income and charges	85,770,144	-
	Income taxes for the year, current and deferred	(605,960)	920,221
	PROFIT (LOSS) FOR THE YEAR	**94,922,222**	**6,326,209**

2. Basis of presentation

Statement of compliance with IFRS

The consolidated annual report of Salvatore Ferragamo 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 and in force at the reporting date. The explanatory notes to the consolidated financial statements have been supplemented with the extra information requested by CONSOB and by the provisions it has issued in implementation of art. 9 of Leg. Decree 38/2005 (resolutions 15519 and 15520) dated 27 July 2006 and communication DEM/6064293 dated 28 July 2006, pursuant to art. 78 of the Issuers' Regulation, the EC document of November 2003 and, where applicable, the Italian Civil Code.

Contents and structure of the consolidated annual report

All amounts are expressed in Euro and are expressed in thousands of Euro, unless otherwise indicated.

The consolidated statement of financial position is presented in order of decreasing liquidity, where:

- non current assets refer to positive balances to be realized after more than 12 months and include intangible, tangible and financial assets;
- current assets refer to positive balances to be realized within 12 months;
- non current liabilities refer to payables due after more than 12 months, including financial payables, provisions for risks and charges and employee benefit liabilities;
- 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 benefit liabilities.

Differently from the separate financial statements of the Parent company, the consolidated income statements 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 structure chosen is in line with internal reporting processes and business operations. The statement of cash flows has been prepared according to the indirect method and is presented in compliance with IAS 7, breaking down financial flows into operating, investing and financing activities.

Consolidation area

The consolidated annual report as at 31 December 2012 contains the equity and financial position as well as the operating performance of Salvatore Ferragamo S.p.A. and its Italian and foreign subsidiaries. These are identified collectively as the Ferragamo Group.

The consolidated annual report as at 31 December 2012 includes the 2012 accounts of Group companies, which have been prepared by adopting 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 held 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 statement of financial position among shareholders' equity items, separately from Group shareholders' equity.

The following subsidiaries are included in the consolidation area at 31 December 2012:

Company name	**Location**	**Currency**	**Share capital**	**Controlling interest**		**Notes**
				Direct	**Indirect**	
Salvatore Ferragamo S.p.A.	Florence, Italy	Euro	16,841,000	Parent company		
Ferragamo Retail Nederland B.V.	Amsterdam, Holland	Euro	500,000	100%		
Ferragamo France S.A.S.	Paris, France	Euro	4,334,094	100%		
Ferragamo Deutschland GmbH	Munich, Germany	Euro	3,300,000	100%		
Ferragamo Austria GmbH	Vienna, Austria	Euro	1,853,158	100%		
Ferragamo UK Ltd.	London, United Kingdom	Pound Sterling	6,172,735	100%		
Ferragamo Suisse S.A.	Mendrisio, Switzerland	Swiss Franc	1,000,000	100%		
Ferragamo Belgique S.A.	Brussels, Belgium	Euro	750,000	100%		
Ferragamo Monte-Carlo S.A.M.	Principality of Monaco	Euro	304,000	100%		
Ferragamo Espana S.L.	Madrid, Spain	Euro	4,600,000	100%		
Ferragamo USA Inc.	New York, United States	US Dollar	74,011,969	100%		
SF Licensing Corporation	Wilmington, DE, United States	US Dollar	1,000		100%	(1)
Ferragamo Canada Inc	Vancouver, Canada	Canadian Dollar	430,000		100%	(1)
S-Fer International Inc.	New York, United States	US Dollar	4,600,000		100%	(1)

Company name	Location	Currency	Share capital	Controlling interest		Notes
				Direct	Indirect	
Sator Realty Inc	New York, United States	US Dollar	100,000		100%	(1)
Ferragamo Parfums Usa Inc.	New York, United States	US Dollar	200,000		100%	(1)
Ferragamo Latin America Inc.	Miami, United States	US Dollar	300,000	100%		
Ferragamo St. Thomas Inc.	U.S. Virgin Island	US Dollar	1,201,000		100%	(4)
Ferragamo Mexico S. de R.L. de C.V.	Mexico City, Mexico	Mexican Peso	4,592,700	99.73%	0.27%	(4)
Ferragamo Chile S.A.	Santiago, Chile	Chilean Peso	1,471,169,399	99%	1%	(4)
Ferragamo Argentina S.A.	Buenos Aires, Argentina	Argentine Peso	2,498,404	95%	5%	(4)
Ferragamo Brasil Roupas e Acessorios Ltda	Sao Paulo, Brazil	Real	715,000	99%	1%	(4)
Ferragamo Hong Kong Ltd.	Hong Kong, China	Hong Kong Dollar	10,000	100%		
Ferragamo Japan KK	Tokyo, Japan	Japanese Yen	305,700,000	71%		(6)
Ferragamo Australia PTY Ltd.	Sydney, Australia	Australian Dollar	10,536,004	100%		
Ferrimag Limited	Hong Kong, China	Hong Kong Dollar	109,200,000		50%	(2)(7)
Ferragamo Fashion Trading (Shanghai) Co. Ltd.	Shanghai, China	US Dollar	200,000		50%	(3)(7)
Ferragamo Moda (Shanghai) Co. Ltd.	Shanghai, China	US Dollar	1,400,000	50%		(7)
Ferragamo Retail HK Limited	Hong Kong, China	Hong Kong Dollar	39,000,000		50%	(3)(7)
Ferragamo Retail Taiwan Limited	Taipei, Taiwan	New Taiwanese Dollar	136,250,000		50%	(3)(7)
Ferragamo Retail India Private Limited	New Delhi, India	Indian Rupee	150,000,000	51%		(5)
Ferragamo Korea Limited	Seoul, South Korea	South Korean Won	3,291,200,000	80%		
Ferragamo (Singapore) Pte. Ltd.	Singapore	Singapore Dollar	4,600,000	80%		
Ferragamo (Thailand) Limited	Bangkok, Thailand	Baht	100,000,000	80%		
Ferragamo (Malaysia) Sdn Bhd	Kuala Lumpur, Malaysia	Malaysian Ringgit	1,300,000	80%		
Ferragamo Retail Macau Limited	Macau, China	Macau Pataca	25,000	60%		(7)
Ferragamo Parfums S.p.A.	Florence, Italy	Euro	10,000,000	100%		

1 – Through Ferragamo USA Inc.
2 – Through Ferragamo Hong Kong Ltd.
3 – Through Ferrimag Ltd.
4 – Through Ferragamo Latin America Inc.
5 – The investment in Ferragamo Retail India Private Ltd. refers to the legal percentage of ownership. In light of the existence of a call option on the company's minority interests which transfers the benefits and risks to Salvatore Ferragamo S.p.A., all reference to the minority interest has been removed from consolidated shareholders' equity.
6 – The investment in Ferragamo Japan K.K. refers to the legal percentage of ownership. In light of a put option attributed to the company's minority shareholders, all reference to the minority interest has been removed from consolidated shareholders' equity.
7 – The investment in Ferragamo Retail Macau Limited, Ferragamo Moda (Shangai) Co. Ltd., Ferrimag Limited and its subsidiaries (Ferragamo Fashion Trading (Shangai) Co. Ltd., Ferragamo Retail HK Ltd. and Ferragamo Retail Taiwan Ltd.) refer to the legal percentage of ownership. In light of the existence of an agreement among the shareholders (entered into in February 2011 and fulfilled on 3 January 2013 with the relevant payment) which envisaged the purchase by the Group of a further stake in the aforementioned companies, the related minority interest corresponding to the contractually agreed percentage has been eliminated from consolidated shareholders' equity.

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

Company name	Location	Currency	Share capital	Controlling interest		Notes
				Direct	Indirect	
Zefer S.p.A.	Parma, Italy	Euro	500,000	50%		

Zefer S.p.A. is a 50/50 joint venture with the Zegna Group, on behalf of which the company handles the production of footwear and leather goods under the Zegna brand, taking advantage of the consultancy and technical support of the Parent company. This company has been valued using the Equity Method as from the purchase date (September 2006).

During 2012 the composition of the Group saw the following changes:

- on 19 April 2012 Ferragamo Brasil Roupas e Acessorios Ltda was set up; it is 99% owned by Salvatore Ferragamo S.p.A. and the remaining 1% is held by Ferragamo Latin America Inc;
- in June 2012 the liquidation of Ferragamo Parfums S.A. was completed and the company was excluded from consolidation;
- on 20 December 2012 Salvatore Ferragamo S.p.A. acquired a further 30% stake in Ferragamo Korea Ltd, Ferragamo Singapore Pte Ltd, Ferragamo Malaysia Sdn Bhd and Ferragamo Thailand Limited which operate in the strategic markets of Korea and South-East Asia, thus increasing its stake from 50% to 80%.

Translation of financial statements in currencies other than the Euro and of items denominated in foreign currency

The consolidated 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 reports. Transactions in foreign currency are initially recorded at the exchange rate in force at the transaction date (referred to the functional currency). Monetary assets and liabilities, which are denominated in foreign currency, are translated into the functional currency at the exchange rate in force at the reporting date.
All exchange rate differences are recorded in the income statement.
Non-monetary 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.

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

	Average rates		**Exchange rates at the end of the reporting period**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
US Dollar	1.28479	1.39196	1.3194	1.29390
Swiss Franc	1.20528	1.23261	1.2072	1.21560
Japanese Yen	102.49189	110.95860	113.6100	100.20000
Pound Sterling	0.810870	0.86788	0.8161	0.83530
Australian Dollar	1.24071	1.34839	1.2712	1.27230
South Korean Won	1,447.68	1,541.24	1,406.23	1,498.69
Hong Kong Dollar	9.9663	10.8362	10.2260	10.0510
Mexican Peso	16.9029	17.2877	17.1845	18.0512

	Average rates		Exchange rates at the end of the reporting period	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
New Taiwanese Dollar	37.9829	40.8880	38.3758	39.1940
Singapore Dollar	1.60546	1.74887	1.61110	1.68190
Thai Baht	39.9276	42.4288	40.3470	40.9910
Malaysian Ringgit	3.96725	4.25580	4.0347	4.10550
Indian Rupee	68.59736	64.88594	72.55999	68.71299
Macau Pataca	10.25369	11.15034	10.53790	10.35190
Chinese Renminbi	8.10523	8.99600	8.22070	8.15880
Chilean Peso	624.391	672.174	631.999	670.970
Argentine Peso	5.83601	5.74114	6.49370	5.56829
Real	2.50844	2.32651	2.70360	2.41590
Canadian Dollar	1.2842	1.3761	1.3137	1.3215

At the reporting 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 are recorded directly under shareholders' equity, are shown separately in a specific reserve and 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 exchange rate in force at the end of the period.

Accounting principles

General notes

The consolidated annual report has been prepared on the basis of the historical cost principle, except for derivatives and financial assets classified as held for sale, which are recorded at fair value and on a going concern basis.

Discretionary valuations and significant accounting estimates

The preparation of the consolidated annual report 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 inventory of raw materials, accessories and finished products; since the Group's products are subject to changes in fashion trends,

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, are subject to impairment;
- provisions for bad debt relating to wholesale sales, which are linked to the solvency of customers with whom the company has well-established and consolidated relations;
- 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;
- depreciation and amortization rates for property, plant and equipment 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;
- the method of determining the value of the cash-settled share-based remuneration plan, as set out in the Explanatory notes;
- fair value of financial instruments, in which derivatives are particularly important, and which the Group uses extensively to hedge exchange rate risks.
- fair value of share-based payment plans, whether settled in cash or in shares which the Parent company uses to provide incentives to the Group management.

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.

- *Impairment of Property, plant and equipment, Investment property, Intangible assets with a finite useful life, Investments*

The book value of Property, plant and equipment, Investment property, Intangible assets with a finite useful life, and Investments is subject to impairment testing when there are indicators of impairment which require an immediate assessment of impairment, or when events have occurred which require the procedure to be repeated. Impairment exists when the book value of an asset or cash flow generating unit exceeds its recoverable value, which is the higher of its fair value less the costs of sale and its value in use. The calculation of the fair value less the costs of sale is based on the data available from sale binding transactions between free and independent parties involving similar assets or observable market prices, less the extra costs relating to the disposal of the asset. The calculation of the value in use is based on a discounted cash flow model.

The cash flows are taken from the business plans approved by the Board of Directors, which represent the best estimate made by the Company on the economic conditions set for the plan period. The plan forecasts normally refer to a time period of three years, the long-term growth rate (g) – used to estimate the terminal value of the asset – for prudential reasons is lower than the long-term growth rate for the sector, country or reference market. Cash flows do not include restructuring activities for which the Company does not have a current obligation, or significant future investments which will increase the yield on the assets that make up the cash flow generating unit that is being valued. The recoverable amount is very dependent on the discount rate used in the discounted cash flow model and also on the expected future incoming cash flows and on the growth rate used for the purposes of the extrapolation.

Disclosure on impairment

In the current economic scenario, although reassured by a positive trend in the economy, the Group considers disclosure regarding impairment of assets as particularly important. The Group has adopted a procedure to analyze indicators of impairment and a procedure for impairment testing. The results are listed in the notes relating to the individual assets.

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 in the income statement at the time of replacement.

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

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

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

	Useful life
Buildings	33 years
Plant and Equipment	5-6 years
Industrial and commercial equipment	4-7 years
Other assets:	
- Office furniture and furnishings	5-8 years
- Electronic machines	3-5 years
- Historic collection	5 years
- Vehicles	3-4 years
- Leasehold improvements	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 depreciated since it has an unlimited useful life.

The book value of property, plant and equipment 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 property, plant and equipment 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 statement of financial position and any profit or loss (calculated as the difference between the disposal value and the book value) is recognized in the income statement in the year of the elimination.

Investment property

Tangible 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 recognized directly in 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 in 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, in the income statement or in the statement of 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 company which is purchased.

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 relating to 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 relating to 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.

Business combinations between entities subject to joint control do not fall within the scope of application of IFRS 3. Should the business combination between entities subject to joint control not be of an economic nature but a mere corporate reorganization, the company will apply the business combination accounting method called "pooling of interest", thus aggregating the assets and liabilities to the book values on a line-by-line basis.

Intangible assets

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

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

	Useful life
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 assess 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 assess 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 statement of financial position 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 in 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.

<u>Elimination of financial assets</u>

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the statement of financial position 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.

<u>Impairment of financial assets</u>

The Group verifies at each reporting 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 impairment event has an impact, which can be reliably estimated, on the expected 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 in 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 in the income statement – is reversed from the other items of the comprehensive income statement and is recorded in 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 recognition in 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 (the 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, except when the short duration of the receivables makes the application of the amortized costs negligible. They are written down in the case of 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 are subsequently valued using the amortized cost method.

Cash and cash equivalents

Cash and short-term deposits refer to cash on 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 amount received, net of ancillary charges to take out the loan. Following initial recognition, loans are valued at amortized cost, using the effective interest method.

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.

Non current assets 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 employee 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 liabilities has been entrusted to an independent actuary.

Trade payables

Trade payables, whose expiry falls within normal conditions, are not discounted since the discounting effect on cash flows is negligible and they are recorded at their nominal value.

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 current 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 in 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 in 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 on which 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.

<u>Sale of goods</u>

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.

<u>Royalties</u>

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

Advertising and research costs, 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

The Group recognizes additional benefits to some employees with particular positions, through equity-settled share-based payments, which provide for the physical delivery of shares. In accordance with the provisions of IFRS 2 – Share-based payments – rights 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 rights (duration, exercise price and conditions, etc.), as well as the value of the underlying shares at the grant date and their expected volatility.

If the right 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 rights which has been determined previously is not reviewed, but on this date the estimate of the number of rights 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 in 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.

<u>Transactions settled in cash</u>

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 statement of financial position net of any tax advances paid.

Deferred taxes

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

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, 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 relating to 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, 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 relating to 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 reporting 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 reporting 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 reporting 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 profit and/or loss for the period attributable to the shareholders of the Parent company by the weighted average number of outstanding shares during the year. For the purposes of calculating the diluted earnings per share, the weighted average number of outstanding shares 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 debt 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

IAS 12 Income taxes – Recovery of underlying assets
The amendment clarifies the assessment of deferred taxes on investment property valued at fair value. The amendment introduces the rebuttable presumption that the deferred taxes relating to investment property valued at fair value in accordance with IAS 40 should be determined taking into account that the book value will be recovered through the sale. In addition, it introduces the requirement that the calculation of the deferred taxes on not depreciable assets and which are measured in accordance with the depreciation method defined in IAS 16, are always measured on the basis of the sale of the asset. The amendments are applicable for annual periods beginning on or after 1 January 2012. This change did not have any impact on the Group.

IFRS 7 – Disclosures – Transfers of financial assets
The IASB issued a change to IFRS 7 which improves disclosure for financial assets. Disclosure refers to transferred assets (as defined by IAS 39). If the transferred assets are not entirely cancelled from the accounts, the company must provide information which enable users of the financial statements to understand the relation between those assets which are not cancelled and the liabilities associated with them. If the assets are entirely cancelled, but the company maintains a residual involvement, disclosure must be provided to enable users of the financial statements to assess the nature of the residual involvement in the cancelled assets and the related risks. The effective date of adoption of the change is for annual periods beginning on or after 1 July 2011; comparative disclosure is not requested. This change did not have any impact on the Group.

IFRS 1 – Severe hyperinflation and removal of fixed dates for first-time adopters
When the date of transition to IFRS corresponds to or is subsequent to the functional currency normalization date, the company can decide to measure all the assets and liabilities held before the normalization date using their fair value at the date of

transition to IFRS. The fair value can be used as an estimated cost for these assets and liabilities in the opening IFRS statement of financial position. However, this exemption can only be applied to the assets and liabilities which have been subject to severe hyperinflation. The effective date of adoption of the change is for annual periods beginning on or after 1 July 2011; early adoption is permitted. This change did not have any impact on the Group.

The Group has not adopted in advance any standard, interpretation or improvement that has been issued but which is not yet in force.

Standards issued but not yet in force

Set out below are the standards which, when preparing the Group's consolidated financial statements were already issued but not yet in force. The list refers to the standards and interpretations which the Group expects will in all likelihood be applicable in the future. The Group intends to adopt these standards when they come into force.

IAS 1 Presentation of Financial Statements – Presentation of other comprehensive income items

The amendment to IAS 1 changes the grouping of other comprehensive income items. The items which could be reclassified (or "recycled") to profit and loss in the future (for example, elimination or disposal) should be presented separately compared to the items which will never be reclassified. The amendment regards only the basis of presentation and has no impact on the Group's financial position or results. The amendment is applicable for annual periods beginning on or after 1 July 2012.

IAS 19 Employee benefits

The IASB has issued numerous amendments to IAS 19. These range from radical changes, such as the elimination of the corridor mechanism and the concept of expected return on plan assets, to simple clarification and information on terminology. The amendment concerns only the basis of presentation and has no impact on the Group's financial position or results. The amendments are applicable for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in associates (revised in 2011)

Following the new IFRS 11 and IFRS 12, IAS 28 was renamed Investments in associates and joint ventures, and describes the application of the equity method for investments in joint ventures, as well as to associates. The amendments are applicable for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting financial assets and financial liabilities – Amendments to IAS 32

The amendments clarify the meaning of "currently enforceable right to set off" as well as the application of the offsetting criterion of IAS 32 in the case of settlement systems (such as for example central clearing house systems) which settle on a non-simultaneous gross basis. These amendments should not have an impact on the financial position or results of the Group and are applicable for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

This amendment requires IFRS first-time adopters to apply prospectively the requirements of IAS 20 Accounting for Government grants and disclosure of Government assistance to Government loans outstanding at the date of transition to IFRS. The entity can choose to apply the provisions of IAS 39 and IAS 20 to Government loans retrospectively if the necessary information was obtained at the time of the initial recognition of the loan. The exemption will give first-time adopters the benefit of not having to retrospectively value Government loans with an interest rate that is lower than the market rate. The amendment is applicable for annual periods beginning on or after 1 January 2013. The amendment did not have any impact on the Group.

IFRS 7 Disclosures – Offsetting financial assets and financial liabilities – Amendments to IFRS 7

These amendments require the entity to provide information on the rights to set off and related arrangements (for example guarantees). The disclosure will provide the reader of financial statements with useful information to assess the impact of offsetting arrangements on the entity's financial position. The new disclosure is required for all financial instruments which are subject to offsetting under IAS 32 Financial instruments: presentation. The disclosure is required also for financial instruments that are subject to an enforceable master netting arrangement or similar agreement, regardless of whether they are offset in accordance with IAS 32. These amendments will not have an impact on the financial position or results of the Group and are applicable for annual periods beginning on or after 1 January 2013.

IFRS 10 – Consolidated financial statements

IFRS 10 replaces the part of IAS 27 Consolidated and separate financial statements which regulates the accounting procedures for the preparation of consolidated financial statements. It also includes the problems raised in SIC-12 Consolidation – Special purpose entities.

IFRS 10 establishes a single principle of control which applies to all companies, including special purpose entities. The changes introduced by IFRS 10 will require management, compared to the requirements of IAS 27, to make significant discretionary valuations in order to determine which companies are subsidiaries and which, therefore, must be consolidated by the Parent company. This standard is applicable for annual periods beginning on or after 1 January 2013. According to the preliminary analysis undertaken, IFRS 10 should not have any impact on the equity investments currently held by the Group.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly controlled entities – Non-monetary contributions by venturers.

IFRS 11 eliminates the option of accounting for jointly controlled entities using the proportionate consolidation method. Jointly controlled entities which meet the definition of a joint venture must, on the other hand, be accounted using the equity method.

The amendment will have no impact on the Group's financial position or results. This standard is applicable for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of interests in other entities

IFRS 12 includes all the provisions regarding disclosure that were previously included in IAS 27 relating to consolidated financial statements, as well as all the disclosure provisions of IAS 31 and IAS 28. This disclosure relates to a company's interests in subsidiaries, joint arrangements, associates and structured entities. In addition, there are new disclosure cases. This standard is applicable for annual periods beginning on or after 1 January 2013.

IFRS 13 – Fair value measurement
IFRS 13 establishes a single guideline in the scope of the IFRS for all fair value measurement. IFRS 13 does not change the situations in which the use of fair value is required, but rather provides guidelines on how to value fair value under IFRS, when the application of fair value is required or allowed. This standard is applicable for annual periods beginning on 1 January 2013.

Annual improvements (issued in May 2012)

IFRS 1 First-time adoption of International Financial Reporting Standards
This improvement clarifies that an entity which stopped applying IFRS in the past and decides, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, the entity must retrospectively restate its financial statements, as if it had never stopped applying IFRS.

IAS 1 Presentation of financial statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally the minimum required comparative information is the previous period.

IAS 16 Property, plant and equipment
This improvement Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventories.

IAS 32 Financial instruments: presentation
This improvement clarifies that taxes arising from distributions to shareholders are accounted for in accordance with IAS 12 Income taxes.

IAS 34 Interim financial reporting
This improvement aligns the disclosure requirements concerning segment information for total assets and liabilities in interim financial statements. This clarification also aims to guarantee that interim financial reporting is in line with annual disclosures.
These improvements is applicable for annual periods beginning on or after 1 January 2013.

3. Management of financial risks (IFRS 7)

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

- interest rate risks relating to the impact of changes in market interest rates;

- 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 institutions.

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 for hedging purposes only. 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 trade payables, payables to banks and other financial payables. 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:
- flow risk, which refers to the variability in interest income and expense received and paid following changes in interest rates;
- 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 mainly exposed to flow risk, i.e. to the risk of recording in 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 benchmarked to the market rate (generally Euribor/Libor or the specific specific benchmark of the loan currency) in 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 time deposit transactions with reference banks which generally use as a benchmark the Euribor/Libor rate for the period or the specific benchmark of the investment currency.

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 due dates, which are in any case kept within 12 months.

At the reporting 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 year.

Sensitivity Analysis

(In thousands of Euro)			**Market risk**
Sensitivity analysis of interest rate risk on floating rate items	**Underlying asset**	**Increase/ reduction in underlying interest rates**	**Impact on the income statement**
2012			
POSITIVE CHANGE	EURO	0.30%	(10)
	CNY	0.58%	17
	MXN	0.97%	(26)
		Total	**(19)**
NEGATIVE CHANGE	EURO	-0.30%	10
	CNY	-0.58%	(17)
	MXN	-0.97%	26
		Total	**19**
2011			
POSITIVE CHANGE	EURO	0.16%	(94)
	CNY	0.54%	101
	MXN	1.42%	(32)
		Total	**(25)**
NEGATIVE CHANGE	EURO	-0.16%	94
	CNY	-0.54%	(101)
	MXN	-1.42%	32
		Total	**25**

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 benchmark 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, Chinese Renminbi and Mexican Peso whose effects are indicated separately in the above table) showed potential gains or losses in the income statement amounting to 19 thousand Euro for 2012 compared with potential gains or losses amounting to 25 thousand Euro for 2011.
The decreasing impact on the income statement of interest rates changes in the two years under consideration is mainly due to the changes in the amounts of sensitive assets and liabilities and the general downward trend in interest rates following the very loose monetary policies adopted by the main countries following the impact of the financial crisis which hit the global economy and the acute phase of the sovereign debt crisis in the peripheral European countries during 2012.
The possible upward or downward change in the market's benchmark 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 financial statements, 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).

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. This change has an impact on shareholders' equity, where it is reclassified under 'Translation reserve', and is recorded in the statement of comprehensive income.
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 changes 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.

In keeping with the exchange rate risk management policy adopted in recent years, the Group manages exchange rate risk arising from its business, in line with the provisions of the exchange rate risk management policy and the risk management objectives that are periodically established, 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 2012 the percentages of net revenues of the Parent company in US dollars were around 62% and

in Yen around 9%. In the year ended 31 December 2011, the percentage of net revenues realized by the Parent company in US dollars was around 61% of net revenues and the percentage of net revenues realized in Japanese yen was around 10% of net revenues. 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.
To this end, on the basis of market expectations and conditions, before establishing price lists, hedging is arranged for an amount generally between 50% and 90% of forecast sales in foreign currency. In the period following the establishment of the price list, the total outstanding hedge is added for the orders effectively managed and put into 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 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 in 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 2012 and 31 December 2011:

Exchange rate risk	**Cash flow hedge reserve**	
	Year ended 31 December	
(In thousands of Euro)	**2012**	**2011**
Opening balance	**(20,899)**	**(3,125)**
+ increases for recognition of new positive effectiveness	13,371	**18,434**
- decreases for recognition of new negative effectiveness	(5,634)	**(27,073)**
- decreases for reversal of positive effectiveness from shareholders' equity and recognition of income in profit or loss	(863)	**(13,852)**
+ increases for reversal of negative effectiveness from shareholders' equity and recognition of cost in profit or loss	23,941	**4,717**
Closing balance	**9,916**	**(20,899)**

The cash flow hedge reserve, which consists of the value changes in hedges for expected transactions in foreign currency, increased overall by 30,815 thousand Euro during 2012, while it had decreased by 17,774 thousand Euro during 2011, 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 1.49 in May 2011 and lows around 1.20 in July 2012 and between the Euro and the Yen, which went from highs of around 123 in April 2011 to a low of around 94 in July 2012.
The effective amount transferred directly from the Reserve to the income statement under revenues from sales on occurrence of the underlying flows was a negative total of 23,078 thousand Euro in 2012 while it was positive at 9,135 thousand Euro in 2011.
During 2012-2011 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 2012 and 2011.

Cash flow analysis (hedged items): Impact on the income statement

31 December 2012						
(Amounts in currency/000)	**Total expected flows**	**within 3 months**	**3 to 6 months**	**6 to 9 months**	**from 9 months to 1 year**	**over 1 year**
Exchange rate risk						
Sales expected in USD	**417,000**	97,000	90,000	141,000	75,000	14,000
Sales expected in JPY	**4,500,000**	1,000,000	900,000	900,000	1,100,000	600,000
Sales expected in GBP	**7,100**	1,850	1,650	1,700	1,100	800
Sales expected in MXN	**190,000**	50,000	60,000	50,000	30,000	0
Sales expected in CHF	**7,150**	1,550	1,800	1,600	1,400	800
Sales expected in AUD	**4,750**	500	1,250	1,250	1,000	750

31 December 2011						
(Amounts in currency/000)	**Total expected flows**	**within 3 months**	**3 to 6 months**	**6 to 9 months**	**from 9 months to 1 year**	**over 1 year**
Exchange rate risk						
Sales expected in USD	**379,000**	103,000	68,000	112,000	70,000	26,000
Sales expected in JPY	**4,200,000**	1,000,000	700,000	1,200,000	900,000	400,000
Sales expected in GBP	**7,450**	2,200	1,250	2,300	1,300	400
Sales expected in MXN	**200,000**	50,000	60,000	50,000	40,000	0
Sales expected in CHF	**9,000**	2,050	1,550	2,600	1,400	1,400
Sales expected in AUD	**4,600**	850	1,500	1,250	1,000	0

Cash flow analysis (hedged items): Financial recognition

31 December 2012

(Amounts in currency/000)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	**380,000**	100,000	108,000	112,000	60,000	0
Sales expected in JPY	**3,800,000**	1,000,000	600,000	1,300,000	900,000	0
Sales expected in GBP	**6,500**	1,500	1,500	2,000	1,500	0
Sales expected in MXN	**190,000**	50,000	60,000	50,000	30,000	0
Sales expected in CHF	**6,400**	1,900	1,500	1,500	1,500	0
Sales expected in AUD	**4,500**	1,250	1,000	1,000	1,250	0

31 December 2011

(Amounts in currency/000)	Total expected flows	within 3 months	3 to 6 months	6 to 9 months	from 9 months to 1 year	over 1 year
Exchange rate risk						
Sales expected in USD	**379,000**	103,000	68,000	112,000	70,000	26,000
Sales expected in JPY	**4,200,000**	1,000,000	700,000	1,200,000	900,000	400,000
Sales expected in GBP	**7,450**	2,200	1,250	2,300	1,300	400
Sales expected in MXN	**200,000**	50,000	60,000	50,000	40,000	0
Sales expected in CHF	**9,000**	2,050	1,550	2,600	1,400	1,400
Sales expected in AUD	**4,600**	850	1,500	1,250	1,000	0

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, Japanese Yen, Pound sterling and the Mexican peso.
From a time viewpoint, hedges lasting over one year are included within eighteen months.
The above tables set out the financial recognition dates of underlying assets by currency and the date on which the impact on the income statement is recognized. This is determined upon the invoicing of the estimated flows, which are the object of the exchange rate hedge.

Sensitivity Analysis

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.

31 December 2012 (In thousands of Euro)		Increase/ decrease in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
POSITIVE CHANGE	EUR/JPY	12.2%	Derivatives	191	3,350
			Non-derivatives	51	
	EUR/USD	9.15%	Derivatives	3,812	20,332
			Non-derivatives	476	
	USD/KRW	5.7%	Derivatives	468	
			Non-derivatives	14	
	USD/JPY	7.3%	Derivatives	1,417	
			Non-derivatives	(20)	
	EUR/MXN	9.08%	Derivatives	242	678
			Non-derivatives	(1)	
			Total	**6,650**	**24,360**

31 December 2012 (In thousands of Euro)		Increase/ decrease in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
NEGATIVE CHANGE	EUR/JPY	-12.2%	Derivatives	(245)	(4,281)
			Non-derivatives	(66)	
	EUR/USD	-9.15%	Derivatives	(4,580)	(24,428)
			Non-derivatives	(448)	
	USD/KRW	-5.7%	Derivatives	(617)	
			Non-derivatives	(14)	
	USD/JPY	-7.3%	Derivatives	(1,640)	
			Non-derivatives	23	
	EUR/MXN	-9.08%	Derivatives	(291)	(814)
			Non-derivatives	1	
			Total	**(7,877)**	**(29,523)**

31 December 2011 (In thousands of Euro)		Increase/ decrease in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
POSITIVE CHANGE	EUR/JPY	15.9%	Derivatives	(274)	5,066
			Non-derivatives	210	
	EUR/USD	15.6%	Derivatives	(1,460)	36,183
			Non-derivatives	(95)	
	USD/KRW	10.3%	Derivatives	1,294	
			Non-derivatives	104	
	USD/JPY	0.9%	Derivatives	216	
			Non-derivatives	(1)	
	EUR/MXN	15.5%	Derivatives		1,334
			Non-derivatives	(1)	
			Total	**(6)**	**42,583**

31 December 2011 (In thousands of Euro)		Increase/ decrease in underlying foreign exchange rates	Underlying asset	Impact on the income statement	Impact on shareholders' equity
NEGATIVE CHANGE	EUR/JPY	-15.9%	Derivatives	377	(6,981)
			Non-derivatives	(290)	
	EUR/USD	-15.6%	Derivatives	1,999	(49,555)
			Non-derivatives	109	

USD/KRW	-10.3%	Derivatives	(257)	
		Non-derivatives	(104)	
USD/JPY	-0.9%	Derivatives	(307)	
		Non-derivatives	1	
EUR/MXN	-15.5%	Derivatives		(1,822)
		Non-derivatives	2	
		Total	**1,529**	**(58,358)**

As set out in the table above, a positive change in the exchange rates (*EUR/JPY, EUR/USD, USD/KRW, USD/JPY* and *EUR/MXN*) would have produced a profit of 6,650 thousand Euro at 31 December 2012 and a loss of 6 thousand Euro at 31 December 2011; likewise, a negative change in exchange rates would have produced a loss of 7,877 thousand Euro at 31 December 2012 and a profit of 1,529 thousand Euro at 31 December 2011.

The increase in shareholders' equity generated from the hedge derivatives as a consequence of the estimated rises in exchange rates would have been 24,360 thousand Euro at 31 December 2012 and 42,583 thousand Euro at 31 December 2011; the reduction in shareholders' equity as a consequence of the estimated decreases in exchange rates would have been 29,523 thousand Euro at 31 December 2012 and 58,358 thousand Euro at 31 December 2011.

The sensitivity analysis carried out as described above and which is significantly influenced by the market volatility levels of exchange rates taken into account, 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 forecast 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 the value of 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, the possible distribution of dividends 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 credit lines 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.
As at 31 December 2012, committed credit lines with a number of banks were outstanding for a total of 251,369 thousand Euro and revolving short-term credit lines

relating to the Parent company and some of its subsidiaries for a total of 195,653 thousand Euro.

At 31 December 2012 the Group had unused committed credit lines for 193,488 thousand Euro and uncommitted lines for 128,401 thousand Euro, against gross debt of around 125,133 thousand Euro and a net financial position of 57,942 thousand Euro.

At 31 December 2012 the committed credit lines had a maximum residual duration of seventeen months and a weighted average residual duration of eleven months. The credit lines and the related financial business are spread among leading national and international banks. At the date of this Report 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 reference banks in short-term (usually between one week and three months) time deposit transactions, referring to the Euribor/Libor rate for the period or the specific benchmark of the investment currency. 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.

In seeking ever greater efficiency, also during 2012, the Group used a significant part of its cash surplus in order to take out intercompany loans, which are regulated at current market conditions, so as to reduce medium-term bank debt, limit financial charges at a consolidated level and reduce the credit risk connected with the investment of liquidity with banks.

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.

Liquidity risk					**31 December 2012**
Maturity Analysis					
(In thousands of Euro)	***< 3 months***	***3-12 months***	***1-5 years***	***> 5 years***	***Total***
Trade payables	156,067	1,614			157,681
Payables to banks	105,708	20,366			126,074
Payables to shareholders for loans					
Payables to other lenders					
Payables to third parties	45,175				45,175
Derivatives – non-hedge component	595	157			752
Derivatives – hedge component	204	209			413
Total	**307,749**	**22,346**			**330,095**

Liquidity risk					**31 December 2011**
Maturity Analysis					
(In thousands of Euro)	***< 3 months***	***3-12 months***	***1-5 years***	***> 5 years***	***Total***
Trade payables	142,726	10,977			153,703
Payables to banks	44,799	15,230			60,029
Payables to shareholders for loans		630			630
Payables to other lenders					
Payables to third parties	4,070	40,136			44,206
Derivatives – non-hedge component	57				57
Derivatives – hedge component	5,465	15,201			20,667
Total	**197,117**	**82,175**			**279,292**

At year end the outstanding intercompany loans were largely repaid by debtor companies and replaced with bank debt, with the aim of making cash available for the acquisition of a further 30% stake in the distribution companies in Korea and South-East Asia, and for the payment, which was made on 3 January 2013, relating to the implementation of the contractual agreements with Imaginex Holdings Ltd and Imaginex Overseas Ltd and aimed at increasing the investment up to 75% in the distribution companies operating on the strategic market of Greater China.

The analysis carried out on the items relating to financial liabilities showed a concentration of maturities within three months, with nil values as at 31 December 2012 and 31 December 2011 for maturities of over 12 months.
Financial assets recorded in the statement of financial position 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 relevant receivables.

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 34 percent of global turnover: the remaining turnover refers to retail sales with payment in cash or through credit and debit cards upon purchase.

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. The allocation of the credit risk among a number of customers helps to further mitigate the risk.

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.

Besides obtaining, where possible, guarantees from wholesale customers or the adoption of means of payment which are less risky for the creditor, such as documentary letters of credit, another instrument used to manage commercial credit risk is the subscription of insurance policies, with the aim of preventing the risk of non-payment through careful selection of the customer portfolio jointly with the insurance company or the factoring company (for relationships relating to guarantees only), by which the latter 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.

The credit risk connected to financing, investment and operating activities in derivatives to hedge the exchange rate risk 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 and by diversifying the accounting currency of surplus cash.

During 2012, also with the aim of minimizing this type of risk, the Group used a significant part of its cash surpluses not in time-deposit investments, but to take out intercompany loans, regulated at current market conditions, so as to reduce its medium-term bank debt.
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.

(In thousands of Euro)	**Book value at 31 Dec. 2012**		**Book value at 31 Dec. 2011**	
	Current portion	*Non current portion*	*Current portion*	*Non current portion*
Financial assets at fair value through profit or loss				
- Other financial assets	17		13	
Receivables and loans				
-Receivables from others (M/L term)	275	750	270	1,000
-Trade receivables	105,184		97,711	
-Cash and cash equivalents	110,864		73,477	
-Guarantee deposits		9,915		7,793
-Derivatives	11,935		1,385	-
Total	**228,275**	**10,665**	**172,856**	**8,793**

At year end the outstanding intercompany loans were largely repaid by debtor companies and replaced with bank debt, with the aim of making cash available for the acquisition of a further 30% stake in the distribution companies in Korea and South-East Asia, and for the payment, which was made on 3 January 2013, relating to the implementation of the contractual agreements with Imaginex Holdings Ltd and Imaginex Overseas Ltd and aimed at increasing the investment up to 75% in the distribution companies operating on the strategic market of Greater China.

The table shows how the Group's exposure to credit risk is defined by the book value of the items representing outstanding financial assets as at 31 December 2012 and 31 December 2011, and is almost exclusively limited to the current portion.

Concentration of credit risk by geographic area

(In thousands of Euro)	**Book value at 31 Dec. 2012**	**%**	**Book value at 31 Dec. 2011**	**%**
Italy	18,013	17.1%	20,018	20.5%
Europe	14,131	13.4%	9,470	9.7%
North America	13,459	12.8%	11,119	11.4%
East Asia	51,875	49.3%	48,479	49.6%
Others	7,707	7.3%	8,624	8.8%
Total	105,184	100.0%	97,711	**100.0%**

The table shows the concentration of credit risk by geographic area of the Group activity in the two years under review.

Breakdown of trade receivables by type

(In thousands of Euro)	**Book value**							
	Receivables neither past due nor impaired		**Receivables past due but not impaired**					**Total**
	renegotiated	*non-renegotiated*	*<30 days*	*30-60 days*	*60-90 days*	*90-120 days*	*>120 days*	
At 31 Dec. 2012	-	88,683	12,661	2,517	476	306	541	**105,184**
At 31 Dec. 2011	-	83,647	10,215	3,023	361	75	389	**97,711**
Figures in % at 31 Dec. 2012	-	84.3%	12.0%	2.4%	0.5%	0.3%	0.5%	**100.0%**
Figures in % at 31 Dec. 2011	-	85.6%	10.5%	3.1%	0.4%	0.1%	0.4%	**100.0%**

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 2012 and 31 December 2011.

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	2012	2011
Percentage of revenues with the biggest customer	2.0%	2.0%
Percentage of revenues with the 3 biggest customers	5.0%	4.8%
Percentage of revenues with the 10 biggest customers	12.1%	11.6%

Capital management

The main objective of the Group's capital management activity is to ensure that a solid credit rating as well as adequate levels of equity indicators are maintained in order to support business and optimize value for shareholders. The Group manages the capital structure and modifies it according 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 2011 and 2012.

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

Other financial payables include agreements for the purchase of minority interests (reference should be made to notes 4 and 39).

The table does not include the values and related effects produced by the derivatives used to manage exchange rate risk.

(In thousands of Euro)	31 December 2012	31 December 2011
Interest-bearing loans	125,133	60,017
Other financial payables	45,175	44,206
Trade and other payables	206,213	208,299
Cash and cash equivalents	110,864	73,477
Net debt	**265,657**	**239,045**
Group shareholders' equity	260,101	226,555
Minority interests	32,208	44,716
Total shareholders' equity	**292,309**	**271,271**
Shareholders' equity and net debt	**557,966**	**510,316**
Debt / shareholders' equity	**90.9%**	**88.1%**

4. Business combinations and purchases of minority interests

During 2012 there were no business combinations.

Ferrimag Limited (25%) – Ferragamo Moda Shanghai Co. Limited (25%) - Ferragamo Retail Macau Limited (15.2%)

In reference to investments in the subsidiaries Ferrimag Limited, Ferragamo Moda Shanghai Co. Limited, and Ferragamo Retail Macau Limited, on 28 February 2011 the Group changed its agreements with the local partners (Imaginex Holding Limited and Imaginex Overseas Limited) by signing new agreements which provide for that the Ferragamo Group buys a further stake in addition to that already held, amounting to

25% for Ferrimag Limited and Ferragamo Moda Shanghai and 15.2% for Ferragamo Retail Macau at a preset price (41,235,000 Euro) to be paid on 1 January 2013. The closing of the contract was fulfilled on 3 January 2013 with the payment of the agreed price of 4,435,000 Euro by Salvatore Ferragamo S.p.A. for the purchase of 25% of Ferragamo Moda Shanghai and 15.2% of Ferragamo Retail Macau and 36,800,000 Euro by Ferragamo Hong Kong for the purchase of 25% of Ferrimag Limited.

Given an agreement for the purchase of minority interests at a preset price, the Group therefore recognized the related discounted financial liability and reclassified it from shareholders' equity.

In addition, the agreement provides for that, in specific cases, the minority shareholder has the right to receive dividends on profits and distributable reserves accrued up to 31 December 2012 with reference to the shares held prior to the agreement. The Group allocated the profit accrued in the year to the minority shareholder.

Comments on the main statement of financial position items (assets, shareholders' equity and liabilities)

5. Property, plant and equipment

The historic cost, the accumulated depreciation, impairment and the net book value of the item "Property, plant and equipment" at 31 December 2012 and 2011 are shown in the following table:

(In thousands of Euro)	31 December 2012			31 December 2011			
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Impairment	Net value
Land	19,284	-	19,284	18,894	-	-	18,894
Buildings	42,096	16,960	25,136	41,360	15,793	-	25,567
Plant and equipment	19,575	15,055	4,520	16,763	12,857	-	3,906
Industrial and commercial equipment	71,954	46,673	25,281	83,612	53,837	417	29,358
Other assets	38,320	28,854	9,466	38,136	28,226	-	9,910
Leasehold improvements	148,104	95,665	52,439	110,401	81,553	-	28,848
Fixed assets in progress and payments on account	3,454	-	3,454	4,285	-	-	4,285
Property, plant and equipment	**342,787**	**203,207**	**139,580**	**313,451**	**192,266**	**417**	**120,768**

The following tables show the change in property, plant and equipment for the years ended 31 December 2012 and 31 December 2011:

(In thousands of Euro)	Year ended 31 December 2012						
	Value at 01.01.2012	Translation difference	Additions	Disposals	Depreciation	Reclassifi-cations	Value at 31.12.2012
Land	18,894	390	-	-	-	-	19,284
Buildings	25,567	(39)	1,612	-	1,384	(620)	25,136
Plant and equipment	3,906	(3)	991	(37)	1,604	1,267	4,520
Industrial and commercial equipment	29,358	(11)	14,074	261	7,337	(11,064)	25,281
Other assets	9,910	(11)	5,228	(16)	3,758	(1,887)	9,466
Leasehold improvements	28,848	(664)	29,673	(767)	14,734	10,083	52,439
Fixed assets in progress and payments on account	4,285	(31)	11,710	(11,571)	-	(939)	3,454
TOTAL	**120,768**	**(369)**	**63,288**	**(12,130)**	**28,817**	**(3,160)**	**139,580**

(In thousands of Euro)	Year ended 31 December 2011							
	Value at 01.01.2011	Translation difference	Additions	Disposals	Deprecia-tion	Reclassifica-tions	Impairment	Value at 31.12.2011
Land	18,790	104	-	-	-	-	-	18,894
Buildings	25,014	247	1,591	-	1,285	-	-	25,567
Plant and equipment	3,114	4	1,813	(6)	1,020	1	-	3,906
Industrial and commercial equipment	27,114	1,021	13,024	(401)	8,026	(2,957)	417	29,358
Other assets	7,553	(72)	6,179	(60)	3,515	(175)	-	9,910
Leasehold improvements	24,776	712	10,330	(1,114)	8,879	3,023	-	28,848
Fixed assets in progress and payments on account	1,275	229	9,220	(6,530)	-	91	-	4,285
TOTAL	**107,636**	**2,245**	**42,157**	**(8,111)**	**22,725**	**(17)**	**417**	**120,768**

The addition:

- in the item "Buildings" refers to improvements to the facility at Osmannoro-Sesto Fiorentino and the property owned in the USA;

- in industrial and commercial equipment refers to the opening and restructuring of stores (13,721 thousand Euro) and the purchase of moulds (353 thousand Euro) for the Fragrances product category;
- in other assets mainly refers to IT equipment (2,143 thousand Euro) and furniture and furnishings (2,877 thousand Euro);
- in leasehold improvements refers mainly to work carried out for the opening or restructuring of stores.

The net value of the reclassifications for 3,160 thousand Euro refers mainly to the reclassification under current assets (in particular prepaid expenses) of contributions paid by some Chinese Group companies to its customers for the layout/restructuring of stores, as provided for by the distribution contracts which were previously classified under the tangible assets of such companies.
Disposals mainly refer to assets in renovated or closed stores.

As envisaged by the analysis procedure for impairment indicators adopted by the company, at year end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the company operates, while internal sources are corporate strategies which can change the use of assets.
From the analyses carried out no need emerged to record any impairment on this item.

6. Investment property

The historic cost, the accumulated depreciation and net book value of investment property as at 31 December 2012 and 2011 are shown in the following table:

(In thousands of Euro)	31 December 2012			31 December 2011		
	Historic Cost	Accumulated depreciation	Net value	Historic Cost	Accumulated depreciation	Net value
Land	4,242	-	4,242	4,326	-	4,326
Buildings	9,992	7,195	2,797	10,188	7,038	3,150
Investment property	**14,234**	**7,195**	**7,039**	**14,514**	**7,038**	**7,476**

Investment property refers entirely to the buildings located in the United States.

The following tables show the change in investment property for the years ended 31 December 2012 and 2011:

(In thousands of Euro)	Year ended 31 December 2012				
	Value at 01.01.2012	Translation difference	Additions	Depreciation	Value at 31.12.2012
Land	4,326	(84)	-	-	4,242
Buildings	3,150	(53)	-	300	2,797
TOTAL	**7,476**	**(137)**	**-**	**300**	**7,039**

(In thousands of Euro)	Year ended 31 December 2011				
	Value at 01.01.2011	Translation difference	Additions	Depreciation	Value at 31.12.2011
Land	4,189	137	-	-	4,326
Buildings	3,346	88	-	284	3,150
TOTAL	**7,535**	**225**	**-**	**284**	**7,476**

As envisaged by the analysis procedure for impairment indicators adopted by the company, at year end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the company operates, while internal sources are corporate strategies which can change the use of assets.
From the analyses carried out no need emerged to record any impairment on this item.

7. Intangible assets with a finite useful life

The breakdown of intangible assets with a finite useful life at 31 December 2012 and 2011 is shown in the following table:

(In thousands of Euro)	31 December 2012			31 December 2011		
	Historic Cost	Accumulated amortization	Net value	Historic Cost	Accumulated amortization	Net value
Industrial patents and use of intellectual property rights	16,815	14,144	2,671	14,899	13,322	1,577
Concessions, licenses and trademarks	6,954	5,500	1,454	6,674	5,184	1,490
Others	33,959	19,201	14,758	30,133	16,174	13,959
Intangible assets with a finite useful life in progress	1,795	-	1,795	1,025	-	1,025
Intangible assets with a finite useful life	**59,523**	**38,845**	**20,678**	**52,731**	**34,680**	**18,051**

The following tables show the changes in intangible assets with a finite useful life for the years ended 31 December 2012 and 2011:

(In thousands of Euro)	Year ended 31 December 2012						
	Value at 01.01.2012	Translation differences	Additions	Disposals	Amortization	Reclassifica-tions	Value at 31.12.2012
Industrial patents and use of intellectual property rights	1,577	(35)	2,289	-	1,160	-	2,671
Concessions, licenses and trademarks	1,490	-	279	-	315	-	1,454
Others	13,959	(105)	4,342	(4)	3,370	(64)	14,758
Intangible assets with a finite useful life in progress	1,025	4	5,538	(4,772)	-	-	1,795
TOTAL	**18,051**	**(136)**	**12,448**	**(4,776)**	**4,845**	**(64)**	**20,678**

(In thousands of Euro)	Year ended 31 December 2011						
	Value at 01.01.2011	Translation differences	Additions	Disposals	Amortization	Reclassifica-tions	Value at 31.12.2011
Industrial patents and use of intellectual property rights	1,691	24	870	-	1,025	17	1,577
Concessions, licenses and trademarks	1,496	-	327	-	333	-	1,490
Others	9,830	33	6,364	(7)	2,261	-	13,959
Intangible assets with a finite useful life in progress	1,871	30	4,462	(5,338)	-	-	1,025
TOTAL	**14,888**	**87**	**12,023**	**(5,345)**	**3,619**	**17**	**18,051**

The item “Others” mainly 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). This item includes the so-called key money, i.e. 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.

The following table provides the relevant net book value and distribution by geographic area of the key money item:

(In thousands of Euro)	31 December 2012	31 December 2011
Europe (excluding Italy)	2,049	2,564
North America	2,492	2,806
Asia Pacific	483	594
TOTAL	**5,024**	**5,964**

As envisaged by the analysis procedure for impairment indicators adopted by the company, at year end an assessment was made of the possible presence of impairment indicators which can be assessed through internal or external information sources. External sources typically consist of changes in the technological, economic and legal framework in which the company operates, while internal sources are corporate strategies which can change the use of intellectual property and software. With reference to Key money, they consist of the economic benefit to the Group arising from the geographic area served by the store for which this cost has been incurred.
From the analyses carried out no need emerged to record any impairment on this item.

8. Investments in associated and jointly controlled companies

As at 31 December 2012 the net book value of the investment in Zefer S.p.A. which has been valued using the Equity Method totaled 1,331 thousand Euro, while as at 31 December 2011 it totaled 1,393 thousand Euro.

Here below is the company's key data as at 31 December 2012 and 31 December 2011:

(In thousands of Euro)	31 December 2012	31 December 2011
Non current assets	833	28
Current assets	11,921	11,673
Total assets	**12,754**	**11,701**
Shareholders' equity	2,661	2,787
Non current liabilities	340	338
Current liabilities	9,753	8,576
Total liabilities and shareholders' equity	**12,754**	**11,701**
Revenues	32,549	30,579
Net profit/(loss) for the period	1,274	1,400

From the analyses of the elements supporting the business continuity and the future profitability of Zefer S.p.A., no need emerged to record any impairment on this item.

9. Available-for-sale financial assets

The breakdown and changes of the item "Available-for-sale financial assets" as at 31 December 2012 and 31 December 2011 is set out in the following table:

		Year ended 31 December 2012			
(In thousands of Euro)	**Investment percentage**	**Value at 01.01.2012**	**Translation difference**	**Restatement**	**Value at 31.12.2012**
Polimoda Consulting S.r.l.	0.82%	20	-	-	20
Other assets		-	-	7	7
TOTAL		**20**	**-**	**7**	**27**

		Year ended 31 December 2011			
(In thousands of Euro)	**Investment percentage**	**Value at 01.01.2011**	**Translation difference**	**Write-downs**	**Value at 31.12.2011**
Polimoda Consulting S.r.l.	0.82%	20	-	-	20
Other assets		31	-	(31)	-
TOTAL		**51**	**-**	**(31)**	**20**

10. Other non current assets

The breakdown of the item "Other non current assets" as at 31 December 2012 and 31 December 2012 is set out in the following table:

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**Change 2012 vs. 2011**
Advances to suppliers	750	1,000	(250)
Other non current assets	3,680	3,909	(229)
TOTAL	**4,430**	**4,909**	**(479)**

Advances to suppliers relate to advances of royalties paid by Ferragamo Parfums S.p.A. for the use under license of the Ungaro brand in the fragrances product category (as provided for by the license contract entered into in November 2005 and renewed at the beginning of 2011). These advances are recovered with the accrual of royalties as from 1 January 2011.
The item "Other non current assets" includes the impact relating to the straight line charging of rental income from investment property in the USA, as provided for by the relevant standards (straight lining).

11. Other non current financial assets

The breakdown of the item "Other financial assets" as at 31 December 2012 and 31 December 2011 is set out in the following table:

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**Change 2012 vs. 2011**
Guarantee deposits	9,915	7,793	2,122
TOTAL	**9,915**	**7,793**	**2,122**

The item includes guarantee deposits mainly for existing rental contracts.

12. Inventories

Ending inventories refer to the following categories:

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Raw materials, accessories and consumables	49,949	44,986	4,963
Provision for obsolete inventory	(6,739)	(6,341)	(398)
Raw materials, accessories and consumables	43,210	38,645	4,565
Finished products and goods for resale	227,412	224,287	3,125
Provision for obsolete inventory	(20,818)	(20,368)	(450)
Finished products and goods for resale	206,594	203,919	2,675
TOTAL	**249,804**	**242,564**	**7,240**

The change in stocks of raw materials, compared to 2011, depends on production volumes, which rose during the year due to the increase in sales volumes; the provision reflects the obsolescence of raw materials (leather and accessories) which are no longer suitable for the company's production plans.
The change in stocks of finished products is due both to the increase in sales volumes, the opening of new stores and to the exchange rate effect. The change, net of the exchange rate effect, was an increase of 22,704 thousand Euro.
The exchange rate effect was negative for 20,029 thousand Euro and refers mainly to the changes in the Japanese yen and the US dollar.

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

(In thousands of Euro)	Year ended 31 December		Change
	2012	2011	2012 vs. 2011
Raw materials	398	1,546	(1,148)
Finished products	738	2,782	(2,044)
TOTAL	**1,136**	**4,328**	**(3,192)**

13. Trade receivables

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Trade receivables	107,950	99,708	8,242
Provision for bad debt	(4,723)	(3,854)	(869)
Trade receivables from associated companies	1,957	1,857	100
TOTAL	**105,184**	**97,711**	**7,473**

Trade receivables, which recorded a lower increase in percentage terms than the wholesale revenues to which they mainly refer, are due for around 10,233 thousand Euro to fragrances and, for the remainder, to other product categories. 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.
Receivables from associated companies refer to Zefer S.p.A., for the payment of technical consultancy/assistance service fees.

The changes in the provision for bad debt during 2012 were as follows:

(In thousands of Euro)	Year ended 31 December 2012				
	Value at 01.01.2012	Translation difference	Allocations	Uses	Value at 31.12.2012
Total	**3,854**	24	1,301	(456)	**4,723**

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

14. Tax receivables

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Due from tax authorities (value added tax and other taxes)	7,348	7,236	112
Due from tax authorities for income taxes	1,798	3,000	(1,202)
Withholding taxes	11	3	8
TOTAL	**9,157**	**10,239**	**(1,082)**

The decrease in amounts due from tax authorities for income taxes was due to the positive trend in the income performance of Group companies.

15. Other current assets

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Other receivables	11,047	10,369	678
Accrued income	5	16	(11)
Prepaid expenses	12,915	7,933	4,982
Other receivables for short-term hedge derivatives	10,965	660	10,305
TOTAL	**34,932**	**18,978**	**15,954**

As at 31 December 2012 other receivables mainly included:

- advances to suppliers (1,775 thousand Euro);
- receivables due from credit card management companies for retail sales (4,720 thousand Euro);
- receivables from the Holding company Ferragamo Finanziaria S.p.A. (2,025 thousand Euro) concerning the income tax (IRES) refund claim (online request sent on 5 February 2013) regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011, as set out in Law Decree no. 201 of 6 December 2011.

Prepaid expenses mainly include contributions to customers for 4,892 thousand Euro, rents for 4,517 thousand Euro and insurance premiums for 991 thousand Euro.

The increase compared to 31 December 2011 was also due to the reclassification of the contributions provided by some Chinese Group companies to their customers for the fitting out / renovation of stores which were previously classified under the tangible assets of the companies.

"Other receivables for short-term hedge derivatives" amounting to 10,965 thousand Euro (660 thousand Euro as at 31 December 2011) refer to the fair value assessment of outstanding derivative contracts (hedge component) entered into by the Parent company to manage exchange rate risk on sales in currencies other than the Euro.

16. Other current financial assets

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Derivatives	1,925	2,338	(413)
Other current financial assets	17	35	(18)
TOTAL	**1,942**	**2,373**	**(431)**

17. Cash and cash equivalents

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Time deposits	53,058	30,701	22,357
Bank and post office deposits	57,318	42,222	15,096
Checks	-	1	(1)
Cash and values on hand	488	553	(65)
TOTAL	**110,864**	**73,477**	**37,387**

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

During 2012, the Group used a significant part of its cash surpluses not in time-deposit investments, but to take out intercompany loans, regulated at current market conditions, so as to reduce its medium-term bank debt. At year end the outstanding intercompany loans were largely repaid by debtor companies and replaced with bank debt, with the aim of making cash available for the acquisition of a further 30% stake in the distribution companies in Korea and South-East Asia, and for the payment, which was made on 3 January 2013, relating to the fulfillment of the contractual agreements with Imaginex Holdings Ltd and Imaginex Overseas Ltd and aimed at increasing the investment up to 75% in the distribution companies operating on the strategic market of Greater China.

As at 31 December 2012 the Group had unused credit lines for 321,889 thousand Euro. As at 31 December 2011 unused credit lines totaled 308,735 thousand Euro.

For the purposes of the consolidated statement of cash flows, the item "Cash and cash equivalents" as at 31 December 2012 and 31 December 2011 was broken down as follows:

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Cash and bank sight deposits	57,806	42,776	15,030
Short-term bank deposits	53,058	30,701	22,357
Bank overdrafts	(56)	(298)	242
TOTAL	**110,808**	**73,179**	**37,629**

18. Share capital and reserves

The authorized share capital of the Parent Company as at 31 December 2012 totaled 16,891,000 Euro; the subscribed and paid up share capital amounted to 16,841,000 and consisted of 168,410,000 ordinary shares with a nominal value of 0.10 Euro each. The increase in share capital of 50,000 Euro is a consequence of the resolution of the Extraordinary Shareholders' Meeting of 26 April 2012 relating to the establishment of a stock grant plan; for details reference should be made to the section *"Significant events occurred during the year"* and to note 38.

Share capital contributions of 2,995 thousand Euro, which refer entirely to the Parent company, were paid in a single amount in 2003 by the Holding company Ferragamo Finanziaria S.p.A. and were reduced in 2007, due to demerger.

The legal reserve of 4,188 thousand Euro was set up in previous years and refers entirely to the Parent company. 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 cannot be distributed.

The extraordinary reserve of 65,812 thousand Euro, which refers entirely to the Parent company, consists of retained earnings; the increase recorded in the period is equal to 29,176 thousand and refers to net profit for 2011, net of the distribution of dividends for 47,155 thousand Euro which were approved in 2012 and the decrease is due to the reclassification of 50,000 Euro to the specific reserve for the free share capital increase to service the stock grant plan.

The cash flow hedge reserve was positive for 7,189 thousand Euro and is the result of the valuation of the financial instruments defined as cash flow hedges as at 31 December 2012, given the hedges against exchange rate risk, and is shown net of the tax effect.

The translation reserve, negative for 36,208 thousand Euro, 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 Japanese yen and, finally, other currencies.

Retained earnings of 92,919 thousand Euro include profits/losses capitalized during the years, taking due account of consolidation adjustments, in particular unrealized profit on inventories. This reserve, during 2012, was affected by the joint impact of two factors. On the one hand, it rose by 4,959 thousand Euro due to the capitalization of the profit for 2011, net of the Parent company's profit. On the other hand, the reserve fell by 6,158 thousand Euro due to the effect in the period of the recognition of the put and call agreements on minority interests already existing at 31 December 2011 – as indicated in Note 39 – and the recognition of the agreement to acquire minority stakes in companies that are consolidated on a line-by-line basis as an effect of the transactions described in note 4 above.

The items “Other reserves”, “Effect IAS 19 equity” and “Effect IAS 28 (common control equity)”, with a net total of 8,002 thousand Euro, include the values recorded for the valuation differences required by IAS compared to the local standards of Group companies. In addition, they include the specific reserve set up to service the future free share capital increase of the Parent company for a nominal amount of 50,000 Euro for the shares which will be assigned by the stock grant plan (up to a maximum of 500,000 with a nominal value of 0.10 Euro each) and the stock grant reserve (1,252 thousand Euro) which includes the fair value at 31 December 2012 of the rights assigned to receive shares of the Parent company. For details on the stock grant plan reference should be made to note 38.

The amounts are net of the tax effects where applicable.

The changes in shareholders’ equity items occurred in 2012 and 2011 are shown in the related statements.

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

(In thousands of Euro)	**Reserves made up of profits**	**Translation reserve**	**Other reserves**	**Total**
At 31 December 2012				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	65,812	-	-	65,812
Cash flow hedge reserve	-	-	7,189	7,189
Translation reserve	-	(36,208)	-	(36,208)
Retained earnings	92,919	-	-	92,919
Other reserves	-	-	8,002	8,002
TOTAL	**162,919**	**(36,208)**	**18,186**	**144,897**
At 31 December 2011				
Share capital contributions	-	-	2,995	2,995
Legal reserve	4,188	-	-	4,188
Extraordinary reserve	36,686	-	-	36,686
Cash flow hedge reserve	-	-	(15,152)	(15,152)
Translation reserve	-	(17,654)	-	(17,654)
Retained earnings	95,386	-	-	95,386
Other reserves	-	-	6,823	6,823
TOTAL	**136,260**	**(17,654)**	**(5,334)**	**113,272**

19. Provisions for risks and charges

The breakdown and changes in the item are provided in the following table:

(In thousands of Euro)	Year ended 31 December 2012				
	Value at 01.01.2012	Translation difference	Additions	Uses	Value at 31.12.2012
Legal disputes	9,197	-	484	(7,927)	1,754
Opposition charges	2,500	-	-	(2,500)	-
Other	2,434	(97)	1,483	(150)	3,670
TOTAL	**14,131**	**(97)**	**1,967**	**(10,577)**	**5,424**

(In thousands of Euro)	Year ended 31 December 2011					
	Value at 01.01.2011	Translation difference	Additions	Uses	Reclassifications	Value at 31.12.2011
Legal disputes	3,267	-	6,631	(701)	-	9,197
Opposition charges	500	-	2,000	-	-	2,500
Other	1,285	100	1,329	(32)	(248)	2,434
TOTAL	**5,052**	**100**	**9,960**	**(733)**	**(248)**	**14,131**

Legal disputes mainly refer to legal proceedings against the Parent company and some proceedings regarding subsidiaries as well as labor disputes. Labor disputes refer both to litigations and to estimates of settlement amounts which the Group companies might pay for settlement in the pre-litigation stage.

The use of the provision for legal disputes and opposition charges refers mainly to the outstanding tax dispute between the Parent company and the Italian tax authorities as set out below (10,000 thousand Euro).
With reference to the tax audit carried out on the Parent company Salvatore Ferragamo S.p.A. by agents of the Florence Tax Police from 6 October 2010 to 17 October 2011 and the assessment notices relating to the 2006 tax year received on 27 December 2011, the Company, insisting on seeing its reasons against these notices acknowledged, on 17 February 2012 submitted petitions for assessment with acceptance in order to verify the possibility of reaching an out-of-court settlement of the tax claims and sanctions issued by tax authorities, in relation both to 2006 and to the other years subject to tax audit. This out-of-court settlement was reached on 16 May 2012 concerning the enforceability of the so-called CFC provisions with regard to the subsidiary Ferragamo Hong Kong Limited for the years from 2006 to 2009, by means of an assessment with acceptance (for 2006) and the acceptance of three summons to appear (for the years 2007, 2008 and 2009), in which the Financial administration recognized the validity of many objections raised by the Company, first of all that which requested the non-application of the administrative sanctions. This agreement does not imply acceptance of the grounds of the Financial administration’s claims, either in terms of personal responsibility or the purely objective aspect. In particular, the Company is certain that it has always run its business correctly and in good faith, as proven by the non-application of administrative sanctions. Nonetheless, an assessment with acceptance was deemed appropriate, which is based on an assessment of economic nature and business efficiency, in particular to eliminate the risk of facing a long and costly tax dispute. The agreement reached entails the payment of 13.6 million Euro (for taxes and interest as at 31 May 2012 with non-application of administrative sanctions) in 12 quarterly installments, and has the legal effect of

making distributable – without Italian taxes being applied – the retained earnings set aside by Ferragamo Hong Kong in relation to the years covered by the assessment with acceptance, for a total amount of around 59.9 million US dollars. At 31 December 2012 the first three installments were paid, for a residual amount due of 10.3 million Euro, including interest. The economic impact on the 2012 result amounted to 7.6 million Euro, considering the allocation to the provision for previous years income taxes of 6 million Euro recorded in 2011.
Regarding the withholding taxes, whose omission was challenged for 2007, 2008 and 2009, the Company received three different notices to appear from the Regional Tax Office, in which the reasons put forward by the Company during the proceedings were partially acknowledged. The Company declared acceptance of these notices pursuant to art. 5 of Legislative Decree no. 218/1997 and so benefited from a reduction to 1/6 of the applicable sanctions. The Regional Tax Office also notified the Company of three different orders imposing sanctions concerning failure to pay, which by law cannot be reduced or made part of a settlement. This agreement does not imply acceptance of the grounds of the tax authorities. Nevertheless, following an assessment of cost-effectiveness and business efficiency, in particular to eliminate the risk of facing a long and costly tax dispute, it was deemed appropriate to accept the notices and consequently accept the orders imposing sanctions. This implied the total payment, which has already been made, of 1.6 million Euro (for taxes, sanctions and interest).
With these final procedures, all pending issues related to the tax audit have been settled.

The provision for other risks includes allocations against likely future costs of various kinds. This amount includes the additional allowance set aside by Ferragamo Parfums S.p.A. and Salvatore Ferragamo S.p.A. for agents operating in Italy. The allocation in the year refers mainly to future expenses for the restoration of premises leased by third parties (1,192 thousand Euro).

20. Employee benefit liabilities

The following table shows the breakdown of employee benefits as at 31 December 2012 and 31 December 2011:

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Employee benefit liabilities (severance indemnities)	8,457	8,077	380
Employee benefit liabilities (other)	2,972	2,618	354
TOTAL	**11,429**	**10,695**	**734**

Employee severance indemnities

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

(In thousands of Euro)	31 December 2012	31 December 2011
Present value of the obligation at the beginning of the period	8,077	7,285
Cost relating to current employment	124	111
Financial charge	223	201
Benefits paid	(391)	(399)
Actuarial loss (gain) recorded	424	879
Present value of the obligation at the end of the period	**8,457**	**8,077**

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 S.p.A.).

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

	31 December 2012	31 December 2011
Annual rate of pay increase	3.47%	3.97%
Annual discount rate	2.25%	2.76%
Inflation rate	2.00%	2.00%

Of the foreign companies in the Group, Ferragamo Japan KK, Ferragamo Retail Taiwan Ltd., Ferragamo France SAS, Ferragamo Monte-carlo SAM, Ferragamo Belgique SA, Ferragamo Mexico S.L.de C.V., Ferragamo USA Inc., Ferragamo (Thailand) Limited, Ferragamo Retail India Private Ltd. and Ferragamo Hong Kong Ltd. have adopted defined-benefit plans for their employees.

At the end of the period the value of the obligation for these companies was 2,345 thousand Euro, while at 31 December 2011 it was 2,010 thousand Euro.

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

	31 December 2012	31 December 2011
Annual rate of pay increase	2.0% - 6.0%	2.0% - 7.5%
Annual discount rate	1.0% - 8.5%	1.0% - 8.0%
Inflation rate	2.0% - 3.0%	2.0% - 3.5%

The average number of employees (in terms of full-time equivalents) by category is shown in the following table:

Average staff (Full time equivalent)	Year 2012	Year 2011
Managers	560.89	539.72
White collars	2,206.48	2,001.96
Blue collars	204.75	212.80
Temporary staff	356.14	285.42
TOTAL	**3,328.26**	**3,039.89**

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

21. Other non current liabilities

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Payables for deferred rents	35,057	34,702	355
Other payables	370	491	(121)
Tax payables	5,785	-	5,785
Other payables for hedge derivatives	-	3	(3)
TOTAL	**41,212**	**35,196**	**6,016**

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 located.

Tax payables refer wholly to the medium-term share of the tax payable that is paid over 36 monthly installments relating to the assessment with acceptance between the Parent company and the Italian tax authorities; for details reference should be made to the section *"Significant events occurred during the year*" in the Directors' report on operations and to note 19 which sets out the changes in the provision for risks and charges.

22. Non current financial liabilities

As at 31 December 2012 the Group did not recognize any non current financial liabilities compared to 3 thousand Euro as at 31 December 2011.

23. Trade payables

The breakdown of trade payables was as follows:

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Trade payables	156,408	153,703	2,705
Advances from customers	1,273	640	633
TOTAL	**157,681**	**154,343**	**3,338**

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. This increase relates to the sharp rise in production.

24. Interest-bearing loans & borrowings

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Financial payables to banks	125,077	59,096	65,981
Bank and postal current accounts	56	298	(242)
Payables to others	-	623	(623)
TOTAL	**125,133**	**60,017**	**65,116**

The Group's financial requirements are covered by short-term payables relating to short-term bank credit lines.

During 2012 the Group used a considerable part of its cash surplus to take out intercompany loans, regulated at current market conditions, so as to reduce its medium-term bank debt. At year end the outstanding intercompany loans were largely repaid by debtor companies and replaced with bank debt, with the aim of making cash available for the acquisition of a further 30% stake in the distribution companies in Korea and South-East Asia, and for the payment, which was made on 3 January 2013, relating to the fulfillment of the contractual agreements with Imaginex Holdings Ltd and Imaginex Overseas Ltd aimed at increasing the investment up to 75% in the distribution companies operating on the strategic market of Greater China.

The loans and credit lines used by the Group are arranged at floating rates.
The cost of debt is generally benchmarked to the market rate for the period (usually Euribor/Libor or the specific benchmark of the loan currency) increased by a spread which depends on the type of credit line used. Uses of the lines range from a few days to a maximum of one year. The margins applied are in line with the best market standards. Commissions due for unused credit lines are immaterial.

The financial instruments used are:

i) uncommitted credit lines made available in the currency and country of residence of the individual company in order to meet short-term financial needs linked to the management of working capital;

ii) committed, revolving short- and medium-term credit lines, negotiated on a bilateral basis by the Parent company; some of these lines can be used by a number of borrowers in their own accounting currency which may be different from the Euro (the so-called multiborrower and/or multicurrency credit lines);

At 31 December 2012 the committed credit lines had a maximum residual duration of seventeen months and a weighted average residual duration of eleven months. The credit lines and the related financial business are spread among leading national and international banks. At the date of this Report there were no outstanding uses of lines over more than twelve months.

During the year, committed lines which expired were renegotiated and new uncommitted revolving lines were made available.

As at 31 December 2012 the Group had available committed credit lines for a total of 251,369 thousand Euro, which were used for 57,881 thousand Euro and uncommitted revolving lines for a total of 195,653 thousand Euro, which were used for 67,252 thousand Euro; as at 31 December 2011 the Group had available committed lines for a total of 240,000 thousand Euro, which were used for 41,885 thousand Euro and uncommitted revolving lines for 128,129 thousand Euro, which were used for 17,509 thousand Euro.

At 31 December 2011 the item “Payables to others” included the loan granted by Imaginex Overseas Limited to Ferragamo Retail Macau Ltd. in US dollars for 623 thousand Euro, which was completely repaid during 2012.

Here below is the breakdown of the net financial position as at 31 December 2012 and 31 December 2011, restated in accordance with the model included in CONSOB Communication no. DEM/6064293 of 28 July 2006.

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**Change 2012 vs. 2011**
A. Cash	488	553	(65)
B. Other cash equivalents	110,376	72,924	37,452
C. Cash and cash equivalents (A)+(B)	**110,864**	**73,477**	**37,387**
Derivatives – non-hedge component	1,925	2,338	(413)
Other financial assets	17	35	(18)
D. Current financial receivables	**1,942**	**2,373**	**(431)**
E. Current bank payables	125,133	59,394	65,739
F. Derivatives – non-hedge component	440	1,014	(574)
G. Other current financial payables	45,175	44,829	346
H. Current financial debt (E)+(F)+(G)	**170,748**	**105,237**	**65,511**
I. Current financial debt, net (H)-(C)-(D)	**57,942**	**29,387**	**28,555**
J. Non current bank payables	-	-	-
K. Derivatives – non-hedge component	-	3	(3)
M. Other non current payables	-	-	-
N. Non current financial debt (J)+(K)+(M)	**-**	**3**	**(3)**
O. Net financial debt (I)+(N)	**57,942**	**29,390**	**28,552**

Limitations on the use of financial resources

In general, the Group’s committed credit lines that are currently outstanding do not require compliance with financial covenants.
Financial covenants are included only in some local loan contracts entered into by companies with minority interests, even though they are uncommitted revolving lines of credit.
As at 31 December 2012 the financial and non-financial covenants were complied with by all the companies involved.

25. Tax payables

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

(In thousands of Euro)	**31 December 2012**	**31 December 2011**	**Change 2012 vs. 2011**
TOTAL	**21,036**	**20,968**	**68**

The amounts relate to income tax payables for the year and other taxes owed by Group companies. The change is due to the decrease in income tax payables during 2012 which was offset for 4,493 thousand Euro by the recognition of the current portion of tax payables due in 36 monthly installments (relating to the assessment with acceptance between the Parent company and the Italian tax authorities; for details reference should be made to the Directors’ report on operations in the section

"Significant events occurred during the year", and to note 19 which sets out the changes in the provision for risks and charges).

26. Other current liabilities

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

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Other payables	39,251	45,270	(6,019)
Payables to social security institutions	4,410	4,309	101
Accrued expenses	2,119	2,093	26
Deferred income	2,752	2,284	468
Other payables for hedge derivatives	385	22,082	(21,697)
TOTAL	**48,917**	**76,038**	**(27,121)**

The item "Other payables" mainly includes the Group's payables to employees for sums accrued and not yet paid at the end of the reporting period and payables to the Holding company Ferragamo Finanziaria S.p.A. (4,432 thousand Euro) as part of the domestic fiscal unity for 2012; it also includes payables to suppliers and service providers which had not been invoiced at the reporting date.
The item "Payables to social security institutions" refers to payables paid in the month after the reporting period and relating to amounts due to employees. The item "Other payables for hedge derivatives" shows the fair value valuation at the end of the year of outstanding derivatives (hedge component) signed by the Parent company to manage exchange rate risk. For further details, reference should be made to note 28.

27. Other current financial liabilities

The breakdown of the item "Other current financial liabilities" is set out in the following table:

(In thousands of Euro)	31 December 2012	31 December 2011	Change 2012 vs. 2011
Short-term derivatives	440	1,014	(574)
Other current financial payables	45,175	44,206	969
TOTAL	**45,615**	**45,220**	**395**

Other current financial payables as at 31 December 2012 include:

- 674 thousand Euro for payables to the minority shareholders of Ferragamo Retail India Private Limited. As at 31 December 2011 this item amounted to 627 thousand Euro;
- the put option (3,266 thousand Euro) granted to the minority shareholders of Ferragamo Japan KK, to sell to Salvatore Ferragamo S.p.A. their 29% investment in the Japanese company, which is valued on the basis of the conditions contained in the shareholders' agreement signed by the parties. This put option was recognized under Group shareholders' equity after eliminating minority interests. As at 31 December 2011 this item amounted to 3,443 thousand Euro;
- 41,235 thousand Euro for financial payables to related parties relating to the recognition of the agreement signed on 28 February 2011 with Imaginex

Holdings Limited and Imaginex Overseas Limited, for the purchase of a 25% stake in Ferrimag Limited and Ferragamo Moda Shanghai (both already held at 50%) and a 15.2% stake in Ferragamo Retail Macau Ltd. (already held at 60%); as at 31 December 2011 this debt amounted to 40,136 thousand Euro.

On each reporting date any value adjustments to the put options will be recorded directly under shareholders' equity.

The item "Short-term derivatives" mainly refers to the fair value of financial derivatives with a negative mark to market at the reporting date. For further details reference should be made to note 28 below.

28. Financial instruments

The classification of financial instruments under IAS 39 involves various 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 2012 and 31 December 2011.

Classification of financial instruments and representation of their fair value

FINANCIAL ASSETS	**Book value at 31 Dec. 2012**		**Fair Value**	**Book value at 31 Dec. 2011**		**Fair Value**
(In thousands of Euro)	*Current portion*	*Non current portion*	**31 Dec. 2012**	*Current portion*	*Non current portion*	**31 Dec. 2011**
Financial assets at fair value through profit or loss						
-Derivatives – non-hedge component	1,925		1,925	2,338		2,338
-Securities held for trading	17		17	13		13
Available-for-sale financial assets		27	27		20	20
Receivables and loans						
-Receivables from others (M/L term)	275	750	1,014	270	1,000	1,217
-Trade receivables	105,184		105,184	97,711		97,711
-Guarantee deposits		9,915	9,709		7,793	7,855
-Cash and cash equivalents	110,864		110,864	73,477		73,477
Derivatives – hedge component	10,965		10,965	660		660
Total	**229,230**	**10,692**	**239,705**	**174,469**	**8,813**	**183,291**

FINANCIAL LIABILITIES	**Book value at 31 Dec. 2012**		**Fair Value**	**Book value at 31 Dec. 2011**		**Fair Value**
(In thousands of Euro)	*Current portion*	*Non current portion*	**31 Dec. 2012**	*Current portion*	*Non current portion*	**31 Dec. 2011**
Liabilities at amortized cost						
-Trade payables and payments on account	157,681		157,681	154,343		154,343
-Financial payables to banks and other financial payables	170,308		170,308	104,223		104,223
Financial liabilities at fair value through profit or loss						
-Derivatives – non-hedge component	440		440	1,014	3	1,017
-Derivatives – hedge component	385		385	22,082	3	22,085
Total	**328,814**		**328,814**	**281,662**	**6**	**281,668**

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 prices collected on active markets through leading info-providers.

To determine the fair value of derivatives a pricing model is used based on market interest rate values and exchange rates at the valuation date.
For receivables from others (M/L term), which include receivables from Emanuel Ungaro Italia S.r.l. of Ferragamo Parfums S.p.a. with a four-year residual life, and for the item "Guarantee Deposits" the fair value is calculated by discounting the nominal value at market IRS rates listed for individual annual maturities in accordance with the discounted cash flow method.
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 measured at fair value.

Net gains and losses on financial instruments

(In thousands of Euro)	**31 December 2012**	**31 December 2011**
Net gains/(losses) on financial instruments recognized in profit or loss:		
Financial assets/liabilities held for trading	1,972	(1,100)
Derivatives – hedge component	(23,078)	9,135
Net gains/(losses) on financial instruments recognized in the statement of comprehensive income:		
Derivatives – hedge component	30,815	(17,774)
Interest income/expense (calculated using the internal rate of return method) accrued on financial assets/liabilities not at FVTPL		
Interest income	635	813
Interest expense	5,330	3,694
Expenses and fees not included in the effective interest rate		
regarding Financial liabilities	587	397
Interest income accrued on financial instruments written-off	-	-
Provisions for impairment on financial assets		
Receivables/loans	1,301	1,113

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 2012 and 2011.

Comments on the main income statement items

For a better understanding of the development in income statement items, reference should also be made to the comments in the Directors' report on operations relating to the comparison between the data for 2012 and 2011.

29. Revenues

In the years ended 31 December 2012 and 31 December 2011 net revenues totaled 1,152,965 thousand Euro and 986,375 thousand Euro respectively and can be broken down as shown in the following table:

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Retail revenues	753,339	658,322
Wholesale revenues	380,761	313,061
Licenses and services	8,596	5,757
Licenses and services for associated and jointly controlled companies	1,957	1,857
Rental income investment properties	8,312	7,378
TOTAL	**1,152,965**	**986,375**

The item "Licenses and services" includes royalties deriving from the license contract with Marchon for the production and distribution of glasses and with Timex for the production and distribution of watches ("Ferragamo" brand).

Licenses and services for associated and jointly controlled companies refer wholly to technical consultancy provided to Zefer S.p.A.

Rental income investment properties were wholly due to the Ferragamo USA Group for the lease of space in owned and leased properties.

30. Cost of goods sold and operating costs

Cost of goods sold and operating costs in the years ended 31 December 2012 and 31 December 2011 were 971,793 thousand Euro and 839,780 thousand Euro respectively and were classified by function as follows:

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Cost of goods sold	(410,963)	(352,918)
Style, product development and logistics costs	(39,173)	(34,197)
Sales & distribution costs	(344,382)	(296,309)
Marketing & communication costs	(70,966)	(58,187)
General and administrative costs	(91,477)	(83,144)
Other operating costs	(14,832)	(15,025)
TOTAL	**(971,793)**	**(839,780)**

Costs rose by 15.7% compared to 2011 due to the growth in turnover which rose by 16.9% in 2012.

31. Non recurring costs and revenues

In 2012 the Group did not incur any non recurring costs and no non recurring revenues and income were recorded.

32. Breakdown by nature of income statement cost items

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

(In thousands of Euro)	Year ended 31 December		2012 vs. 2011
	2012	2011	
Raw materials, finished products and consumables used	(244,373)	(196,524)	(47,849)
Costs for services	(506,625)	(449,880)	(56,745)
Personnel costs	(172,001)	(151,306)	(20,695)
Amortization and depreciation	(33,962)	(26,628)	(7,334)
Write-downs of tangible/intangible assets	-	(417)	417
Other charges	(14,832)	(15,025)	193
TOTAL	**(971,793)**	**(839,780)**	**(132,013)**

33. Financial operations

Financial operations are broken down as follows:

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Interest expense - loans	(2,583)	(2,633)
Interest expense - other	(1,533)	-
Discount charges and other financial charges	(2,949)	(2,358)
Write-downs of available-for-sale financial assets	-	(31)
Losses on exchange rate differences	(18,923)	(11,443)
Financial charges for fair value adjustment of derivatives	(6,671)	(4,559)
TOTAL	**(32,659)**	**(21,024)**

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Restatement value of available-for-sale financial assets	7	-
Interest income	556	730
Other financial income	80	84
Gains on exchange rate differences	16,780	13,742
Financial income for fair value adjustment of derivatives	8,643	3,459
TOTAL	**26,066**	**18,015**
Total financial operations	**(6,593)**	**(3,009)**

Interest expense derives wholly from short-term bank loans.

The item “Interest expense – other” refers to interest relating to the assessment with acceptance between the Parent company and the Italian tax authorities; for details reference should be made to the section of the Directors’ report on operations *“Significant events occurred during the year”*.

The item “Discount charges and other financial charges” refers mainly to bank charges and financial charges on employee benefits in relation to the valuation of defined-benefit plans pursuant to IAS 19 and discount charges of which 1,099 thousand Euro relating to the discounting of financial payables recorded as a result of the agreement for the purchase of the minority interests described in the note 4 above. Gains and losses on exchange rate differences were recorded mainly by the Parent company Salvatore Ferragamo S.p.A., and arise from foreign sales, both intercompany and to third parties. During 2012 net exchange rate losses amounted to 2,143 thousand Euro compared to a net impact of gains on exchange rate differences of 2,299 thousand Euro in 2011.

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

The item refers to the only investment in Zefer S.p.A. accounted for using the Equity Method.

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Zefer S.p.A.	**637**	**700**

35. Income taxes

The taxes recorded in the income statement were as follows:

(In thousands of Euro)	Year ended 31 December	
	2012	2011
Current taxes	(61,734)	(56,111)
Deferred taxes	2,905	5,455
Previous years income taxes	(6,283)	
Allocation to the provision for risks for previous years income taxes		(6,000)
Previous years income taxes (refund)	2,025	5,575
TOTAL	**(63,087)**	**(51,081)**

The item “Previous years income taxes” reflects the economic impact of taxes on the result for the period following the assessment with acceptance between the Parent company and the Italian tax authorities, given the provision of 6 million Euro allocated in the year ended 31 December 2011 to the previous years income taxes.
“Previous years income taxes (refund)” refers to the income tax (IRES) refund claim (online request sent on 5 February 2013) regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs for from 2007 to 2011 as set out in Law Decree no. 201 of 6 December 2011.

Deferred tax assets and liabilities

The following table provides a breakdown by nature of the receivables and payables components for deferred taxes as at 31 December 2012 and 31 December 2011:

	2012	2011	2012	2011	2012	2011
	Statement of financial position		Shareholders' equity		Income statement	
Deferred tax assets						
- on employee benefits	1,179	1,121	737	646	(29)	(54)
- on tangible assets	7,858	8,587	-	-	(633)	(2,631)
- on intangible assets	1,036	864	-	-	172	135
- on the cash flow hedge reserve/derivative contracts IAS 39	-	5,493	-	5,747	-	366
- on the valuation of inventories	7,265	6,597	-	-	690	1,855
- on the elimination of the profit unrealized in inventories	32,879	29,598	-	-	3,281	3,130
- on tax losses	742	942	-	-	(136)	(3,137)
- on taxed provisions	2,427	3,562	-	-	(1,112)	1,236
- on write-downs of investments which are deductible over a number of years	-	-	-	-	-	(14)
- for other temporary differences	14,359	13,233	-	-	1,300	2,146
Total deferred tax assets	**67,745**	**69,997**	**737**	**6,393**	**3,533**	**3,032**
Deferred tax liabilities			-	-		
- on employee benefits	69	42	-	-	4	(220)
- on tangible assets	957	771	-	-	139	(1,044)
- on the cash flow hedge reserve/derivative contracts IAS 39	2,990	-	2,727	-	9	-
- on the valuation of inventories	1,153	993	-	-	160	(1,085)
- for other temporary differences	1,514	1,213	-	-	316	(74)
Total deferred tax liabilities	**6,683**	**3,019**	**2,727**	**-**	**628**	**(2,423)**
Income/charge on deferred taxes					**2,905**	**5,455**
Net effect on shareholders' equity			**(1,990)**	**6,393**		
Recognized in financial statements as follows:						
Deferred tax assets	*67,745*	*69,997*				
Deferred tax liabilities	*6,683*	*3,019*				
Net result for deferred taxes	**61,062**	**66,978**				

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

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

Tax losses of Group companies as at 31 December 2012 and 31 December 2011 on which deferred taxes have not been calculated and the related expiries are shown in the following table:

(In thousands of Euro)	**Expiry**				
31 December 2012	**Without time limits**	**within 1 year**	**1 to 3 years**	**3 to 5 years**	**over 5 years**
53,351	33,939	367	1,522	3,430	14,093

(In thousands of Euro)	Expiry				
31 December 2011	**Without time limits**	**within 1 year**	**1 to 3 years**	**3 to 5 years**	**over 5 years**
60,113	38,780	1,020	2,024	1,635	16,654

Deferred tax assets on previous tax losses recorded in 2012 and 2011 were as follows:

(In thousands of Euro)	31 December 2012		
Expiry	**Previous tax losses**	**Tax rate**	**Deferred tax assets**
Without time limits	514	24.00%	123
Over 5 years	1,628	38.00%	619
TOTAL	**2,142**	**34.64%**	**742**

(In thousands of Euro)	31 December 2011		
Expiry	**Previous tax losses**	**Tax rate**	**Deferred tax assets**
Without time limits	971	26.00%	252
3 to 5 years	512	40.69%	208
Over 5 years	1,154	41.77%	482
TOTAL	**2,637**	**35.72%**	**942**

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

(In thousands of Euro)	Year ended 31 December	
	2012	**2011**
Profit before taxes	188,366	154,340
IRES rate in force for the year	*27.50%*	*27.50%*
Theoretical tax charge	**51,801**	**42,444**
IRAP effect	6,217	5,298
Non-deductible costs	805	61
Differences arising from different rates – foreign countries	(7,150)	(4,321)
Other effects	1,901	399
Effects of taxation for transparency of income of foreign companies resident in countries/territories with a privileged tax regime	5,255	6,775
Effect of previous years income taxes	6,283	6,000
Previous years income taxes (refund)	(2,025)	(5,575)
Total differences	11,286	8,637
Total taxes from the income statement	**63,087**	**51,081**
Effective tax rate	***33.5%***	***33.1%***

36. 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 period attributable to the shareholders of the Parent company by the weighted average number of outstanding shares during the period.
For the purposes of calculating the basic earnings per share, the profit/(loss) for the period less minority interests is used as a numerator.

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

BASIC EARNINGS PER SHARE		**Year ended 31 December**	
		2012	**2011**
Net profit (loss) - shareholders of the Parent company (Euro)		105,551,804	81,290,227
Average number of ordinary shares		168,410,000	168,410,000
Basic earnings per share – ordinary shares (Euro)		**0.627**	**0.483**
DILUTED EARNINGS PER SHARE			
Average number of ordinary shares		168,410,000	168,410,000
Dilution effect from potential ordinary shares:			
-number of shares assigned under the Stock Grant Plan	440,000		
Dilution effect: number of shares which could have been issued as at 31 December 2012	94,450		
Weighting by period compared to the period in which the profit accrues		64,433	-
Diluted average number of ordinary shares		**168,474,433**	**168,410,000**
Diluted earnings per share – ordinary shares (Euro)		**0.627**	**0.483**

Other information

37. Dividends

In order to implement the resolution of the Shareholders' Meeting of 26 April 2012, the Parent company Salvatore Ferragamo S.p.A. arranged to pay shareholders a single dividend of 0.28 Euro per share, relating to the profit for 2011, for a total amount of 47,154,800 Euro, with coupon detachment on 21 May 2012 and payment of the dividend as from 24 May 2012.

Other Group companies, in 2012, paid third-party shareholders dividends amounting to 20,217 thousand Euro.

38. Share-based payments

Cash-settled plan

As from 2006 the Group has recognized, in accordance with the provisions of IFRS 2, a share-based remuneration plan for a director.
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 determined at the grant date.
In particular, the aforementioned price is 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 company's reference value will be the stock market capitalization calculated by using the weighted average of the share prices in the two months prior to the exercise date and the two subsequent months.
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 in the income statement.
Pursuant to the agreement, if the company is not listed, its value used for the comparison is determined: (i) as jointly agreed by the parties, (ii) by means of an expert survey.

In the Group consolidated financial statements, payables are recorded for the remaining tranche of 8,209 thousand Euro due on 28 February 2013, together with a charge to the income statement for 2012 of 6,390 thousand Euro. As the best estimate to determine the value of the company the weighted average of the share prices for the two months preceding 31 December 2012 and the two subsequent months has been used by applying an estimate for the share prices of the period following the assessment date.

Stock Grant Plan
(a) Plan Description

In order to adopt a medium/long-term incentive system based on the financial instruments of Salvatore Ferragamo S.p.A. for top managers of the Salvatore Ferragamo Group, at the proposal of the Remuneration Committee, the Board of Directors has approved a specific plan (the 2012 Stock Grant Plan or, in short, the Plan) with the characteristics described below.

Plan Aims

The objectives which the Company aims to achieve through the implementation of the Plan can be identified in incentives for the key staff of the Group, thus encouraging their loyalty to the Group, through the allocation of instruments representing the value of the Company and which can (i) align the interests of top managers who are the beneficiaries of the Plan with that of shareholders, (ii) improve the medium/long-term performance of the Group as a whole and, consequently, (iii) create value for investors in the Company’s risk capital.
The Plan beneficiaries are employees of Salvatore Ferragamo S.p.A. or of the following subsidiaries: Ferragamo Hong Kong Ltd, Ferragamo USA Inc., Ferragamo Latin America Inc., Ferragamo Japan KK, and Ferragamo Parfums S.p.A.

None of the members of the Board of Directors of the Parent company is among the beneficiaries of the Stock Grant Plan.

Object of the Plan

The Plan envisages a single cycle to assign to the beneficiaries of the Plan rights to receive for free a maximum of 500,000 ordinary shares of the Company subject to the achievement of set performance conditions at the end of the 2012-2013-2014 period.
According to the Plan, the free assignment of the shares is dependent (i) on the achievement of specific performance conditions; as well as (ii) on the fact that, at the share vesting date there is an employment relationship between the beneficiary and the Company or one of the subsidiaries.

The performance conditions as set out in point (i) consist of:
- growth in revenue compared to a peer group (the so-called non market condition);
- Total Shareholder Return (“TSR”) compared to a peer group (the so-called market condition).

In the case of failure to achieve both of these performance conditions, the Board of Directors may consider, after consulting the Nomination and Remuneration Committee, the assignment of a number of shares that is no more than 50% of the maximum set for each beneficiary.

Here below is a table which summarizes the share assignment method according to the performance conditions achieved:

		Performance Condition A: Total Shareholder Return ("TSR")	
		Ferragamo TSR is less than the median of the peer group	*Ferragamo TSR is equal or greater than the median of the peer group*
Performance Condition B: Revenue Growth	*Ferragamo percentage sales growth is less than the median of the peer group*	0% of the shares will be assigned	75% of the shares will be assigned
	Ferragamo percentage sales growth is equal or greater than the median of the peer group	75% of the shares will be assigned	100% of the shares will be assigned

The shares to service the Plan come from a specific free share capital increase of 500,000 ordinary shares, equal to 50,000 Euro, pursuant to article 2349, paragraph 1 of the Italian Civil Code, submitted for approval during the Extraordinary Shareholders' Meeting held on 26 April 2012.
The Board of Directors on the same day, 26 April 2012 (grant date), assigned the rights for 440,000 shares to the beneficiaries of the Plan.
The shares which will be assigned by the Board of Directors at the end of the 2012-2013-2014 period, are subject to the achievement of the performance conditions, and will be subject to a single free share capital increase.

Expiry of the Plan
The Plan will end on 30 June 2015 or, if earlier, at the date of delivery of the shares to the beneficiaries.

Changes in the period of the number of rights assigned to receive shares*	
(i) outstanding at the start of the year	-
(ii) assigned in the year	440,000
(iii) cancelled in the year	-
(iv) exercised in the year	-
(v) expired in the year	-
(vi) outstanding at the end of the year	440,000
(vii) exercisable at year end	**-**

* the average exercise price has not been indicated since it is a plan with free assignment of shares

(b) Changes of the Stock Grant Reserve in the year

Changes of the Stock Grant Reserve in the year	**(amounts in Euro**	
	Number	***Fair Value***
Number of rights assigned to receive shares (employees of Salvatore Ferragamo SpA)		
- as at 01 January 2012	-	-
- assigned during the year	230,000	654,421
- as at 31 December 2012	230,000	654,421
Number of rights assigned to receive shares (employees of subsidiaries)		
- as at 01 January 2012	-	-
- assigned during the year	210,000	597,515
- as at 31 December 2012	210,000	597,515
Total number of rights assigned to receive shares (employees of the Ferragamo Group)		
- as at 01 January 2012	-	-
- assigned during the year	440,000	1,251,936
- as at 31 December 2012	**440,000**	**1,251,936**

(c) Fair value measurement

The average weighted fair value of the shares at the grant date has been calculated using a binomial model together with a Monte Carlo simulation model, with 150,000 simulations. The financial model used to describe the simulation of prices, in the absence of arbitrage, is the Hull-White model.

Considering the above assignment mechanism, it is necessary for two fair value assessments to be made:

• Assessment A which takes into consideration the market condition.
• Assessment B which does not consider the market condition.

Here below are the main assumptions for the two assessments made:

Fair value measurement		
	Assessment A	***Assessment B***
- Share price at the grant date (average of 10 previous days)	€ 15.647	€ 15.647
- Expected volatility*	34.50%	34.50%
- Expected volatility of the share price of similar companies	between 30.03% and 36.91%	
- Correlation of the share price between Ferragamo and similar companies	between 0.504 and 0.692	
- Expected dividends	2.30%	2.30%
- Risk-free interest rate**	3.86%	3.86%
Fair value per share at the grant date	Euro 12.482/share	Euro 14.544/share

*The forecast volatility is based on the historic share price volatility in a period equal to the whole vesting period. Since Ferragamo is a recently listed company, without historic volatility measured in the relevant measurement period (3 years), as provided for by IFRS 2, the historic volatility of similar companies has been considered.

**The risk-free interest rate has been identified as the yield on Italian Government bonds at the grant date.

39. Put and call agreements on minority interests

In recent years the Salvatore Ferragamo 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 regulate 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 involved in these kinds of agreements are Ferragamo Japan K.K., Ferrimag Limited, Ferragamo Moda (Shanghai) Co. Ltd., Ferragamo Retail Macau 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 consolidated financial statements as at 31 December 2012.

Ferragamo Japan K.K.'s Shareholders' Agreement allows minority shareholders, collectively holding a 29% stake, to sell their shares to Salvatore Ferragamo S.p.A. 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, as 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 2012 financial debt amounted to 3,266 thousand Euro.

In reference to the investment in the subsidiary Ferragamo Retail India Private Limited, in March 2010 the Salvatore Ferragamo Group modified the outstanding Shareholders' Agreement with the partner by signing new agreements providing for, among other things, the right of the Salvatore Ferragamo 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 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 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 Group has consolidated the investment in Ferragamo Retail India Private Limited on a line-by-line basis. Due to this recognition, as at 31 December 2012 financial debt was 674 thousand Euro.

40. 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 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 "Salvatore Ferragamo" brand and, on license, the Ungaro brand, whose sales are handled by a network of selected, mainly multibrand distributors. It also includes jewels, a new product category that was launched at the end of 2011.

(In thousands of Euro)	Year ended 31 December 2012	2011
Net revenues – Retail	753,339	658,322
Net revenues – Wholesale	380,761	313,061
Licenses and services	10,553	7,614
Rental income investment properties	8,312	7,378
Revenues	**1,152,965**	**986,375**
Gross profit	**742,002**	**633,457**
%	**64.4%**	**64.2%**
Personnel costs	(160,446)	(141,001)
Rental costs	(153,809)	(132,445)
Amortization, depreciation and write-downs of non current assets	(33,358)	(26,470)
Communication costs	(65,326)	(52,976)
Other costs (net of other income)	(134,741)	(123,916)
Operating profit	**194,322**	**156,649**
Net financial (charges)/income	(6,593)	(3,009)
Share of net profit/(loss) of associated companies	637	700
Profit before taxes	**188,366**	**154,340**
Income taxes	(63,087)	(51,081)
Net profit/(loss)	**125,279**	**103,259**

(In thousands of Euro)	31 December 2012	31 December 2011
Inventories	249,804	242,564
Trade receivables	105,184	97,711
Tangible assets and investment property	146,619	128,244
Intangible assets with a finite useful life	20,678	18,051
Other assets	127,537	113,329
Total assets gross of cash and cash equivalents	**649,822**	**599,899**
Net financial debt	57,942	29,390
Trade payables	157,681	154,343
Other liabilities	134,701	160,047
Shareholders’ equity	299,498	256,119
Total liabilities and shareholders’ equity (net of cash and cash equivalents)	**649,822**	**599,899**

(In thousands of Euro)	31 December 2012	31 December 2011
Other sector information		
Investment in tangible assets	51,717	35,627
Investment in intangible assets with a finite useful life	7,676	6,698

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.

At 31 December 2012

(In thousands of Euro)	Europe	North America	Japan	Asia Pacific	Central and South America	Consolidated
Revenues	289,374	256,903	134,195	420,291	52,202	1,152,965
Other sector information						
Sector assets	73,594	50,844	3,834	48,824	5,904	183,000
Investments:						
Tangible assets	17,106	11,333	1,520	18,599	3,159	51,717
Intangible assets with a finite useful life	6,758	342	65	507	4	7,676

At 31 December 2011

(In thousands of Euro)	Europe	North America	Japan	Asia Pacific	Central and South America	Consolidated
Revenues	238,364	221,337	127,832	357,698	41,144	986,375
Other sector information						
Sector assets	62,189	50,086	4,324	40,317	3,494	160,410
Investments:						
Tangible assets	14,155	8,286	683	11,144	1,359	35,627
Intangible assets with a finite useful life	5,795	668	176	59	-	6,698

41. Transactions with related parties

This section describes the transactions with related parties undertaken in the years ended 31 December 2012 and 31 December 2011.
The following table shows the overall values of transactions with related parties:

(In thousands of Euro)	Period ended 31 December 2012			As at 31 December 2012				
	Revenues and income	Operating costs (net of other income)	Financial charges	Trade receivables	Other assets	Trade payables	Other current liabilities	Financial payables
Company with significant influence on the Group:								
Ferragamo Finanziaria S.p.A.	36	-	-	-	2,025	-	(4,432)	-
(company which exercises management and coordination)								
Associated/related companies:								
Palazzo Feroni Finanziaria S.p.A.	16	(6,325)	-	-	-	(291)	-	-
Lungarno Alberghi S.r.l.	122	(697)	-	23	-	(34)	-	-
Zefer S.p.A.	1,957	-	-	1,957	-	-	-	-
Companies connected to members of the Board of Directors								
Il Borro S.r.l.	5	(4)	-	1	-	(1)	-	-
Nautor Holding S.r.l.	16	-	-	-	-	-	-	-
Bacco S.r.l.	-	(3)	-	-	-	-	-	-
Castiglion del Bosco S.a.r.l.	8	(6)	-	-	-	(4)	-	-

(In thousands of Euro)	Period ended 31 December 2012			As at 31 December 2012				
	Revenues and income	Operating costs (net of other income)	Financial charges	Trade receivables	Other assets	Trade payables	Other current liabilities	Financial payables
Rubino S.r.l.	-	(117)	-	-	-	-	-	-
Arpa S.r.l.	13	(95)	-	13	-	(86)	-	-
Multiproject S.r.l.	-	(40)	-	-	-	(20)	-	-
Studio Legale Portale Visconti	-	(234)	-	-	-	(234)	-	-
Imaginex Overseas Ltd.	-	(3)	(130)	-	-	-	-	(4,435)
Imaginex Holding Ltd.	-	-	(980)	-	-	-	-	(36,800)
Imaginex Management Co. Ltd.	24	(330)	-	-	-	(42)	-	-
Wharf T&T Ltd.	-	(16)	-	-	-	-	-	-
Times Square Ltd.	-	(1,524)	-	-	-	-	-	-
Wharf Realty Ltd.	-	(5,659)	-	-	-	-	-	-
Wheelock Travel Ltd.	-	(23)	-	-	-	-	-	-
Imaginex Beauty Ltd.		(4)	-	-	-	(1)	-	-
Xiamen Dongfang Hotel Co., Ltd.	2,498	(316)	-	354	-	-	-	-
Imaginex (Shanghai) Commercial Co. Ltd.	-	(9)	-	-	-	-	-	-
Shanghai Wheelock square Development Co. Ltd.	-	(353)	-	-	97	-	-	-
Shanghai Harriman Property Management Co. Ltd.	-	(78)	-	-	10	-	-	-
Shanghai Longxing Property Development Co. Ltd.	-	(135)	-	-	75	-	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.	-	(12)	-	-	5	-	-	-
Other related parties								
Wanda Miletti Ferragamo		(219)	-	-	-	-	-	-
Massimo Ferragamo	-	(117)	-	-	-	(20)	-	-
Giacomo Ferragamo	-	(434)	-	-	-	-	(132)	-
Angelica Visconti	-	(161)	-	-	-	-	(32)	-
Managers with strategic responsibilities								
Managers with strategic responsibilities*	-	(9,272)	-	-	-	-	(8,979)	-
Total	**4,695**	**(26,186)**	**(1,110)**	**2,348**	**2,212**	**(733)**	**(13,575)**	**(41,235)**
Group total	**1,152,965**	**(547,680)**	**(32,659)**	**105,184**	**44,847**	**(157,681)**	**(48,917)**	**(170,748)**
% ratio	**0.4%**	**4.8%**	**3.4%**	**2.2%**	**4.9%**	**0.5%**	**27.8%**	**24.1%**

*Including pay and other fees of the Managing Director included in the table “Fees paid to Directors and Statutory Auditors” and the fair value relating to the Stock Grant Plan

(In thousands of Euro)	Period ended 31 December 2011			As at 31 December 2011				
	Revenues and income	Operating costs (net of other income)	Financial charges	Trade receivables	Other assets	Trade payables	Other current liabilities	Financial payables
Company with significant influence on the Group:								
Ferragamo Finanziaria S.p.A.	-	-	-	-	16	-	(9,468)	-
(company which exercises management and coordination)								
Associated/related companies:								
Palazzo Feroni Finanziaria S.p.A.	16	(5,466)	-	3	-	(144)	-	-
Lungarno Alberghi S.r.l.	72	(617)	-	22	-	(9)	-	-
Zefer S.p.A.	1,857	-	-	1,857	-	-	-	-
Companies connected to members of the Board of Directors								
Caretti & Associati S.p.A.	-	(329)	-	-	-	-	-	-
Il Borro S.r.l.	1	(19)	-	-	-	-	-	-
Bacco S.r.l.	-	(3)	-	-	-	-	-	-
Castiglion del Bosco S.a.r.l.	11	(5)	-	-	-	-	-	-
Castiglion del Bosco USA Inc.	-	(18)	-	-	-	(8)	-	-
Rubino S.r.l.	-	(98)	-	-	-	-	-	-
Arpa S.r.l.	-	(67)	-	-	-	(75)	-	-
Marchesi Antinori S.r.l.	-	(2)	-	-	-	-	-	-
Multiproject S.r.l.	-	(96)	-	-	-	(55)	-	-
Studio Legale Portale Visconti	-	(456)	-	-	-	-	-	-
Imaginex Overseas Ltd.*	-	(4)	(111)	-	-	-	(2)	(4,940)
Imaginex Holding Ltd.*	-	-	(822)	-	-	-	-	(35,819)
Imaginex Management Co. Ltd.	18	(229)	-	-	-	(11)	-	-
Wharf T&T Ltd.*	-	(10)	-	-	-	-	-	-
Times Square Ltd.*	-	(1,028)	-	-	-	-	-	-
Wharf Realty Ltd.*	-	(2,929)	-	-	-	-	-	-
Lane Crawford Holdings Ltd.*	-	(6)	-	-	-	-	-	-
Wheelock Travel Ltd. *	-	(21)	-	-	-	-	-	-
Imaginex Beauty Ltd.*	-	(5)	-	-	-	(1)	-	-
Xiamen Dongfang Hotel Co., Ltd.*	1,575	(219)	-	465	20	-	-	-
Imaginex (Shanghai) Commercial Co. Ltd.*	1	(10)	-	1	-	-	-	-
Shanghai Wheelock square Development Co. Ltd.*	-	(251)	-	-	72	-	-	-
Shanghai Harriman Property Management Co. Ltd.*	-	(43)	-	-	10	-	-	-
Shanghai Longxing Property Development Co. Ltd.*	-	(408)	-	-	99	-	-	-
Shanghai Times Square Property Management (Shanghai) Co. Ltd.*	-	(23)	-	-	8	-	-	-

(In thousands of Euro)	Period ended 31 December 2011			As at 31 December 2011				
	Revenues and income	Operating costs (net of other income)	Financial charges	Trade receivables	Other assets	Trade payables	Other current liabilities	Financial payables
Other related parties	-	-	-	-	-	-	-	-
Wanda Miletti Ferragamo	-	(77)	-	-	-	-	-	-
Massimo Ferragamo	-	(108)	-	-	-	(20)	-	-
Giacomo Ferragamo	-	(394)	-	-	-	-	(110)	-
Angelica Visconti	-	(144)	-	-	-	-	(26)	-
Managers with strategic responsibilities								
Managers with strategic responsibilities**	-	(9,971)	-	-	-	-	(8,658)	-
Total	**3,551**	**(23,056)**	**(933)**	**2,348**	**225**	**(323)**	**(18,264)**	**(40,759)**
Group total	**986,375**	**(476,808)**	**(21,024)**	**97,711**	**26,771**	**(154,343)**	**(76,038)**	**(105,237)**
% ratio	**0.4%**	**4.8%**	**4.4%**	**2.4%**	**0.8%**	**0.2%**	**24.0%**	**38.7%**

*For these companies revenues and costs refer to the period 1 March – 31 December 2011
** Including remuneration and other fees paid to the Managing Director

Sales and purchases between related parties are carried out at normal market prices. The outstanding balances at the end of the period 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 debt in relation to amounts due from related parties.

Specifically:

Company with significant influence on the Group

<u>Ferragamo Finanziaria S.p.A.</u>

Payables refer to items regarding the domestic fiscal unity involving the Parent company Salvatore Ferragamo S.p.A. together with Ferragamo Finanziaria S.p.A.(the consolidating company) and Ferragamo Parfums S.p.A. Receivables refer to the income tax (IRES) refund claim regarding the deduction of the regional manufacturing tax (IRAP) in relation to personnel costs from 2007 to 2011 as set out in Law Decree no. 201 of 6 December 2011. Income refers to the fee paid by the consolidating company to Salvatore Ferragamo SpA for use of a part of the excess gross operating profit of Salvatore Ferragamo SpA, in compliance with the regulations of the domestic fiscal unity signed by the participating companies.

Related companies (subject to common control)

<u>Palazzo Feroni Finanziaria S.p.A.</u>

Revenues refer to product sales and IT and administrative services. Payables and costs mainly refer to rents for the premises of the headquarters in Florence and for some stores of the Italian chain.

<u>Lungarno Alberghi S.r.l.</u>

Revenues (and the related accounts receivable balances) refer to product sales; payables and costs refer largely to rents for the premises used as stores in the Italian chain.

Associated companies

<u>Zefer S.p.A.</u>

Revenues (and the related accounts receivable balances) refer largely to fees for technical assistance services provided to Zefer S.p.A..

Companies connected to members of the Board of Directors

<u>Il Borro S.r.l.</u>

Revenues (and the related accounts receivable balances) refer to product sales; costs (and the related accounts payable balances) refer to the purchase of goods and services supplied by Il Borro S.r.l. on the basis of the transmission of individual orders.

<u>Nautor Holding S.r.l.</u>

Revenues refer to product sales.

<u>Bacco S.r.l.</u>

Costs refer to rents for premises for car parking.

<u>Castiglion del Bosco società agricola a responsabilità limitata</u>

Revenues refer to product sales, while costs (and the related payables) refer to the purchase of wine products.

<u>Rubino S.r.l.</u>

Costs refer to rents for premises for accommodation and car parking.

<u>Arpa S.r.l.</u>

Revenues (and the related accounts receivable balances) refer to the sale of products. Costs (and the related payables) refer to the purchase of goods provided by the company on the basis of the transmission of individual orders.

<u>Multiproject S.r.l.</u>

Costs (and the related payables) refer to the purchase of construction and engineering technical consultancy services.

<u>Studio Legale Portale Visconti</u>

Payables and costs refer to the purchase of legal consultancy services.

<u>Imaginex Overseas Ltd.</u>

Payables refer to liabilities arising from the sale agreement of 28 February 2011 for 25% of Ferragamo Moda Shanghai Co. Limited and 15.2% of Ferragamo Retail Macau Limited. Costs refer to the discounting of liabilities relating to the aforementioned sale agreement, to the amount of interest on the loan granted to Ferragamo Retail Macau Limited (which was repaid during 2012), and, to a small extent, to IT services provided to Ferragamo Retail Taiwan Limited.

Imaginex Holdings Ltd.

Payables refer to liabilities arising from the sale agreement of 28 February 2011 for the 25% stake in Ferrimag Limited. Costs refer to the discounting of the liabilities arising from the aforementioned sale agreement.

Imaginex Management Co. Ltd.

Costs and the related trade payables refer to the rent of premises for an outlet store and offices in Hong Kong and to information technology services for Ferragamo Retail Hong Kong Limited and Ferragamo Retail Macau Limited. Revenues refer to the occasional purchase of products.

Wharf T&T Ltd.

Costs refer to telephone services provided to Ferragamo Retail Hong Kong Limited.

Times Square Ltd.

Costs refer to rents for premises for a store in Hong Kong.

Wharf Realty Ltd.

Costs refer mainly to rents for premises for a store in Hong Kong.

Wheelock Travel Ltd.

Costs refer to the supply of occasional travel services.

Imaginex Beauty Ltd.

Payables and costs refer to liabilities for the supply of occasional services.

Xiamen Dongfang Hotel Co., Ltd.

Costs refer mainly to rent for premises for the Marco Polo Hotel shop and in part to services for the accounting and commercial activities of the same shop; revenues refer mainly to product sales.

Imaginex (Shanghai) Commercial Co. Ltd.

Costs refer to the supply of information technology services to Ferragamo Moda Shanghai Limited and Ferragamo Fashion Trading Shanghai Limited.

Shanghai Wheelock square Development Co. Ltd.

Receivables refer to guarantee deposits paid by Ferragamo Fashion Trading Shanghai Co. Limited and Ferragamo Moda Shanghai Limited. Costs refer to rents for office premises for Ferragamo Fashion Trading Shanghai Co. Limited and Ferragamo Moda Shanghai Limited.

Shanghai Harriman Property Management Co. Ltd.

Receivables refer to property guarantee deposits paid by Ferragamo Fashion Trading Shanghai Co. Limited to Shanghai Harriman Property Management Co. Ltd., as the agent for the owner, for the premises of a store in Shanghai. Costs refer to operating costs for offices leased by Shanghai Wheelock Square Development Co. Ltd. to Ferragamo Fashion Trading Shanghai Co. Limited and Ferragamo Moda Shanghai Limited.

Shanghai Longxing Property Development Co. Ltd.

Costs refer to rents for premises for a store in Shanghai, while receivables refer mainly to guarantee deposits.

Shanghai Times Square Property Management (Shanghai) Co. Ltd.

Costs and receivables refer respectively to property management services for the premises of a store in Shanghai and to the related guarantee deposits.

Other related parties (connected to members of the Board of Directors)

Wanda Miletti Ferragamo

Costs refer to rents for premises for a store owned by Wanda Ferragamo and the fee she receives as Honorary Chairman of Salvatore Ferragamo S.p.A.

Massimo Ferragamo

Costs and payables refer to the consultancy agreement between Massimo Ferragamo and Ferragamo USA Inc.

Giacomo Ferragamo

Costs and payables refer to the cost incurred by the Parent company in relation to the employment relationship between Giacomo Ferragamo and the Parent company, including a variable bonus and the Stock Grant Plan cost.

Angelica Visconti

Costs and payables refer to the cost incurred by the Parent company in relation to the employment relationship between Angelica Visconti and the Parent company, including a variable bonus.

Managers with strategic responsibilities

The Managers with strategic responsibilities are indicated in the following table:

Full name	**Role**
Michele Norsa	General Manager and Managing Director
Ernesto Greco	General Manager of Administration, Finance, Control and Information Systems
Massimo Barzaghi	Deputy General Manager of Market Coordination and Supply Chain and Europe Area Manager
Sofia Ciucchi	Deputy General Manager of the Product department and Human Resources Manager

Costs and payables refer to the cost incurred by the Group in relation to the employment relationship, including the variable bonuses, and in the case of the

Managing Director Michele Norsa, refer also to the amount due as Managing Director, and the cash-settled share-based remuneration plan. The total costs for 2012 amounted to 9,272 thousand Euro and refer for 2,626 thousand Euro to wages for employees and fees for directors, for 256 thousand Euro to Stock Grant Plan costs and for 6,390 thousand Euro to the cash-settled share-based remuneration plan for the Managing Director.

42. Fees paid to Directors and Statutory Auditors

Directors

(In thousands of Euro)				Year ended 31 December 2012					
Full name	**Position held**	**Term of office**	**End of term of office**	**Fees for the position held**	**Fees as committee members**	**Non-monetary benefits**	**Wages, bonuses and other incentives**	**Other fees**	**Grand total**
Ferruccio Ferragamo	Chairman	1.01-31.12	a)	600		b) c) d)		227	827
Fulvia Ferragamo	Director	1.01-31.12	a)	180					180
Leonardo Ferragamo	Director	1.01-31.12	a)	30					30
Francesco Caretti	Director	1.01-31.12	a)	230					230
Giovanna Ferragamo	Deputy Chairman	1.01-31.12	a)	180					180
Diego釐Paternò Castello di San Giuliano	Director	1.01-31.12	a)	30					30
Michele Norsa	Managing Director	1.01-31.12	a)	240		b) c) d) e)	914	6,390	7,544
Peter Woo kwong Ching	Director	1.01-31.12	a)	-					-
Raffaela Pedani	Director	26.04.-31.12	a)	20					20
Umberto Tombari	Director	1.01-31.12	a)	30	23				53
Marzio Saà	Director	1.01-31.12	a)	30	23				53
Piero Antinori	Director	1.01-31.12	a)	30	19				49
TOTAL				**1,600**	**65**	**-**	**914**	**6,617**	**9,196**

a) upon approval of the 2014 financial statements
b) car
c) mobile phone
d) insurance policies
e) accommodation

Statutory Auditors

(In thousands of Euro)		Year ended 31 December 2012			
Full name	**Position held**	**Term of office**	**End of term of office**	**Fees for the position held**	**Grand total**
Mario Alberto Galeotti Flori	Chairman	1.01-31.12	a)	64	64
Gerolamo Gavazzi	Acting Statutory Auditor	1.01-31.12	a)	52	52
Fulvio Favini	Acting Statutory Auditor	1.01-31.12	a)	48	48
Total				**164**	**164**

a) upon approval of the 2013 financial statements

It should be noted that for Directors and Statutory Auditors no severance indemnities are envisaged.

43. Commitments and risks

The breakdown of the risks and commitments is as follows:

(In thousands of Euro)	31 December 2012	31 December 2011
Sureties provided by third parties in the interests of Group companies	9,166	7,738
Guarantees provided by third parties in the interests of Group companies	1,656	1,649
Guarantees provided by Group companies in the interests of third parties	35,934	39,241
Total	**46,756**	**48,628**

The 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 mainly relate to lease contracts.
Guarantees provided by Group companies refer to a guarantee for US$ 6 million (4,548 thousand Euro) relating to a lease contract of the Ferragamo USA Group and the remainder is mainly in favor of banks to guarantee credit lines which may be used locally.

The following table shows the future payments due at 31 December 2012 and 31 December 2011, broken down by expiry date:

(In thousands of Euro)	31 December 2012	31 December 2011
Within 1 year	98,693	79,481
1 to 5 years	220,253	176,428
Over 5 years	203,696	192,819
TOTAL	**522,642**	**448,728**

44. Transactions arising from atypical and/or unusual transactions

The Group did not undertake atypical and/or unusual transactions, i.e. those transactions which, due to their importance/size, the counterparties involved, the subject of the transaction, the means of determining the transfer price and the timing of the event, may give rise to doubts about the correctness/completeness of the information provided in the financial statements, conflicts of interest, the safeguarding of the company’s equity and the protection of minority interests.

45. Subsidiaries highlights

Subsidiaries highlights are shown in the table below.

(In local currency/000)		Year ended 31 December					
		2012			2011		
Company	Currency	Net revenues	Net profit/(loss)	Shareholders' equity	Net revenues	Net profit/(loss)	Shareholders' equity
Ferragamo Australia Ltd	AUD	17,805	567	7,348	13,151	691	6,781
Ferragamo Japan KK	JPY	12,888,133	57,077	2,498,782	13,338,910	38,170	2,427,405
Ferragamo Korea Ltd	KRW	96,399,617	14,149,980	64,875,706	95,008,645	16,468,813	57,725,726
Ferragamo Espana S.L.	Euro	10,138	208	2,892	8,843	155	2,684
Ferragamo Latin America Inc.	USD	1,547	(390)	222	1,402	(1,285)	499
Ferragamo St. Thomas Inc	USD	462	(203)	(174)	547	(232)	29
Ferrimag Limited	HKD	-	290,009	127,581	-	382,888	135,688
Ferragamo Retail HK Ltd.	HKD	643,639	121,743	164,798	569,759	113,097	156,155
Ferragamo Retail Taiwan Ltd	TWD	915,766	87,157	253,335	817,150	111,338	263,994
Ferragamo Mexico SL de CV	MXN	586,814	49,648	136,658	443,534	12,694	87,037
Ferragamo Retail Nederland BV	Euro	4,268	399	134	3,079	(123)	(264)
Ferragamo Fashion Trading Shanghai Co. Ltd.	CNY	891,195	123,330	128,623	779,407	133,984	136,468
Ferragamo Singapore	SGD	35,007	2,136	9,832	30,363	1,476	7,695
Ferragamo Thailand	THB	191,484	36,916	91,521	136,295	1,540	(395)
Ferragamo Malaysia	MYR	29,798	3,827	19,261	24,912	3,737	20,037
Ferragamo HK Ltd.	USD	305,267	48,104	140,841	274,702	47,462	139,974
Ferragamo USA Inc Group	USD	322,428	6,394	65,921	268,498	2,227	59,612
Ferragamo Deutschland GmbH	Euro	11,052	2,121	6,766	9,160	1,392	4,645
Ferragamo Belgique SA	Euro	2,350	203	1,014	1,642	(34)	811
Ferragamo Montecarlo SAM	Euro	1,763	307	842	1,899	326	535
Ferragamo Suisse SA	CHF	11,075	1,780	4,420	10,725	927	2,640
Ferragamo UK Ltd	GBP	14,561	580	7,133	14,170	2,709	6,553
Ferragamo France SAS	Euro	25,905	2,432	8,468	23,541	2,445	6,043
Ferragamo Parfums SpA	Euro	66,521	2,096	10,869	56,552	191	8,730
Ferragamo Chile SA	CLP	617,333	(13,820)	607,271	620,137	5,782	621,092
Ferragamo Austria GmbH	Euro	3,777	849	2,995	3,209	839	2,146
Ferragamo Parfum SA	CHF	-	-	-	-	15	647
Ferragamo Retail India Private Ltd	INR	398,329	(55,357)	(228,288)	339,754	(116,705)	(173,184)
Ferragamo Retail Macau Ltd	MOP	114,896	38,379	38,417	83,488	24,739	24,777
Ferragamo Moda Shangai Co. Ltd.	CNY	230,089	18,105	32,697	209,310	23,276	35,535
F. Brasil Roupas e Acessorios Ltda	BRL	-	(324)	45	-	-	-
Ferragamo Argentina SA	ARS	6,671	(1,831)	751	5,942	(2,846)	2,582

Disclosure pursuant to art. 149-duodecies of the Issuers' Regulation

(In thousands of Euro) Type of services	Subject which supplied the service	Recipient	Notes	Total fees for 2012
Audit	Independent Auditors of the Parent company	Parent company		167
Tax assistance services	Network of the Independent Auditors of the Parent company	Parent company		69
Other services	Network of the Independent Auditors of the Parent company	Parent company	1	260
Subtotal				**496**
Audit	i) Independent Auditors of the Parent company	Subsidiaries		116
	ii) Network of the Independent Auditors of the Parent company	Subsidiaries		556
Tax assistance services	i) Network of the Independent Auditors of the Parent company	Subsidiaries		114
Other services	i) Network of the Independent Auditors of the Parent company	Subsidiaries	2	18
Subtotal				**804**
Total				**1,300**

1) The item refers mainly to IT support services and assistance under Law 262.
2) The item refers mainly to support services under Law 262.

Significant events occurred after 31 December 2012

On 3 January 2013 the agreement signed on 28 February 2011 with Imaginex Holding Ltd. and Imaginex Overseas Ltd. was fulfilled regarding the increase to 75% of the Group's stake in the distribution companies operating on the strategic market of Greater China, with payment of the agreed price of 41,235,000 Euro, as indicated in the Directors' report on operations under "Significant events occurred during the year" included in the 2011 Annual Report. The agreement involved 25% of Ferrimag Limited of Hong Kong (a holding company which owns 100% of Ferragamo Retail Hong Kong Ltd., Ferragamo Fashion Trading (Shanghai) Ltd. and Ferragamo Retail Taiwan Ltd), 25% of Ferragamo Moda (Shanghai) Ltd. and 15.2% of Ferragamo Retail Macau Ltd.

On 20 March 2013 the Parent company Salvatore Ferragamo S.p.A. signed an agreement under which it will sell to Zeleco S.p.A. (a company in the Ermenegildo Zegna Group) the 250,000 shares it holds of Zefer S.p.A. (equal to 50% of the company's share capital). The parties have agreed that the transfer of ownership of the shares will take place on 15 April 2013, the date of actual transfer of the shares, and that on that date Zeleco S.p.A. will acquire full ownership and availability of all the shares purchased, with dividend rights as from 1 January 2013. The sale price of the shares is contractually set at 13,855,000.00 Euro.

Statement pursuant to art. 154 bis of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance) and art. 81–ter of Consob Regulation no. 11971 of 14 May 1999 as subsequently integrated and amended

1. The undersigned Michele Norsa in his capacity as "Managing Director" and Ernesto Greco in his capacity as "Manager responsible for the preparation of the corporate financial reports" of Salvatore Ferragamo S.p.A. certify, having also taken account of the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:

- the adequacy in relation to the company's structure, and
- the effective application,

of the administrative and accounting procedures for the preparation of the consolidated financial statements for the 1 January – 31 December 2012 period.

2. The adequacy of the administrative and accounting procedures for the preparation of the 2012 consolidated financial statements has been assessed on the basis of the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission which is the generally accepted model internationally.

3. It is also certified that:
3.1 the consolidated financial statements for the year ended 31 December 2012:

a. have been prepared in accordance with International Financial Accounting Standards as endorsed by the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council, dated 19 July 2002, and subsequent integrations;
b. correspond with accounting books and records;
c. are suitable to provide a true and fair representation of the financial conditions, results of operations and cash flows of the Company and of the Group of companies included in the consolidation area as of 31 December 2012 and for the year then ended.

3.2 The Directors' report on operations includes a reliable analysis of operating performance and results, as well as of the situation of the Company and of the Group of companies included in the consolidation area, as well as a description of the main risks and uncertainties to which they are exposed.

21 March 2013

Managing Director
Michele Norsa

Manager responsible for the preparation of the corporate financial reports
Ernesto Greco