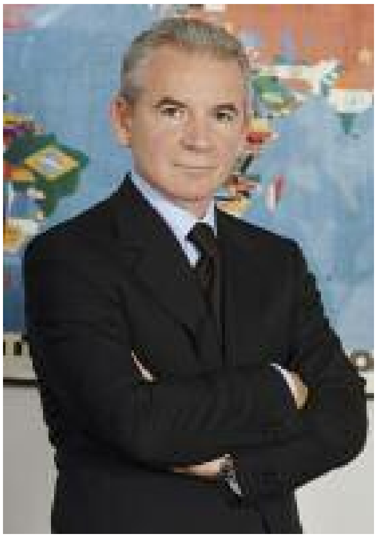
AEFFE CONSOLIDATED FINANCIAL STATEMENTS 2007



During 2007, the world economy was affected by the US mortgage lending crisis, which began during the summer, and by the major increase in fuel and food prices.
The deterioration of macroeconomic conditions essentially affected the principal developed economies, especially the United States, while the unabated expansion of the emerging economies continued to sustain world economic growth.
In the Euro area, the recent trend in GDP has been adversely affected by the higher cost of raw materials and, following an acceleration in the third quarter with growth of 0.8% compared with the previous quarter, there was a slight slowdown in the last part of the year.

Against this background, the revenues of the Aeffe Group rose by 10.2% in 2007 (+12.2% at constant exchange rates) to EUR 293.2 million, while net profit jumped by 92.0% to EUR 15.3 million.
These results highlight the effectiveness of the strategic decisions taken by the Group in prior years and are particularly satisfactory, since they confirm our achievement of all the objectives established at the start of the year.
The global markets served by us constantly set new challenges as conditions continue to evolve. Our experience and professionalism ensure that we are able to operate successfully in this context.

Once again, the results achieved confirm the validity of our business model, which guarantees the maximum creative autonomy for the various brands in the portfolio while, at the same time, releasing group synergies in such other areas as planning, finance and logistics.

Much energy was devoted in 2007 to completion of the stock exchange listing project.
This landmark achievement will allow us to take advantage of significant, new development opportunities and thereby accelerate our rate of growth.

The results achieved to date are the fruit of the team work and constant efforts made by all our directors, managers and employees throughout the Group. It is precisely this commitment that enables us to pursue our growth strategy, strengthen our market position and steadily improve our profitability.

The Chairman of the Board of Directors

Massimo Ferretti

AEFFE GROUP

AEFFE S.P.A.

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

Directors
Marcello Tassinari - *Managing Director*
Umberto Paolucci
Roberto Lugano
Gianfranco Vanzini

Board of Statutory Auditors

President
Romano Del Bianco

Statutory Auditors
Vittorio Baiocchi
Bruno Piccioni

Alternate Auditors
Andrea Moretti
Pier Francesco Gamberini

Board of Internal Control Committee

President
Roberto Lugano

Members
Gianfranco Vanzini
Umberto Paolucci

Board of Compensation Committee

President
Umberto Paolucci

Members
Gianfranco Vanzini
Roberto Lugano


AEFFE S.p.A.
ITALY
70%
Moschino S.p.A.
ITALY
100%
Fashoff UK Ltd
UK
100%
Moschino France S.a.r.l.
FRANCE
100%
Moschino Retail GMBH
GERMANY
50,1%
Moschino Far East
HONG KONG
100%
Aeffe USA Inc.
USA
100%
Aeffe UK Ltd.
UK
92%
Ozbek (London) Ltd.
UK
100%
Nuova Stireria Tavoleto Srl
ITALY
75%
Velmar S.p.A.
ITALY
75%
Divè S.A.
R.S.M.
70%
AV Suisse S.r.l.
ITALY
99,9%
Aeffe France S.a.r.l.
FRANCE
72%
Pollini S.p.A.
ITALY
99,9%
Pollini Retail S.r.l.
ITALY
99,9%
0,1%
Pollini France S.a.r.l.
FRANCE
100%
Ferretti Studio S.r.l.
ITALY
100%
Aeffe Retail S.p.A.
ITALY
100%
Fashion Retail Co. S.r.o.
CZECH REPUBLIC
62,9%
Clan Cafè S.r.l.
ITALY
Ready-to-wear Division
Footwear and leather goods Division

AEFFE
CLOTING - ACCESSORIES

ALBERTA FERRETTI

PHILOSOPHY DI ALBERTA FERRETTI

Jean Paul GAULTIER

MOSCHINO

POLLINI

MOSCHINO CHEAPANDCHIC

Basso & Brooke POWER PRINTS

Authier

GAULTIER²

POLLINI
SHOES - LEATHER GOODS

POLLINI

STUDIO POLLINI

MOSCHINO

MOSCHINO CHEAPANDCHIC

LOVE MOSCHINO

MOSCHINO
LICENCES - DESIGN - RETAIL

MOSCHINO

MOSCHINO CHEAPANDCHIC

LOVE MOSCHINO

VELMAR
BEACHWEAR - UNDERWEAR

ALBERTA FERRETTI

philosophy ALBERTA FERRETTI

MOSCHINO

BLUGIRL UNDERWEAR

BLUGIRL BEACHWEAR

VERDEMARE

GRUPPO AEFFE
Via Delle Querce, 51
San Giovanni in Marignano (RN)
47842 - Italy

MOSCHINO
Via San Gregorio, 28
20124 - Milano
Italy

POLLINI
Via Erbosa, 2/B
Gatteo (FC)
47030 - Italy

VELMAR
Via Delle Robinie, 43
San Giovanni in Marignano (RN)
47842 - Italy

Aeffe SpA

Moschino SpA

Pollini SpA

Velmar SpA

AEFFE MILANO
(FERRETTI - GAULTIER)
Via Donizetti, 48
20122 - Milan
Italy

POLLINI MILANO
Via Bezzecca, 5
20135 - Milan
Italy

AEFFE LONDRA
(FERRETTI)
205-206 Sloane Street
SW1X9QX - London
UK

AEFFE PARIGI
(GRUPPO)
15, Place de la Republique
75003 - Paria
France

AEFFE NEW YORK
(GRUPPO)
30 West 56th Street
10019 - New York
USA

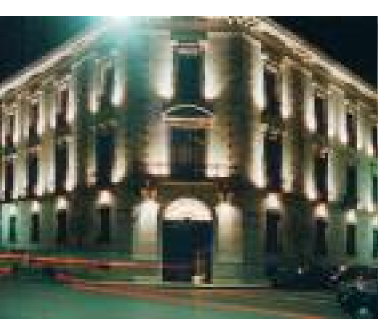
MOSCHINO MILANO
Via San Gregorio, 28
20124 - Milan
Italy

MOSCHINO LONDRA
28-29 Conduit Street
W1R 9TA - London
UK

MOSCHINO GIAPPONE
Shin-Nogizaka Bldg. 5F
1-15-14, Minami Aoyama Minato-ku
107-0062 - Tokyo
Japan

MOSCHINO HONG KONG
21/F Dorset House, Taikoo Place
979 King's Road
Hong Kong

Milano Aeffe



Milano Moschino

Milano Pollini

New York Aeffe

Milano Aeffe

ALBERTA FERRETTI
Milano
Roma
Capri
Paris
London

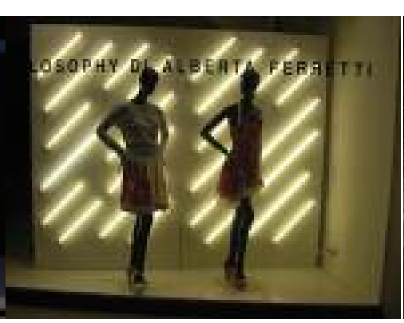
PHILOSOPHY
Milano
Capri
New York

SPAZIO A
Firenze
Venezia

P_BOX
Milano (2)

Moschino

Alberta Ferretti



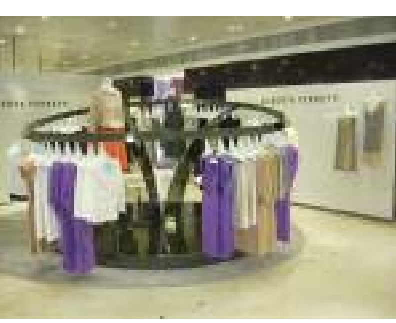
Moschino

Pollini

Moschino

MOSCHINO
Milano (2)
Capri
Paris
London
Berlin
Beijing
Shanghai
Osaka (4)
Hong Kong (3)
Kuala Lumpur
Singapore
Taipei (6)
Bangkok
Fukuoka City
Tokyo (5)
Kobe City
Kyoto (2)
Nagoya (2)
Daegu
Seoul (6)
Pusan (2)
Kaoshiung (2)

POLLINI
Milano
Bologna
Roma
Firenze (2)
Venezia
Bolzano
Parma
Ravenna
Rimini
Varese
Verona

Alberta Ferretti


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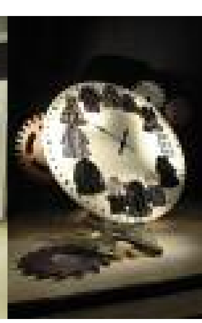

Pollini


Alberta Ferretti


Moschino



ALBERTA FERRETTI


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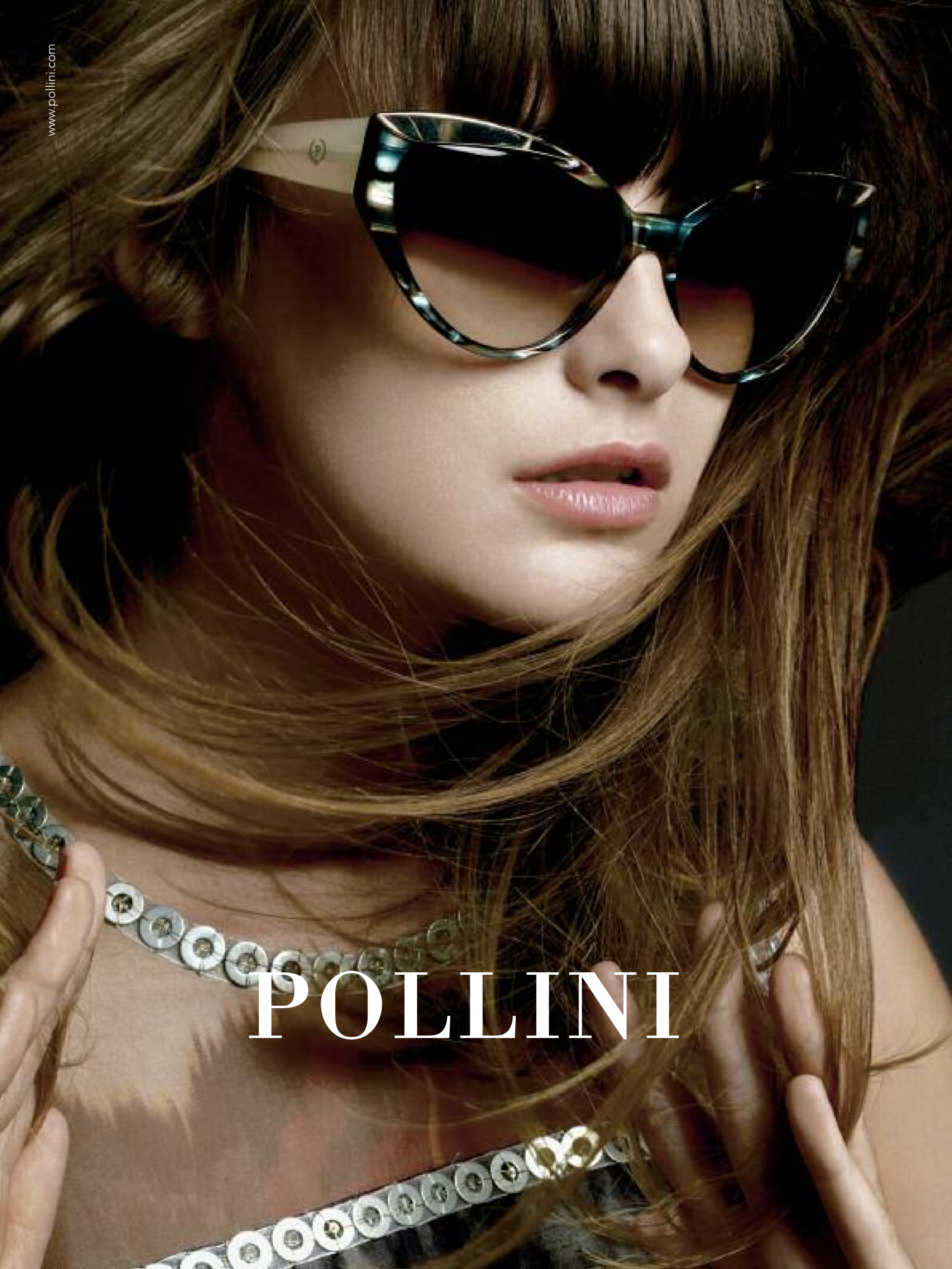
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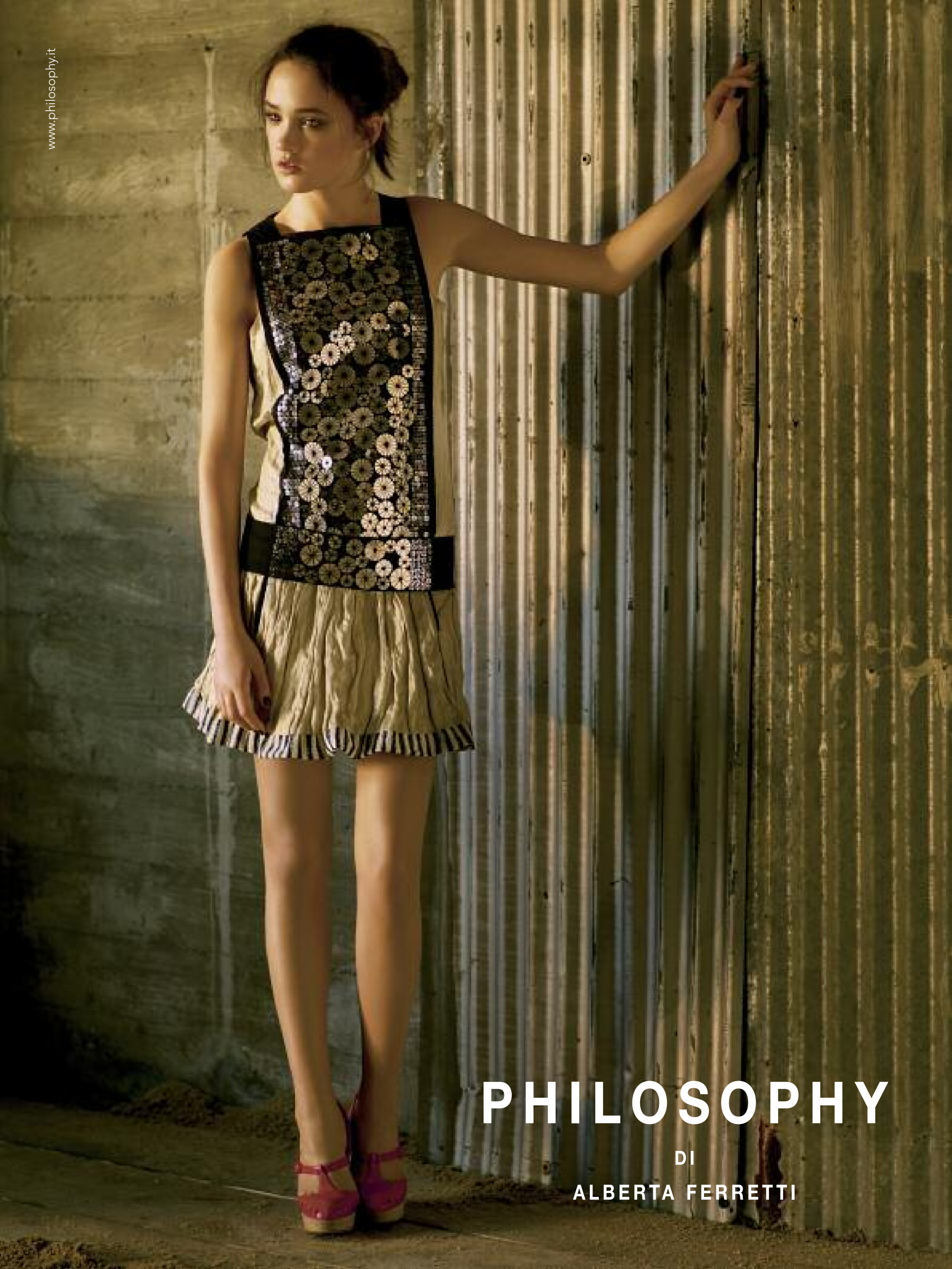
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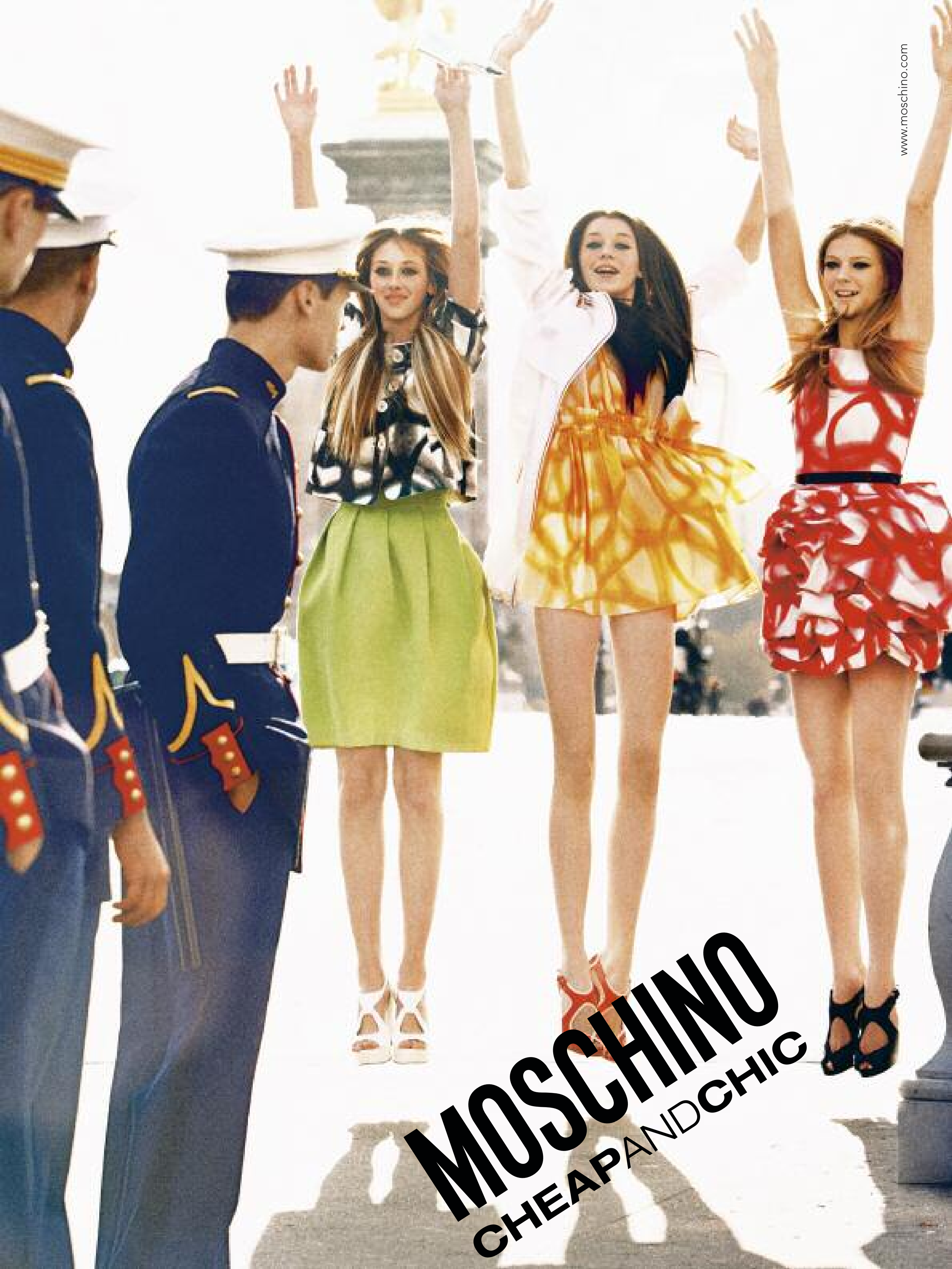
DI
ALBERTA FERRETTI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MOSCHINO
CHEAPANDCHIC


www.bassoandbrooke.com
Basso & Brooke
POWER PRINTS

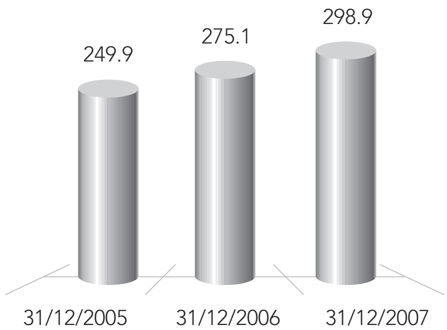

www.authier.com
Authier

AEFFE

MAIN ECONOMIC-FINANCIAL DATA

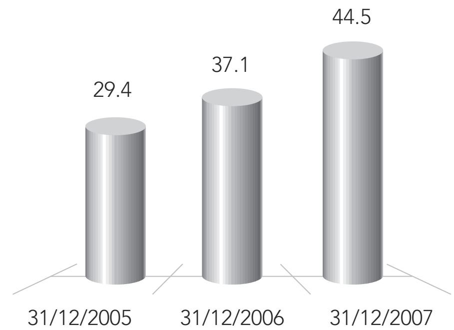
TOTAL REVENUES

(€/,000,000)



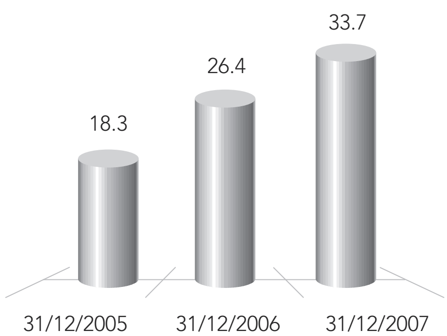
GROSS OPERATING MARGIN (EBITDA)

(€/,000,000)



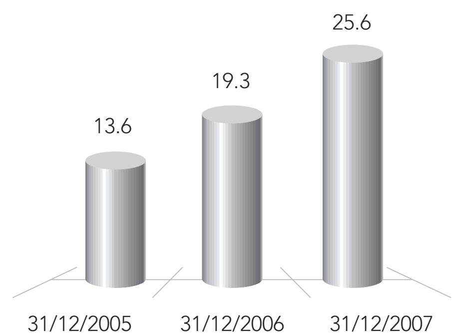
NET OPERATING PROFIT (EBIT)

(€/,000,000)



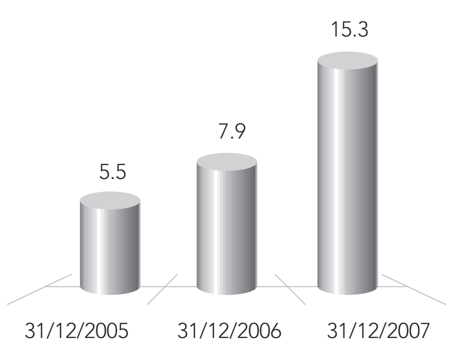
PROFIT BEFORE TAXES

(€/,000,000)



NET PROFIT FOR THE GROUP

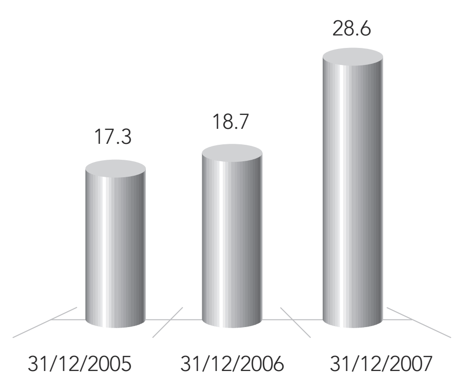
(€/,000,000)



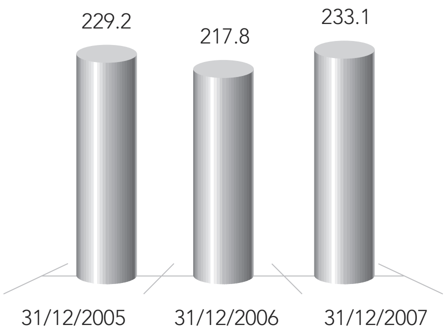
CASH FLOW

(net profit after taxes + depreciation)

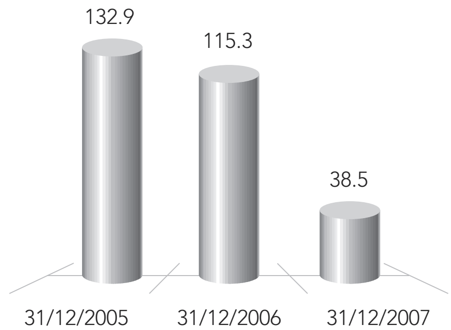
(€/,000,000)



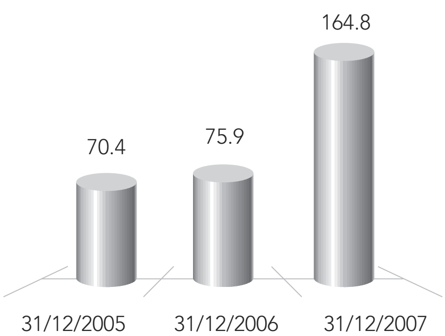
NET CAPITAL INVESTED
(€/,000,000)



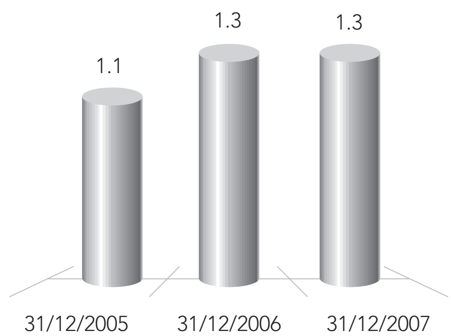
NET FINANCIAL INDEBTEDNESS
(€/,000,000)



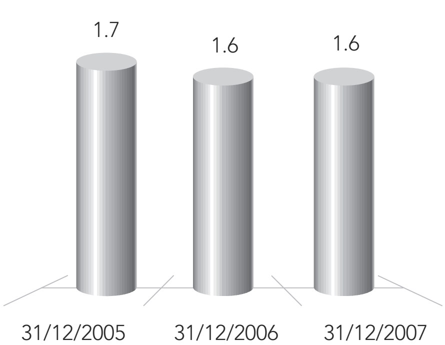
GROUP NET EQUITY
(€/,000,000)



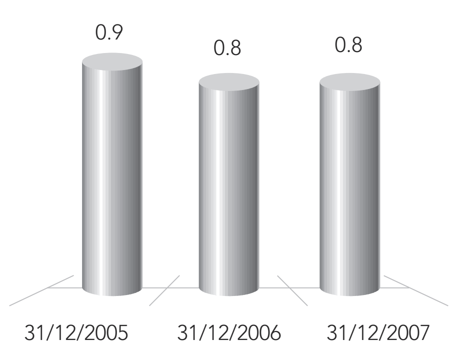
Total revenues/
Net capital invested
(Ratio)



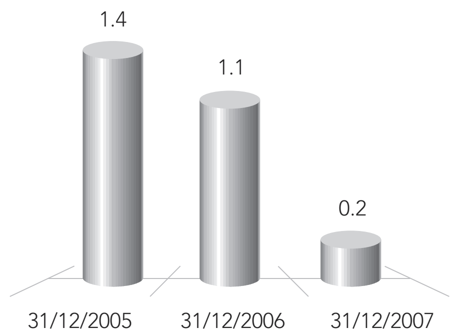
Current assets/
Current liabilities
(Ratio)



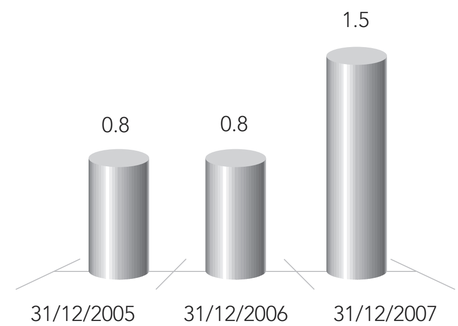
Current assets less invent./
Current liabilities (ACID Test)
(Ratio)



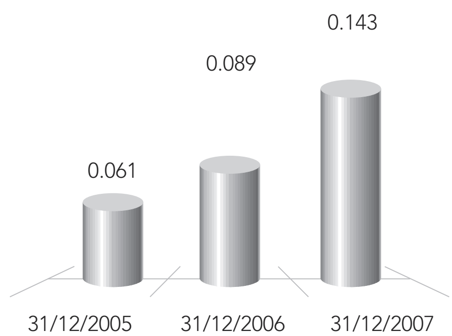
Net financial indebtedness/
Net equity
(Ratio)



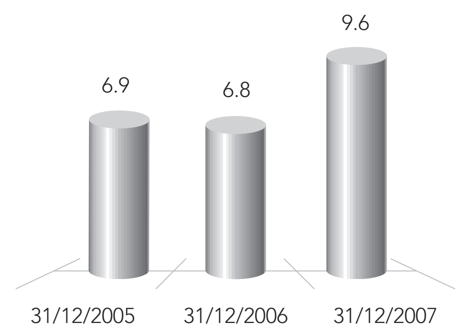
Net equity for the group per share
(€)



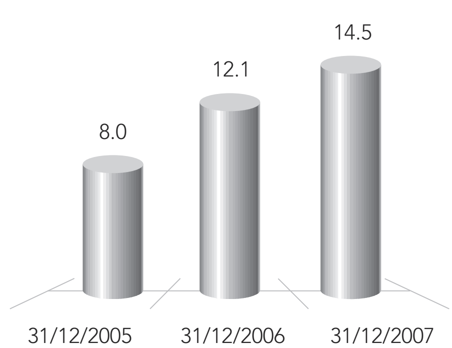
Net profit for the group per share
(€)



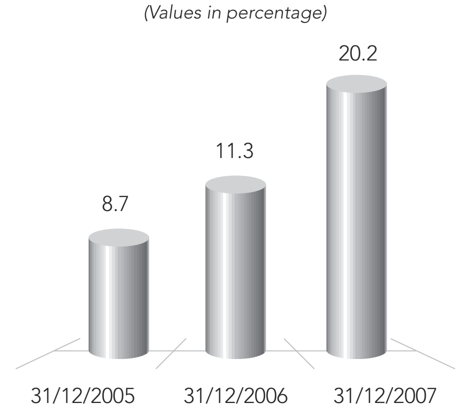
Cash Flow/Total revenues
(Values in percentage)



ROI:Net operating profit/
Net capital invested
(Values in percentage)



ROE:Net profit for the group/
Group net equity
(Values in percentage)



AEFFE FINANCIAL STATEMENTS

CONSOLIDATED ASSETS BALANCE SHEET (*)

(Values in units of EUR)	NOTES	31st december 2007	31st december 2006	Change 2007/06
NON-CURRENT ASSETS				
Intangible fixed assets				
Goodwill		54,316,280	54,101,757	214,523
Trademarks		117,284,499	120,799,010	-3,514,511
Other intangible fixed assets		169,834	172,525	-2,691
Total intangible fixed assets	(1)	171,770,613	175,073,292	-3,302,679
Tangible fixed assets				
Lands		17,555,245	17,719,245	-164,000
Buildings		33,462,497	34,265,872	-803,375
Leasehold improvements		11,812,881	10,998,186	814,695
Plant and machinary		5,008,897	3,613,970	1,394,927
Equipment		277,380	207,035	70,345
Other tangible fixed assets		3,077,648	3,091,092	-13,444
Total tangible fixed assets	(2)	71,194,548	69,895,400	1,299,148
Other fixed assets				
Equity investments	(3)	21,641	120,638	-98,997
Other fixed assets	(4)	3,122,044	2,877,143	244,901
Deferred tax assets	(5)	8,869,181	10,741,117	-1,871,936
Assets available for sale	(6)	1,636,885	1,636,885	-
Total other fixed assets		13,649,751	15,375,783	-1,726,032
TOTAL NON-CURRENT ASSETS		**256,614,912**	**260,344,475**	**-3,729,563**
CURRENT ASSETS				
Stocks and inventories	(7)	67,761,354	57,658,314	10,103,040
Trade receivables	(8)	36,910,502	33,429,957	3,480,545
Tax receivables	(9)	4,786,640	2,339,179	2,447,461
Cash	(10)	14,525,033	11,145,222	3,379,811
Short term financial receivables	(11)	-	4,175,000	-4,175,000
Other receivables	(12)	27,082,638	25,857,607	1,225,031
TOTAL CURRENT ASSETS		**151,066,167**	**134,605,279**	**16,460,888**
TOTAL ASSETS		**407,681,079**	**394,949,753**	**12,731,324**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment II and are further described in the Note 39.

CONSOLIDATED LIABILITIES BALANCE SHEET (*)

(Values in units of EUR)	NOTES	31st december 2007	31st december 2006	Change 2007/06
SHAREHOLDERS' EQUITY				
Group interest				
Share capital		26,840,626	22,500,000	4,340,626
Share premium reserve		75,307,855	11,345,480	63,962,375
Translation reserve		-948,776	391,200	-1,339,976
Partecipatory instruments reserve		-	12,400,000	-12,400,000
Other reserves		28,204,017	8,572,760	19,631,257
Fair Value reserve		7,901,240	7,448,484	452,756
IAS reserve		11,459,492	11,119,777	339,715
Profit/(losses) carried-forward		679,150	-5,773,135	6,452,285
Net profit for the Group		15,320,586	7,981,220	7,339,366
Group interest in shareholders' equity		164,764,190	75,985,786	88,778,404
Minority interests				
Minority interests in share capital and reserves		26,913,875	25,903,380	1,010,495
Net profit for the minority interests		2,949,556	561,929	2,387,627
Minority interests in shareholders' equity		29,863,431	26,465,309	3,398,122
TOTAL SHAREHOLDERS' EQUITY	**(13)**	**194,627,621**	**102,451,095**	**92,176,526**
NON-CURRENT LIABILITIES				
Provisions	(14)	1,707,602	1,741,230	-33,628
Deferred tax liabilities	(5)	48,022,235	57,303,971	-9,281,736
Post employment benefits	(15)	11,111,030	13,508,741	-2,397,711
Long term financial liabilities	(16)	26,646,683	66,196,757	-39,550,074
Long term not financial liabilities	(17)	14,251,237	14,045,132	206,105
TOTAL NON-CURRENT LIABILITIES		**101,738,787**	**152,795,831**	**-51,057,044**
CURRENT LIABILITIES				
Trade payables	(18)	60,577,085	57,545,124	3,031,961
Tax payables	(19)	7,127,302	4,951,812	2,175,490
Short term financial liabilities	(20)	26,361,882	64,437,341	-38,075,459
Other liabilities	(21)	17,248,402	12,768,551	4,479,851
TOTAL CURRENT LIABILITIES		**111,314,671**	**139,702,827**	**-28,388,157**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**407,681,079**	**394,949,753**	**12,731,324**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Balance Sheet are presented in the specific Balance Sheet schedule provided in the attachment III and are further described in the Note 39.

CONSOLIDATED INCOME STATEMENT (*)

(Values in units of EUR)	NOTES	Full Year 2007	% on revenues	Full Year 2006	% on revenues	Change Δ	Change %
REVENUES FROM SALES AND SERVICES	**(22)**	**293,210,633**	**100.0%**	**266,135,146**	**100.0%**	**27,075,487**	**10.2%**
Other revenues and income	(23)	5,659,038	1.9%	8,938,830	3.4%	-3,279,792	-36.7%
TOTAL REVENUES		**298,869,671**	**101.9%**	**275,073,976**	**103.4%**	**23,795,695**	**8.7%**
Changes in inventory of work in process, semi-finished, finished goods		7,851,559	2.7%	5,998,441	2.3%	1,853,118	30.9%
Costs of raw materials, cons. and goods for resale	(24)	-88,772,356	-30.3%	-80,281,499	-30.2%	-8,490,857	10.6%
Costs of services	(25)	-95,743,447	-32.7%	-87,811,086	-33.0%	-7,932,361	9.0%
Costs for use of third parties assets	(26)	-17,049,562	-5.8%	-16,442,105	-6.2%	-607,457	3.7%
Labour costs	(27)	-58,195,922	-19.8%	-56,283,623	-21.1%	-1,912,299	3.4%
Other operating expenses	(28)	-2,509,319	-0.9%	-3,152,756	-1.2%	643,437	-20.4%
Total Operating Costs		-254,419,047	-86.8%	-237,972,628	-89.4%	-16,446,419	6.9%
GROSS OPERATING MARGIN (EBITDA)		**44,450,624**	**15.2%**	**37,101,348**	**13,9%**	**7,349,276**	**19.8%**
Amortisation of intangible fixed assets		-3,638,463	-1.2%	-3,761,118	-1.4%	122,655	-3.3%
Depreciation of tangible fixed assets		-6,723,449	-2.3%	-6,464,281	-2.4%	-259,168	4.0%
Revaluations (write-downs)		-359,770	-0.1%	-440,791	-0.2%	81,021	-18.4%
Total Amortisation and write-downs	(29)	-10,721,682	-3.7%	-10,666,190	-4.0%	-55,492	0.5%
NET OPERATING PROFIT (EBIT)		**33,728,942**	**11.5%**	**26,435,158**	**9.9%**	**7,293,784**	**27.6%**
Financial income	(30)	602,757	0.2%	410,179	0.2%	192,578	46.9%
Financial expenses	(31)	-8,686,927	-3.0%	-7,432,356	-2.8%	-1,254,571	16.9%
Total Financial Income (expenses)		-8,084,170	-2.8%	-7,022,177	-2.6%	-1,061,993	15.1%
Profit (loss) from equity investments in affiliates	(32)	-	0.0%	-119,455	0.0%	119,455	-100.0%
PROFIT BEFORE TAXES		**25,644,772**	**8.7%**	**19,293,525**	**7.2%**	**6,351,247**	**32.9%**
Current income taxes		-11,027,823	-3.8%	-7,426,035	-2.8%	-3,601,789	48.5%
Deferred income/(expenses) taxes		3,653,193	1.2%	-3,324,342	-1.2%	6,977,535	-209.9%
Total Income Taxes	(33)	-7,374,630	-2.5%	-10,750,377	-4.0%	3,375,746	-31.4%
PROFIT NET OF TAXES		**18,270,142**	**6.2%**	**8,543,149**	**3.2%**	**9,726,993**	**113.9%**
(Profit) loss attributable to minority shareholders		-2,949,556	-1.0%	-561,929	-0.2%	-2,387,627	424.9%
NET PROFIT FOR THE GROUP		**15,320,586**	**5.2%**	**7,981,220**	**3.0%**	**7,339,366**	**92.0%**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Income Statement are presented in the specific Income Statement schedule provided in the attachment IV and are further described in the Note 39.

CONSOLIDATED CASH FLOW STATEMENT(*)

(Values in thousands of EUR)	NOTES	Full Year 2007	Full Year 2006
OPENING BALANCE		**15,320**	**7,020**
Profit before taxes		25,645	19,293
Amortisation		10,722	10,225
Accrual (+)/availment (-) of long term provisions and post employment benefits		-2,431	694
Paid income taxes		-9,374	-4,851
Financial income (-) and financial charges (+)		8,084	7,022
Change in operating assets and liabilities		-9,538	613
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(34)**	**23,108**	**32,996**
Increase (-)/ decrease (+) in intangible fixed assets		-336	-40
Increase (-)/ decrease (+) in tangible fixed assets		-9,302	-4,034
Investments (-)/ Disinvestments (+)		95	135
Change in assets avaiable for sale		-	53
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(35)**	**-9,543**	**-3,886**
Increase in reserves and profit carried-forward to shareholders'equity		71,954	-6,000
Proceeds (repayment) of financial payments		-77,985	-9,270
Increase (-)/decrease (+) in long term financial receivables		-245	1,482
Financial income (+) and financial charges (-)		-8,084	-7,022
CASH FLOW (ABSORBED)/ GENERATED BY FINANCING ACTIVITY	**(36)**	**-14,360**	**-20,810**
CLOSING BALANCE		**14,525**	**15,320**

(*) Pursuant to Consob Resolution N. 15519 of 27th July 2006, the effects of related party transactions on the Consolidated Cash Flow are presented in the specific Cash Flow schedule provided in the attachment V and are further described in the Note 39.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Translation reserve	Partecipatory instruments reserve	Other reserves	Fair Value reserve	IAS reserve	Profit (losses) carried-forward	Net profit for the Group	Group interest in shareholders' equity	Minority interests in shareholders' equity	Total shareholders' equity
BALANCES AT 31st December 2005	**22,500**	**11,345**	**1,195**	**-**	**23,888**	**3,052**	**11,120**	**- 8,194**	**5,505**	**70,411**	**25,908**	**96,319**
Allocation of net profit at 31st December 2005	-	-	-	-	3,085	-	-	2,420	-5,505	-	-	-
Exchange differences on translation	-	-	- 804	-	-	-	-	-	-	- 804	- 5	- 809
Net profit at 31st December 2006	-	-	-	-	-	-	-	-	7,981	7,981	562	8,543
Other movements	-	-	-	12,400	- 18,400	4,397	-	-	-	- 1,603	-	- 1,603
BALANCES AT 31st December 2006	**22,500**	**11,345**	**391**	**12,400**	**8,573**	**7,449**	**11,120**	**- 5,774**	**7,981**	**75,985**	**26,465**	**102,450**

(Values in thousands of EUR)	Share capital	Share premium reserve	Translation reserve	Partecipatory instruments reserve	Other reserves	Fair Value reserve	IAS reserve	Profit (losses) carried-forward	Net profit for the Group	Group interest in shareholders' equity	Minority interests in shareholders' equity	Total shareholders' equity
BALANCES AT 31st December 2006	**22,500**	**11,345**	**391**	**12,400**	**8,573**	**7,449**	**11,120**	**- 5,774**	**7,981**	**75,985**	**26,465**	**102,450**
Allocation of net profit at 31st December 2006	-	-	-	-	1,231	-	-	6,750	- 7,981	-	-	-
Exchange differences on translation	-	-	- 1,340	-	-	-	-	-	-	- 1,340	235	- 1,105
Net profit at 31st December 2007	-	-	-	-	-	-	-	-	15,321	15,321	2,950	18,271
Cancellation of own shares	- 4,500	- 16,600	-	2,700	18,400	-	-	-	-	-	-	-
Conversion of partecipatory instrument	4,091	11,009	-	- 15,100	-	-	-	-	-	-	-	-
Increase in shareholders'equity for IPO	4,750	69,554	-	-	-	-	-	-	-	74,304	-	74,304
Other movements	-	-	-	-	-	452	339	- 297	-	494	213	707
BALANCES AT 31st December 2007	**26,841**	**75,308**	**- 949**	**-**	**-28,204**	**7,901**	**11,459**	**679**	**15,321**	**164,764**	**29,863**	**194,627**

AEFFE REPORT ON OPERATIONS

1. ECONOMIC BACKGROUND

Shareholders,
The principal macroeconomic factors influencing the Group's activities are discussed below.

INTERNATIONAL MACROECONOMIC SITUATION

During 2007, the world economy was affected by the US mortgage lending crisis, which became sharply evident during the summer, and by the major increase in fuel and food prices. The deterioration of macroeconomic conditions essentially affected the developed economies, especially the United States, while the unabated expansion of the emerging economies continued to sustain world economic growth.
In the Euro area, the recent trend in GDP has been adversely affected by the higher cost of raw materials and, following an acceleration in the third quarter with growth of 0.8% compared with the previous quarter, there was a slight slowdown in the last part of the year. The Italian economy also slowed towards the end of 2007. Following a modest recovery in the third quarter, industrial production fell by about one percentage point; this reflected the stagnation of consumer demand during the second half, following strong support for domestic demand during the first part of the year. Capital investment also slowed in line with the trend in GDP, while foreign demand was progressively affected by the appreciation of the Euro and the easing of growth in the principal destination markets. Unit payroll costs rose by more than in 2006. As elsewhere in the Euro area, retail prices were influenced in 2007 by the higher cost of raw materials - especially the price of oil - resulting in a 2% rise in the RPI over the year.
The depreciation of the dollar, the higher cost of commodities (the price of oil has jumped by 20% in Euro terms over the past six months, while food prices climbed by 10% in the same period), and the crisis in the US property market all cast a shadow of uncertainty over the outlook for 2008. The risk of a cyclic slowdown in the United States and other developed economies might materialise and this, combined with rising raw material prices, could lead to an upturn in inflation. Countering this, productivity improvements and sustainable competitive advantages might also be attained, based on the use of know-how and innovation.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

Following the signs of recovery seen in 2006, the clothing sector performed well overall in 2007, despite the marked slowdown in growth during the last three months of the year. This was due to the higher cost of energy, not yet reflected in higher selling prices for finished products, and the appreciation of the Euro which has affected competition within the sector. The expansion of such emerging markets as China, Russia and India, combined with the stability of sales in Europe despite the slowdown of consumption in Germany, has helped to offset the fall in revenues from established markets including, in particular, Japan and the United States.

2. SUMMARY OF THE GROUP'S KEY ACTIVITIES

Aeffe Group operates worldwide in the fashion and luxury goods sector and is active in the design, production and distribution of a wide range of products that includes prêt-a-porter, footwear and leather goods. The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Moschino" and "Pollini", and under licensed brands, which include "Jean Paul Gaultier", "Blugirl" and "Authier". The Group has also

licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches and sunglasses).
The Group's business is divided, based on the various product lines and brands it sells, into two segments: (i) prêt-a-porter (which includes prêt-a-porter lines, lingerie and swimwear); and (ii) footwear and leather goods.

Prêt-a-porter Division
The Prêt-a-porter Division, which is composed of the companies Aeffe, Moschino and Velmar, is mainly involved in the design, production and distribution of luxury prêt-a-porter garments and lingerie, beachwear and loungewear.
In terms of the prêt-a-porter collections, the activity is carried out by Aeffe, both for the production of the Group's proprietary brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap and Chic" and "Pollini") and brands licensed from other companies (such as "Jean Paul Gaultier", and "Authier"). Aeffe also handles the distribution of all Division products both through the retail channel (via subsidiaries) and through the wholesale channel.
Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear and beachwear, and loungewear. Collections are produced and distributed under the Group's proprietary brands, which include "Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino" and "Verdemare", and under third-party licensed brands such as "Blugirl".
The Prêt-a-porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino branded product lines such as the Moschino brand licensing agreement relating to the Love lines, "Moschino" branded perfumes and "Moschino" branded sunglasses.

Aeffe
Aeffe is the brainchild of designer Alberta Ferretti, who set up her own business in 1972. The history of the Parent Company has developed in parallel with that of its founder, whose personal involvement in fashion has been a key factor in Aeffe's development.
The growth of the Parent Company as an industrial and creative entity has been distinguished from the start by a multi-brand approach, with Aeffe producing and distributing the prêt-a-porter collections of leading fashion houses utilising the know-how acquired in the production of luxury prêt-a-porter lines.
This provides the context for the partnership between Aeffe and designer Franco Moschino, whose brand "Moschino Couture!" it has produced and distributed under an exclusive licence since 1983.
In 1995, Aeffe began collaborating with designer Jean Paul Gaultier, whose brand "Jean Paul Gaultier" and - since 2006 - "Gaultier2" it produces and distributes under licence.
In 2001, Aeffe gained control of Pollini, an established manufacturer of footwear and leather goods. This allowed Aeffe to supplement the collections produced in-house with an accessories line.
In 2002, Aeffe took over Velmar, a firm that had collaborated with Aeffe for some time on the production and distribution of lingerie, beachwear and loungewear lines.
In 2003, Aeffe appointed Rifat Ozbek, the Turkish-born British designer who has been awarded accolades such as UK Designer of the Year (1988), as artistic director of Pollini prêt-a-porter lines.
In 2004, as part of its commitment to uncover and showcase new talent, Aeffe began a partnership with an Anglo-Brazilian pair of up-and-coming designers, Bruno Basso and Christopher Brooke, who won the London Fashion Fringe in 2004.
In 2006, Aeffe commenced the licensed production and distribution of Authier skiwear and après-skiwear.
In 2007, Aeffe, obtained the Consob Nulla Osta to public the offering memorandum relating to the Public Offering and the listing on the MTA - Star Segment - of Aeffe S.p.A. ordinary shares, closes successfully the Offer of shares and starts to be traded on the MTA - Star Segment - by Borsa Italiana.

Moschino

Moschino was founded in 1983 and grew during the 1990s to become an internationally renowned brand. Following the disappearance in 1994 of its founder, Franco Moschino, his family, staff and friends have kept the designer's legacy alive, respecting his creative identity and philosophy. Rossella Jardini, who has worked for Franco Moschino since 1981, succeeded him as artistic director and is currently in charge of brand image and styling.

The company provides design, marketing and agency services from the Milan showroom for Moschino collections in Italy and overseas.

The company also directly manages three single-brand Moschino stores, two in Milan and one in Capri.

In 2007 Moschino signs a licence agreement with Binda Group for the production and distribution of watches and jewellery branded "Moschino Cheap and Chic".

In 2007, Moschino signs a licence agreement with Max Safety Fashion for the production of helmets branded "Moschino".

Velmar

Velmar was created in 1983 in San Giovanni in Marignano and is active in the production and distribution of lingerie, underwear, beachwear and loungewear.

In 1990, a partnership began between Velmar and designer Anna Molinari to manufacture lingerie and beachwear lines. That same year, talks began with Aeffe and Genny.

Between 1990 and 1995, Velmar worked with Genny and Fendi, producing all of the swimwear lines designed by the two fashion houses. Between 1990 and 2001, Velmar worked with Itierre and Prada on the design and production of the active and sportswear lines sold under the "Extee" and "Prada" menswear labels.

Between 1995 and 1998, Velmar produced and distributed under licence the beachwear line for Byblos menswear and womenswear.

In 1998, Velmar signed a licensing agreement with Blufin for the production and distribution of "Blugirl" lines.

In 2001, Aeffe acquired 75% of Velmar. Again, this represented a natural progression of the existing partnership between the two companies.

In 2001, Velmar began the production and distribution under licence of Alberta Ferretti lingerie, beachwear and loungewear lines.

In 2004, Velmar began the production and distribution of lingerie, beachwear and loungewear lines under the "Philosophy di Alberta Ferretti" brand.

In 2006, Velmar obtained a licence for the production and distribution of the men's beachwear and underwear lines and women's lingerie lines under the "Moschino" brand.

Aeffe USA

Aeffe USA is 100% owned by Aeffe Spa and was incorporated in May 1987 under the laws of the State of New York.

The company operates in the wholesale segment of the North American market (United States and Canada) distributing items of clothing and accessories produced by the Parent Company, Pollini S.p.A. and Velmar S.p.A. and other third-party licensed manufacturers, with different collections, of the brands produced by the Parent Company. The company also acts as agent for some of these lines. The company operates out of its own showroom located in midtown Manhattan. Aeffe USA also manages a single-brand store that sells the Philosophy di Alberta Ferretti brand in Soho, New York.

Aeffe Retail

Aeffe Retail operates in the retail segment of the Italian market and directly manages 9 stores, 5 of them single-brand and 4 multi-brand located in major Italian cities such as Milan, Rome, Venice, Florence and Capri.

Clan Cafè

Clan Cafè Srl, incorporated in 2007, is 62.9% owned by Aeffe Retail and manages a store located in Milan Via Pontaccio 19, which distributes clothing and accessories produced by Aeffe Group and by third parties.

Aeffe Uk
Aeffe UK is 100% owned by Aeffe S.p.A. and manages the store in London's Sloane Street, which sells clothing and accessories under the Alberta Ferretti and Philosophy di Alberta Ferretti labels. The company also acts as an agent for the UK market.

Aeffe France
Aeffe France is 99.9% owned by Aeffe S.p.A. and manages the store in Rue St. Honorè in Paris, selling apparel and accessories under the Alberta Ferretti and Philosophy di Alberta Ferretti brands. The company also acts as an agent for the French market.

Fashion Retail Sro
Fashion Sro is based in the Czech Republic and directly manages an outlet in Brno.

Ferretti Studio
The company was founded in 1984 and provides design and communications services to the creative division of Alberta Ferretti for the Alberta Ferretti and Philosophy di Alberta Ferretti collections.

Av Suisse
Av Suisse was formed in 2005 together with the designer Gustavo Sangiorgi. It acts as a design consultancy for the creation of the Authier collection.

Nuova Stireria Tavoleto
Nuova Stireria Tavoleto, based in Tavoleto (Pesaro-Urbino), is 100% owned by Aeffe S.p.A. and provides industrial pressing services for the majority of Aeffe and Velmar production and for other clients outside the Group.

Moschino Far East
Moschino Far East is 50.1% owned by Moschino Spa and is based in Hong Kong.
The company operates in the wholesale segment of the Asian market (Hong Kong, China, Taiwan, Singapore, Malaysia, Thailand, Korea, Japan), distributing clothing and accessories from the Moschino lines produced by the Parent Company and Pollini.
The company also manages 38 stores in the Asia region.

Fashoff Uk
Fashoff UK operates from the showroom in London, acting as agent for the Moschino-branded collections produced by Aeffe, Pollini, Forall (men) and Falc (men's/children's shoes), and importing the other collections (jeans, umbrellas, gloves, scarves and Velmar collections). The company also directly manages a single-brand Moschino store in London.

Moschino France
Moschino France is based in the Paris showroom and acts as agent for all Moschino collections except childrenswear, eyewear, perfumes and watches.
The company also manages a single-brand Moschino store in Paris.

Moschino Gmbh
Moschino Gmbh directly manages a single-brand store selling Moschino lines in Berlin.

Footwear and leather goods Division
The footwear and leather goods Division, which is composed of Pollini and its subsidiaries, mainly handles the design, production and distribution of footwear, small leather goods, bags and matching accessories made from exclusive materials.
The operating activity is mainly carried out by Pollini, which directly handles the design, production and distribution of own-label products, as well as the production and distribution of brands licensed by Group companies.
The footwear and leather goods division also manages licensing agreements granted to other companies to manufacture "Pollini" and "Studio Pollini" products such as sunglasses.

Pollini

Pollini was established in 1953 in the shoemaking district of San Mauro Pascoli, following in the Italian tradition of handmade leather goods and shoes. Italy is a leading producer of footwear: due to expertise required to make these products, nearly all production sites are located in areas with a long-standing shoemaking tradition, such as San Mauro Pascoli, Vigevano and Strà (PD). The company's philosophy is focused on promoting Pollini in other countries as an amalgam of traditional quality and Italian style, offering a range of products that include shoes, bags and matching accessories.

Between 1957 and 1961, Pollini produced the footwear collections of the designer Bruno Magli.

In the 1960s and early 1970s, Pollini began making shoes under its own label, presenting "themed" collections (such as the "Daytona" sports footwear collection, inspired by the world of motorbike racing).

In the 1970s, Pollini rose to international fame: at that point, its collections were shown in Düsseldorf, Paris and New York, as well as in Milan and Bologna. Around the same time, the first stores opened in Florence, Milan, Rome, Bologna, Parma, Verona, Bolzano, Bergamo, Varese and Venice.

In 1989, Pollini moved into its new office in Gatteo, in the Italian province of Forlì-Cesena. The new site measures 50,000 sq. m., just over a third of it indoor, with a production workshop and seven-storey building housing the showroom and offices. The new site brought the footwear and leather goods divisions and sales and administration offices under one roof.

In 2001, Aeffe and Pollini reached an agreement whereby Aeffe would acquire a controlling stake in Pollini. The acquisition was a natural progression of the increasingly concentrated partnership between the two companies, enabling the growth of the footwear and leather goods lines designed by Alberta Ferretti.

In 2003, the designer Rifat Ozbek, who has worked with the Group for some time, was named creative director of the new "Pollini" prêt-a-porter line. In the same year, Pollini's flagship store opened in the Rue Saint Honorè, Paris.

In 2006, Pollini licensed the production and distribution of sunglasses and spectacles under the "Pollini" brand to Elite Group S.r.l. and in 2007 gave a new license under the “Studio Pollini” brand.

Pollini *Retail*

Pollini Retail is active in the retail segment of the Italian market and directly manages 16 stores in major Italian cities such as Milan, Rome, Venice and Florence.

3. CONSOLIDATED INCOME STATEMENT

Revenues from sales and services

The revenues from sales and services generated in 2007 amount to EUR 293,211 thousand, up 10.2%, compared with EUR 266,135 of the same period in the previous year (+12.2% at constant exchange rates and +13.4% excluding also the effect of the termination of the Narciso Rodriguez license).
This improvement reflects the excellent performance achieved by the Group's two divisions: the revenues of the prêt-à port division increases by 9.8% (+12.3% at constant exchange rates) to EUR 235,178 thousand, while the revenues of the footwear and leather goods division rise by 13.8% to EUR 74,535 thousand, before interdivisional eliminations.
These extremely positive results highlight the effectiveness of the strategic decisions made by the Group in the prior years.

Revenues by brand

(Values in thousands of EUR)	Full Year 2007	%	Full Year 2006	%	Change Δ	Change %
Alberta Ferretti	63,004	21.5%	52,780	19.8%	10,224	19.4%
Moschino	136,857	46.7%	125,532	47.2%	11,325	9.0%
Pollini	52,311	17.8%	47,894	18.0%	4,417	9.2%
J. P. Gaultier	23,749	8.1%	21,528	8.1%	2,221	10.3%
Other (*)	17,290	5.9%	18,401	6.9%	-1,111	-6.0%
Total	**293,211**	**100.0%**	**266,135**	**100.0%**	**27,075**	**10.2%**

(*) *Blugirl*, Authier, Narciso Rodriguez and Basso&Brooke

All Group brands perform well during 2007.
Strong growth for Alberta Ferretti brand that increases by 19.4% (+20.3% at constant exchange rates) contributing 21.5% of consolidated revenues, while Moschino grows by 9.0% (+12.3% at constant exchange rates) contributing 46.7% of consolidated revenues. Good results for Pollini brand that rises by 9.2%, generating 17.8% of consolidated revenues. The brand under license J.P.Gaultier grows by 10.3% (+12.5% at constant exchange rates), equal to 8.1% of consolidated revenues.
The Other brands revenues fall by 6.0%; excluding Narciso Rodriguez collections, other brand's revenues would have increased by 12.6%.

Revenues by geographical area

(Values in thousands of EUR)	Full Year 2007	%	Full Year 2006	%	Change Δ	%
Italy	113,030	38.5%	104,118	39.1%	8,912	8.6%
Europe (Italy and Russia excluded)	69,694	23.8%	60,140	22.6%	9,554	15.9%
United States	32,263	11.0%	32,985	12.4%	-722	-2.2%
Russia	22,110	7.5%	13,100	4.9%	9,010	68.8%
Japan	19,343	6.6%	21,795	8.2%	-2,452	-11.3%
Rest of the World	36,771	12.6%	33,997	12.8%	2,774	8.2%
Total	**293,211**	**100.0%**	**266,135**	**100.0%**	**27,075**	**10.2%**

Revenues record good trend in Italy (+8.6% to EUR 113,030 thousand), contributing to 38.5% of consolidated revenues. Abroad, the Group achieves significant growth. Revenues performance in Europe (+15.9%) is very positive, contributing to 23.8% of consolidated revenues. The Russian market continues to perform in an exceptional way (+68.8% compared to 2006), contributing to 7.5% of consolidated revenues. Revenues in United States fall by 2.2% (+8.2% at constant exchange rates and excluding the effect of Narciso Rodriguez collections), contributing to 11.0% of consolidated revenues. Revenues in the rest of the world rise by 8.2% to EUR 36,771 thousand (+12.5% at constant exchange rates), contributing to 12.6% of consolidated revenues, while revenues in Japan fall by 11.3% (-2.2% at constant exchange rate and excluding also the effect of Narciso Rodriguez collections), contributing to 6.6% of consolidated revenues.

Revenues by distribution channel

(Values in thousands of EUR)	Full Year 2007	%	Full Year 2006	%	Change Δ	%
Wholesale	206,936	70.6%	187,136	70.3%	19,800	10.6%
Retail	71,273	24.3%	66,261	24.9%	5,012	7.6%
Royalties	15,002	5.1%	12,738	4.8%	2,264	17.8%
Total	**293,211**	**100.0%**	**266,135**	**100.0%**	**27,075**	**10.2%**

The revenues generated by the Group during 2007 are analysed below:

- 70.6% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 187,136 thousand in 2006 and EUR 206,936 thousand in 2007, up 10.6% (+12.4% at constant exchange rates).
- 24.3% from sales outlets managed directly by the Group (retail channel), which contributes EUR 66,261 thousand in 2006 and EUR 71,273 thousand in 2007, up 7.6% (+10.6% at constant exchange rates).
- 5.1% from royalties deriving from licenses granted to third parties for the production and distribution of product lines sold under the Group's brand names. The rise in royalties from EUR 12,738 thousand in 2006 to EUR 15,002 thousand in 2007, up 17.8%, reflects the higher royalties earned by licensing agreement relating to the “Moschino” branded sunglasses, perfumes, watches and foulards and “Pollini” branded sunglasses.

Revenues by own brands and under licensed brands

(Values in thousands of EUR)	Full Year 2007	%	Full Year 2006	%	Change Δ	%
Own brands	252,806	86.2%	227,016	85.3%	25,790	11.4%
Brands under license	40,405	13.8%	39,119	14.7%	1,286	3.3%
Total	**293,211**	**100.0%**	**266,135**	**100.0%**	**27,075**	**10.2%**

The revenues generated by own brands rise in absolute value of EUR 25,790 thousand (+11.4% compared with the previous year), with an incidence on total revenues which increases from 85.3% in 2006 to 86.2% in 2007. The revenues generated by brands under license rise of 3.3% (excluding revenues of Narciso brand the increase would have been of 11.9%).

Labour costs

The impact of costs of labour on revenues falls from 21.1% in 2006 to 19.8% in 2007. This decrease is the result of the organisational model adopted by the Group, which involves fully outsourcing production of the ready-to-wear, lingerie and beachwear lines and at the same time maintaining constant control of key phases of the value chain.
The increase in absolute value of this item is in line with the increase in the workforce, which grows from 1,378 units in 2006 to 1,431 units in 2007.

Average number of employees by category	2007	%
Workers	472	33%
Office staff-supervisor	933	65%
Executive and senior managers	26	2%
Total	**1,431**	**100%**

Gross Operating Margin (EBITDA)

In 2007, consolidated EBITDA amountes to EUR 44,451 thousand, up 19.8% compared to EUR 37,101 thousand of 2006, and represents 15.2% of consolidated revenues. The EBITDA calculated at constant exchange rates would have been equal to EUR 45,162 thousand, up to 21.7%. This result for 2007 includes net gains of roughly EUR 2 million realised by Aeffe Usa from the sale, on 18th May 2007, of its 50% stake in Narciso Rodriguez LLC, while the same item for 2006 includes EUR 4,197 thousand arising from the sale by the subsidiary Aeffe Retail of the part of the business relating to the Narciso Rodriguez store in Milan, on 19th December 2006. Net of non-recurring operations, EBITDA is EUR 42,296 thousand (+28.5%), representing 14.4% of consolidated revenues, with an improvement of 200 bp compared to 2006 (12.4%), in line with the targets set at the beginning of the year.
The significant improvement in EBITDA reflects the strength of our business model which, when the revenues grow significantly, allows to exploit strong operating leverage by reducing the incidence of fixed costs as percentage of revenues, while nevertheless mantaining a strong focus on product quality.

Net operating profit (EBIT)
Net operating profit (EBIT) is EUR 33,729 in 2007, with an increase of 27.6% and an incidence on revenues of 11.5% (9.9% in 2006). The net operating profit (EBIT) improvement is for the same reasons as those described for gross operating margin (EBITDA).

Profit before taxes
Profit before tax increases from EUR 19,294 in 2006 to EUR 25,645 in 2007, up 32.9%. The improvement is for the same reasons as those described for gross operating margin (EBITDA).

Net profit for the Group
Also consolidated net profit for the group reported a strong performance rising by 92.0% to EUR 15,320 thousand in 2007 from EUR 7,981 thousand in 2006. This reflects an improvement in EBITDA and a reduction in the tax rate from 55.7% in 2006 to 28.8% in 2007. This reduction is due both to the lower incidence of IRAP tax and to the adjustment in deferred tax assets and liabilities allocated in previous years to the tax rates approved by the Financial Act for 2008. Excluding this one-off adjustment effect, the 2007 tax rate would have been 49% compared to 56% of 2006, with an effective decrease of 700 bp.

4. CONSOLIDATED BALANCE SHEET (see attachment I)

NET INVESTED CAPITAL
Net invested capital increases by 7% compared with 31st December 2006.

Net working capital
Net working capital amounts to EUR 51,588 thousand compared with EUR 44,020 thousand of 2006.
The changes in the main items are described below:

- The sum of trade receivables, inventories and trade payables increases by 31%, mainly due to the increase in sales achieved during 2007 with the following increase in stocks and inventories;
- The increase of EUR 2,447 thousand in tax receivables due to the increase in VAT recoverable from the tax authorities;
- The increase of EUR 4,480 thousand in tax receivables essentially due to the increase in debts versus security organizations, accrued expenses, deferred income and other debts;
- The increase of EUR 2,175 thousand tax payables following the increase in the IRES liability.

Fixed assets
Fixed assets decrease by EUR 1,857 thousand from 31st December 2006 to 31st December 2007.
The changes in the main items are described below:

- The increase in tangible fixed assets of EUR 1,299 is determined by new investments only partially compensated by the depreciation of the period;
- The decrease in intangible fixed assets of EUR 3,303 thousand, following the amortisation of the period;
- The decrease in equity investments due to the sale by Aeffe USA of its 50% stake in Narciso Rodriguez LLC for EUR 99 thousand.

NET FINANCIAL POSITION

The net financial position of the Group amounts to EUR 38,484 thousand as of 31st December 2007 compared with EUR 115,314 thousand as of 31st December 2006. The net financial position as of 31st December 2007 compared with the net financial position of the previous year highlights a decrease of EUR 76,830 thousand consistent with the Group's objectives. The decrease is mainly due to the IPO proceeds.
The net financial position includes the effect of the put/call option on the joint venture contract between Moschino and Bluebell Far East for the formation of Moschino Far East. In the absence of this option, the net financial position would have amounted to EUR 33,420 thousand, rather than the EUR 38,484 thousand reported above.

SHAREHOLDERS' EQUITY

The shareholders' equity increases by EUR 92,177 thousand from EUR 102,451 thousand as of 31st December 2006 to EUR 194,628 thousand as of 31st December 2007. The reasons of such increase are illustrated in the Notes to the consolidated financial statements. The number of shares is 107,362,504.
The following parties each hold more than 2% of the Company's shares as of 31st December 2007:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.A.	24.410%
JP Morgan Asset Management (UK) Ltd.	5.682%
Julius Bear Investment Management Llc.	3.260%
Tullio Badioli	2.235%
Morgan Stanley Corp.	2.165%
Other shareholders	24.861%

5. RESEARCH & DEVELOPMENT ACTIVITIES

Considering the particular nature of the Group's products, research & development activities consist in the continual technical/stylistic renewal of models and the constant improvement of the materials employed in production.
Although these costs satisfy the requirements for deferral among the intangible assets as R&D expenses, they were charged in full to the Income Statement in 2007.

6. INFORMATION PURSUANT TO POINT 6-BIS OF ART. 2428.2 OF THE ITALIAN CIVIL CODE

Pursuant to point 6-bis of art. 2428.2 of the Italian Civil Code, it is confirmed that the Group does not use financial instruments.
Financing requirements and the related risks are managed by the central treasury.
The principal objective is to ensure that the composition of liabilities and assets remains balanced, so that a high degree of financial strength is maintained.
The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used. In general, the margins applied are consistent with the best market conditions.
The exchange risk associated with commercial transactions not denominated in the functional currency is hedged by entering into forward currency transactions.

7. CORPORATE GOVERNANCE

Aeffe S.p.A. has aligned its system of corporate governance with the recommendations of the Code of Self-Regulation.
The Code of Self-Regulation provides an organisational and functional reference model for the companies listed on the markets organised and managed by Borsa Italiana; it is non-binding and offers the flexibility necessary for its adoption by listed companies.
Alignment of the system of governance adopted by listed companies with the recommendations contained in the Code of Self-Regulation is, in fact, not currently a legal requirement: adoption of the standards and organisational models proposed therein is therefore voluntary, and left to the discretion of the listed companies for which it is intended.
Nevertheless, certain recommendations contained in the Code of Self-Regulation are reflected in current legislation and/or regulations including, more precisely, the Italian Civil Code, Decree 58 dated 24th February 1998 as subsequently amended (the "**Consolidated Finance Law**"), Consob Regulation 11971 dated 14th May 1999, as most recently amended by Consob decision 15586 dated 12th October 2006 (the "**Issuers' Regulations**"), the Regulations for Markets Organised and Managed by Borsa Italiana (the "**Market Regulations**") and the Market Instructions relating specifically to companies with shares admitted to trading in the STAR segment.
As required by the regulations, Aeffe prepares an Annual Report on Corporate Governance, stating: (i) which recommendations contained in the Code of Self-Regulation have actually been adopted by the Issuer and how, and (ii) which recommendations have not been adopted, in whole or in part, together with adequate information on the reasons for such partial or non-application of them. This report, which also provides information on the ownership structure, is available from the governance section of the following website: www.aeffe.com.

8. TREASURY SHARES

As of 31st December 2007, the Parent Company does not hold any treasury shares or shares or quotas in parent companies, nor has it carried out any transactions in such securities since the date of admission to the stock exchange.

9. STOCK OPTION PLANS

Aeffe S.p.A. has adopted stock option plans (the "Plans") by resolution of the Board of Directors at the meeting held on 23rd October 2007. At that time, the Board adopted the recommendations of the Compensation Committee in implementation - under the specific mandate granted - of the resolution adopted at the Extraordinary Shareholders' Meeting held on 26th March 2007.
The Plans adopted are linked to achievement of the objectives set for 2008, 2009 and 2010. The only difference between the Plans lies in the nature of the beneficiaries, being either the executive directors or the employees of the Company (together, the "Beneficiaries"): all other conditions are the same.
The Plans, deemed of "particular significance" pursuant to para. 3 of art. 114-bis of Decree 58/1998 and para. 2 of art. 84-bis of the Issuers' Regulations, are governed by two separate regulations (the "**Regulations**") that were approved in the manner described above by the Board of Directors.
The Beneficiaries were identified by the Board of Directors, acting on recommendations from the Compensation Committee, from among those persons within the Company's organisational structure whose roles are deemed to be strategically significant to the achievement of its business objectives.
Consistent with the best international practice and in compliance with the applicable stock exchange regulations for companies with shares admitted to trading in the STAR segment of the market, the adoption of the Plans is intended to enable the Company to provide incentives to, and promote the loyalty of, those persons within the Company whose roles are

deemed to be of particular strategic importance from a managerial and organisational standpoint. The Plans are accordingly intended to guide their performance towards increasing the long-term value of the business, by linking a significant part of their variable remuneration to the achievement of incremental growth targets.
The Plans are also intended to be an effective tool for rewarding and retaining the loyalty of these individuals.
The Plans adopted by the Company involve granting Options to the Beneficiaries, without charge, which enable them to subscribe subsequently for new shares issued by the Company at a predetermined price. Each Option carries the right to subscribe for 1 share. A maximum of 5,920,000 Options can be granted during the period from 1st January 2008 to 30th April 2010. The last date for the exercise of these Options is 31st December 2015; subsequent to this date, it will no longer be possible to exercise any unexercised Options.
The following table shows the number of Options granted to the directors and other employees of the Company in the first grant year with reference to 2007.

Massimo Ferretti	1,189,466
Alberta Ferretti	1,189,466
Simone Badioli	1,132,825
Marcello Tassinari	1,132,825
Other employees of the Company	509,769
Total	**5,154,351**

Pursuant to the Regulations, the Plans envisage that the Options will vest on the achievement of the percentage thresholds, established by the Board of Directors with reference to the objectives set in the Company's business plan, for consolidated EBITDA and consolidated net sales deemed appropriate by the Board of Directors for each of the calendar years ending on 31st December 2008-2009-2010, in order to assure constant incentives for the Beneficiaries. For vesting purposes, achievement of the target consolidated EBITDA and consolidated net sales for each calendar year each carry a weighting of 50%.
The effect of current tax regulations was considered when devising the Plans. In particular, the exercise price of the Options was set at an amount not lower than the "fair value" of the shares, as determined in accordance with current interpretations of the applicable regulations.
The price for the shares was therefore fixed by the Board of Directors, acting on a recommendation from the Compensation Committee, at EUR 4.10, having regard for the above, the requirements of the Italian Civil Code regarding capital increases that exclude pre-emption rights and the need (evaluated and deemed appropriate at the Shareholders' Meeting held on 26th March 2007) to fix a price that is not lower than the Company's IPO placement price of EUR 4.10.
Accordingly, each time the vested Options are exercised, the subscription price to be paid to the Company by the Plan Beneficiaries will be EUR 4.10 per share.
The Options are personal and cannot be transferred by deed between living persons; furthermore, they cannot be pledged or the subject of other transactions of any kind.
The shares acquired on the exercise of Options pursuant to the Plans will be the subject of certain temporary restrictions. In particular, without prior written consent from the Board of Directors, such shares may only be sold, contributed, exchanged, loaned, given in guarantee or involved in other transactions between living persons to the extent described below:

- with regard to the number of shares obtained by (i) calculating the difference between the fair value of the shares subscribed for by the Beneficiary and the subscription price actually paid by the Beneficiary and; (ii) dividing the result of this subtraction (if positive) by the fair value of the shares concerned,

a) 1/3rd of this quantity of shares will only become available from the 1st (first) Working Day subsequent to the 5th (fifth) anniversary of their subscription date;
b) 2/3rds of this quantity of shares will only become available from the last Working Day of the 6th (sixth) calendar month subsequent to that in which the time period referred to in letter a) above expires; and
c) the remainder will only become available from the last Working Day of the 6th (sixth) calendar month subsequent to that in which the time period referred to in letter b) above expires;

- the other shares will become available on the following dates:

a) 1/3rd from 30th November 2010;
b) 2/3rds from 30th June 2011;
c) the remainder from 15th December 2011.

The Company may require that the shares subject to lock up be registered in the name of a trust company that will hold an irrevocable mandate granted by the Beneficiaries, pursuant inter alia to art. 1723.2 of the Italian Civil Code since granted in the Company's interest as well. Such mandate will prevent the trust company from carrying out any unilateral instructions given by the Beneficiaries in relation to transactions that do not comply with the restrictions set out in the Regulations.

Exercise of the Options is dependent on the Beneficiaries remaining employees or directors of the Company. In particular, without prejudice to the right of the Board of Directors to decide differently, as envisaged in the related Regulations, if the employee/director relationship terminates between the Option grant date and the related exercise date:

- due to termination by the Beneficiary without just cause, the Beneficiary may exercise any Vested Options that vested at least 24 months prior to termination, without prejudice to the start date referred to in the preceding paragraph;
- due to termination or non-renewal of the appointment by the Company without just cause and subjectively justified reasons (and even with objectively justified reasons), or due to termination by the Beneficiary with just cause, the Beneficiary will retain the right to exercise the Vested Options outstanding on the date of receipt by the intended recipient of the communication of termination by the party concerned, as well as the right to exercise 50% (fifty percent) of any other Granted Options that may vest subsequently;
- due to termination or non-renewal of the appointment by the Company for just cause and subjectively justified reasons, the Beneficiary will, on receipt of the communication of termination or non-renewal, immediately and definitively lose the right to exercise all Granted Options (without prejudice to the right to exercise the Vested Options outstanding at that date);
- due to retirement, subsequent permanent invalidity of the Beneficiary that prevents continuation of the employee/director relationship, or the death of the Beneficiary, the Beneficiary or his/her legitimate heirs and successors will retain the right to exercise the Granted Options (without prejudice to the exercise dates exposed above).

The shares servicing the Plans represent 4.58% (four point five eight percent) of the Company's fully-diluted share capital. The effects on the share price and the possible dilution of share capital are not deemed to be significant, considering that: (i) the Options will be granted on a number occasions spread over time (ii) the minimum length of the vesting period is 3 years (iii) the exercise period is extended (5 years after the expiry of the vesting period and therefore 8 years from the grant date of the first tranche) (iv) current tax regulations provide an incentive not to sell part of the shares for at least five years after the exercise date.

10.INTEREST HELD BY MEMBERS OF THE BOARD OF DIRECTORS AND CONTROL BODIES, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES (art. 79 of Consob Regulation n. 11971/99)

Name and Surname	N. share held at 31/12/06	N. share aquired during 2007	N. share sold during 2007	N. share held at 31/12/07
Alberta Ferretti		40,000		40,000
Massimo Ferretti		37,000		37,000
Simone Badioli		26,565		26,565
Gianfranco Vanzini		2,000		2,000

11.SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Shareholders' Meeting held on 3rd March 2008 approved a plan for the purchase and use of treasury shares pursuant to art. 2357 et seq. of the Italian Civil Code.
This plan authorises the Board of Directors to purchase up to 10% of the Company's share capital, on one or more occasions on a revolving basis, over a maximum period of 18 months, and to use such shares without time limit.
The mandate envisages that the unit price paid for the shares may not be more than 10% higher or lower than the reference price established for them in trading session immediately prior to each transaction.
The purpose of this operation is to facilitate the making of investments that are consistent with the strategic guidelines for the Company, as well as possible acquisitions involving the exchange of treasury shares or other special finance transactions that include the allocation or disposition of such shares.
In addition, the plan approved by the shareholders will enable Aeffe, acting in compliance with current regulations, to stabilise the market price of the Company's shares and moderate the price fluctuations deriving from unusual market conditions, by facilitating trades when shares are in short supply and by helping to maintain normal trading conditions.

12.OUTLOOK

There are no trade restrictions on textiles in Europe from 2008, while the USA will only lift quotas at the end of the year; nevertheless, competition from the emerging nations such as China does not represent the principal risk factor.
The critical issues are mainly found within the western economies, due to the slowdown in the economic cycle. Economic conditions in Europe will be affected by the easing of consumption in Germany, which has lead growth in the Euro area over the past two years. The weakening of the dollar against the Euro and higher raw material prices compound business uncertainty over investment decisions and, above all, the crisis of consumer confidence which is lowering demand for consumable goods. Indeed, the perceived reduction in the purchasing power of disposable income and the tendency for this to remain low are adversely affecting the level of household consumption.
The intensity and duration of this inversion in the economic cycle will depend on the extent of interest rate cuts, which will probably be substantial in the USA but minimal in Europe. In Italy, the outcome of the elections will hopefully result in mainly fiscal measures designed to support the level of disposable income available to households, thus easing the current brake on consumption.

We are confident that strong sales growth will be achieved in 2008, with profits up even more, although we are fully aware of the current difficulties faced by consumption. This confidence is based on the strength and complementary nature of our brands, which are all clearly positioned at the top end of the luxury band, and on our presence both in areas of rapid growth and in consolidated markets where demand is less volatile.

AEFFE

REPORT OF THE AUDITING COMPANY

MAZARS

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998

To the Stockholders of Aeffe S.p.A.

We have audited the consolidated financial statements of Aeffe S.p.A. and its subsidiaries (the "Aeffe Group") as of and for the year ended December 31, 2007, which comprise the consolidated balance sheet, the consolidated statements of income, changes in stockholders' equity, and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Regulatory Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. For the opinion on the prior year's consolidated financial statements, the balances of which are presented for comparative purposes, reference should be made to our auditors' report issued on March 26, 2007.

In our opinion, the consolidated financial statements present fairly the financial position of the Aeffe Group as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/2005.

Bologna, Italy, April 10, 2008

Mazars & Guerard S.p.A.

/s/ SIMONE DEL BIANCO
Simone Del Bianco
Partner

This report has been translated into the English language solely for the convenience of international readers.

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SPA - CAPITALE SOCIALE SOTTOSCRITTO € 2.449.500,00 – VERSATO € 2.433.500,00 - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO
REA N. 1059307 - COD. FISC. N. 01507630489 - P. IVA 05902570158 - AUTORIZZATA AI SENSI DI L. 1966/39 - REGISTRO DEI REVISORI CONTABILI GU 60/1997
ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 10829 DEL 16/07/1997

UFFICI IN ITALIA: BOLOGNA - FIRENZE - MILANO - NAPOLI - PADOVA - PALERMO - ROMA – TORINO – UDINE

AEFFE EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe Group operates worldwide in the luxury goods sector and is active in the design, production and distribution of a wide range of products that includes prêt-a-porter, footwear and leather goods.
The Group develops, produces and distributes, with a constant focus on the qualities of uniqueness and exclusivity, its own collections both under its own-label brands, including "Alberta Ferretti", "Moschino" and "Pollini", and licensed brands, which include "Jean Paul Gaultier", "Blugirl" and "Authier".
The Group also has licensed to key partners the production and distribution of other accessories and products with which it supplements its product range (perfumes, junior and children's lines, watches sunglasses and other).
The Group's business is divided, based on the various product lines and brands it sells, into two segments: prêt-a-porter (which includes prêt-a-porter, lingerie and swimwear) and footwear and leather goods.
The Parent Company Aeffe, an Italian legal entity incorporated as a public limited company (società per azioni) based in San Giovanni in Marignano (RN), is currently listed in the - STAR Segment - of the MTA, the Italian Stock Exchange operated by Borsa Italiana.
Aeffe is controlled by Fratelli Ferretti Holding S.r.l. which was formed during 2007. the holding company's financial statements are not yet available.
These consolidated financial statements include the financial statements of the Parent Company Aeffe and its subsidiaries and the Group's equity interests in affiliated companies. They consist of the balance sheet, income statement, statement of changes in equity, cash flow statement and these notes.
The financial statements are expressed in euros, since this is the currency in which most of the Group's transactions are conducted. Foreign operations are included in the consolidated financial statements according to the principles stated in the notes that follow.

DECLARATION OF CONFORMITY AND REPORTING PRINCIPLES

Pursuant to art. 3 of Decree 38/2005 dated 28th February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CONSOB and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27th July 2006 and communication DEM/6064293 dated 28th July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November 2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information is presented in the Directors' Report (Report on operations).
Unless otherwise indicated in the measurement bases described below, these consolidated financial statements were prepared in accordance with the historic cost principle.
The measurement bases were applied uniformly by all Group companies.

CONSOLIDATION PRINCIPLES

The scope of consolidation at 31st December 2007 includes the financial statements of the Parent Company Aeffe and those of the Italian and foreign companies in which Aeffe holds control either directly or through its subsidiaries and associates or in which it exerts a dominant influence.
If necessary, adjustments were made to the financial statements of subsidiaries to bring their accounting polices into line with those adopted by the Group.
Companies are consolidated using the line-by-line method. The principles adopted for the application of this method are essentially as follows:

- the book value of equity investments held by the Parent Company or other consolidated companies is written-off against the corresponding net equity at 31st December 2007 in relation to assumption of the assets and liabilities of the subsidiaries;
- the difference between historical cost and fair value of the net equity of shareholdings on the acquisition date is allocated as much as possible to the assets and liabilities of the shareholdings. The remainder is allocated to goodwill. In accordance with the transitional provisions of IFRS 3, the Group has ceased to depreciate goodwill, instead subjecting it to impairment tests;
- significant transactions between consolidated companies are written-off, as are receivables and payables and earnings not yet realised from third parties arising from transactions between Group companies, excluding any tax effect;
- minority interests in shareholders' equity and net profit are reported in the relevant items of the consolidated balance sheet and income statement;
- companies acquired during the period are consolidated from the date on which majority control was achieved.

Subsidiaries

Subsidiaries are enterprises controlled by the Company. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated from the date on which the Group acquires control and until the date when such control ceases.
The acquisition of subsidiaries is accounted for using the historical method. Historical cost is determined by adding together the fair values of the assets contributed, the shares issued and the liabilities assumed on the acquisition date, plus the costs directly associated with the acquisition. Any surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate is recognised as goodwill.
If the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the associate exceeds historical cost, the difference is immediately recorded in the income statement.
Intercompany balances, transactions, revenue and costs are eliminated in the consolidated statements.
Furthermore, intercompany business combinations are recognised by maintaining the same book value of assets and liabilities as previously recorded in the consolidated financial statements.

Associates

An associate is an enterprise in which the Group has significant influence, but has neither sole or joint control, by taking part in decisions regarding the company's financial and operating strategy. Trading results and the assets and liabilities of associates are accounted for in the consolidated financial statements based on the equity method, except where they are classified as held for sale (see below).
According to this method, equity interests in associates are recorded in the balance sheet at cost, adjusted to take account of changes following the acquisition of their net assets, excluding any loss in value of individual investments. Losses of associates that exceed the Group's percentage interest in them (including long-term receivables that essentially form part of the Group's net investment in the associate) are not recognised unless the Group has an obligation to cover them. The surplus acquisition cost over the Parent's percentage share of the present value of the identifiable assets, liabilities and contingent liabilities of the associate on the acquisition date is recognised as goodwill. Goodwill is included in the carrying amount of the investment and is subjected to impairment tests. The historical cost deficit compared with the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of associates on the acquisition date is credited to the income statement in the year of acquisition. With reference to operations between a Group company and an associate, unrealised gains and losses are eliminated in equal measure to the Group's percentage interest in the associate, except for cases where the unrealised losses constitute evidence of impairment of the asset transferred.

SCOPE OF CONSOLIDATION

The companies included in the scope of consolidation are listed in the following table:

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Italian companies					
Aeffe Retail	S. G. in Marignano (RN – Italy)	EUR	8,585,150	100%	
Av Suisse	Contrà Canove (VI- Italy)	EUR	10,000	70%	
Clan Cafè	S. G. in Marignano (RN – Italy)	EUR	100,000		62.9% (v)(c)
Ferretti Studio	S. G. in Marignano (RN – Italy)	EUR	10,400	100% (a)	
Moschino	S. G. in Marignano (RN - Italy)	EUR	20,000,000	70%	
Nuova Stireria Tavoleto	Tavoleto (PU - Italy)	EUR	10,400	100%	
Pollini	Gatteo (FC – Italy)	EUR	6,000,000	72%	
Pollini Retail	Gatteo (FC – Italy)	EUR	5,000,000		71.9% (i)(b)
Velmar	S. G. in Marignano (RN – Italy)	EUR	492,264	75%	
Foreign companies					
Aeffe France	Paris (FR)	EUR	1,550,000	99.9%	
Aeffe UK	London (GB)	GBP	310,000	100%	
Aeffe USA	New York (USA)	USD	600,000	100%	
Divè	Galazzano (RSM)	EUR	260,000	75%	
Fashion Retail Company	Brno (Czech Republic)	CZK	200,000		100.0% (iv)
Fashoff UK	London (GB)	GBP	1,550,000		70.0% (ii)
Moschino Far East	Hong Kong (HK)	USD	128,866		35.1%(iii)
Moschino France	Paris (FR)	EUR	50,000		70.0%(ii)
Moschino Retail	Berlin (D)	EUR	100,000		70.0% (ii)
Ozbek (London)	London (GB)	GBP	300,000	92%	

Notes (details of indirect interests):
(i) 99.9% owned by Pollini;
(ii) 100% owned by Moschino;
(iii) 50.1% owned by Moschino;
(iv) 100% owned by Aeffe Retail;
(v) 62.893% owned by Aeffe Retail.

During the period the following operations have been completed:
a) Aeffe Spa has acquired the remaining 5% of Ferretti Studio;
b) Pollini Spa has acquired a further 0.146% of Pollini Retail;
c) Aeffe Retail has acquired a 62.893% of Clan Cafè.

FOREIGN CURRENCIES

Functional and reporting currency

The amounts in the financial statements of each Group enterprise are measured using the operating currency or the currency of the economic area in which the enterprise operates. These consolidated financial statements are presented in Euro, which is the operating and reporting currency of the parent company.

Foreign currency transactions

Foreign currency transactions are converted into the operating currency at the exchange rate in force on the transaction date. Cash assets and liabilities denominated in foreign currencies are converted at the exchange rate in force on the balance sheet date. Any exchange rate differences arising from the elimination of these transactions or from the conversion of cash assets and liabilities are posted to the income statement. Non-cash assets and liabilities in foreign currencies that are measured at fair value are converted at the exchange rates in force on the date on which the fair value was determined.

Financial statements of foreign companies

The financial statements of companies outside the Euro zone are translated into Euro based on the following procedures:

- assets and liabilities, including goodwill and fair value adjustments arising from consolidation are converted at the exchange rate in force on the balance sheet date;
- revenue and costs are converted at the average rate for the period, which must be close to the exchange rate in force on the transaction date;
- exchange rate differences are recognised in a separate account in shareholders' equity. When a foreign company is sold, the total amount of accumulated exchange rate differences relating to that company are recorded in the income statement.

The exchange rates used for the conversion into euro of the financial and equity statements of companies included in the scope of consolidation are listed in the following table:

Currency description	Actual exchange rate 31st december 2007	Average exchange rate 2007	Actual exchange rate 31st december 2006	Average exchange rate 2006
United States Dollars	1.472	1.371	1.317	1.256
United Kingdom Pounds	0.733	0.685	0.672	0.682
Japanese Yen	164.930	161.241	156.930	146.060
Czech Republic Koruny	26.628	27.758	27.000	28.000

RECONCILIATION BETWEEN SHAREHOLDERS' EQUITY AND NET PROFIT FOR THE PERIOD OF THE PARENT COMPANY AND THE CORRESPONDING CONSOLIDATED AMOUNTS

(Values in thousand of EUR)	Shareholders' equity 2007	Net profit for the period 2007
Taken from the corporate financial statements of the parent company	**145,801**	**5,739**
Major value for cancellation of equity investments	49,636	12,298
Reversal of intercompany inventory margin	- 1,622	- 96
Transition to Parent Company accounting policies	812	330
Total consolidation adjustments	**48,826**	**12,532**
Group interest in shareholders' equity	**164,764**	**15,320**
Minority interests in shareholders' equity	**29,863**	**2,950**
Total shareholders' equity	**194,627**	**18,270**

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31st December 2007 are presented below.

Financial Statement Formats

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Group has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. The cash flow statement is presented using the "indirect" format.
With reference to Consob Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the business and able to generate future economic benefits for the Group. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (Impairment of Assets). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.
Of intangible fixed assets, a distinction can be made between: a) those with an "infinite" useful life, such as goodwill and key money, which are not amortised but subjected to an annual impairment test (or whenever there is reason to believe that the asset may have been impaired) in accordance with IAS 36; b) those with a finite useful life or other intangible fixed assets, the valuation criteria for which are reported in the following paragraphs.

Goodwill
Goodwill arising from the acquisition of a subsidiary or joint venture represents the surplus acquisition cost over the Group's percentage share of the fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or joint venture on the acquisition date. Goodwill is recognised as an asset and reviewed annually to make sure that there is no impairment. Impairment losses are recognised in the income statement and are not restated. In case of the disposal of a subsidiary or joint venture, the amount of goodwill not yet amortised is included in the calculation of the capital gain or loss on disposal.
If the net fair value of the identifiable assets, liabilities and contingent liabilities of the shareholding exceeds the acquisition cost, the difference is immediately recorded in the income statement.
When the acquisition contract allows for the adjustment of the acquisition price based on future events, the estimated adjustment must be included in the acquisition cost if the adjustment seems probable and the amount can be reliably estimated. Any future adjustments to the estimate are recorded as a goodwill adjustment.

Key money
Intangible fixed assets also include key money, or amounts paid by the Group to take over contracts relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. These assets are treated as intangible fixed assets with an "infinite" useful life and as such are not amortised. "Infinite" useful life, according to IAS 38, does not mean an endless useful life, but a useful life with no fixed end. In this respect, based on the valuations of independent experts, the period linked with the lease term is not relevant. This includes protection given to the tenant by standard market conditions and by special legal provisions, together with a strategy of gradual expansion of the network by Group companies, which usually involves renewing lease agreements before they expire, regardless of whether the Group intends to maintain the stores or not, in view of the inherent value of the premises themselves. These values are subjected to impairment tests on the transition date and are recognised at the lesser of historical cost initially incurred and the value in use or the market value determined based on an expert valuation.
If, when financial statements are prepared in future, the impairment test carried out in accordance with IAS 36 must indicate a value in use and market value which are less than the carrying amount, impairment losses will be recorded in the income statement. Conversely, if the expert valuation indicates an increase in market value of some stores that were written down compared with their original historic values, the corresponding carrying amount may be increased so that it reflects the new market value, provided that it does not exceed the original cost.

Brands
Brands are recognised at cost and are amortised systematically on a straight-line basis during their estimated useful life (40 years) from when the asset is available for use. By applying IFRS 3, all business combinations since 31st December 2001 have been restated, with an indication, based on an independent estimate, of the new value of intangible fixed assets that were not reported when the shareholdings were acquired.
The Group has seen fit to give brands a finite life of 40 years in view of the policies adopted by other market operators. Prudently, it has adopted an extremely long - although not infinite and thus unidentifiable - useful life for its own brands (reflecting the prolonged benefits derived from these). This decision is in line with intangible fixed assets typical of the fashion industry, based on previous experience of other international operators in the sector (market comparables).

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.
The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectual property	33%
Brands	2.5%

Research costs are charged to the income statement as incurred.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.
Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.
Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.
Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.
As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).
The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2%-2.56%
Plant e machinery	10%-12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Motor vehicles	20%
Cars	25%

Land is not depreciated.
Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Group, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.
Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Group are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Financial leases

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.
On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Group substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

Goodwill, key money and other intangible fixed assets are subjected to impairment testing each year, or more frequently if there is evidence of a possible loss of value.
Tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired.
Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.
The recoverable value of these assets is their carrying amount at the reference date or, if higher, their fair value, net of disposal costs, or their value in use. In order to determine value in use, the estimated future cash flows - including those deriving from the disposal of the asset at the end of its useful life - are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Group's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.
The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.
Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.
The written down value of goodwill is never reinstated.

Equity investments

Equity investments in non-consolidated subsidiaries, associates and joint ventures are recognised according to the equity method. The surplus cost over shareholders' equity on the acquisition date is treated in the same way as described in the section on consolidation principles. Other equity investments are recognised using the cost method, which is reduced for impairment losses. The original value is restated in subsequent years if the reasons for the write-down no longer apply.

Assets held for sale

This item includes assets where the book value will be recovered mainly through sale rather than continuous use. For this to happen, the asset (or group) must be available for sale in its current condition, subject to standard conditions applicable to the sale of such assets (or groups), and the sale must be highly probable. An asset classified as held for sale is recognised at the lesser of its book value and fair value, excluding selling costs, as stipulated in IFRS 5.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their estimated net realisable value. Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.
The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.
Obsolete and slow-moving inventories are written down to reflect their likely use or realisability.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions

The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits

Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Group contributions to defined benefit plans are charged to the income statement on an accrual basis.
The Group's net liability for defined benefit plans is determined on an actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1st January 2005, the IFRS transition date, have been recognised.
Actuarial gains and losses arising subsequent to 1st January 2005, on calculation of the Group's liability for the severance indemnities due to its Italian employees ("TFR"), are recognised using the corridor method. Consistent with this methodology, the Company recognises a part of its actuarial gains or losses as income or a cost of the total net value of the actuarial gains and losses arising in the year exceeds 10% of the value of the obligation at the start of the year.

Financial payables
Financial payables, excepting derivates, are recorded at their fair value, after transactions costs directly attributable.

Bank overdrafts and loans
Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.
Loans are classified as current liabilities unless the Group has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables
Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Treasury shares
Treasury shares are presented as a deduction from equity. The original cost of treasury shares and the proceeds of any subsequent sale are presented as movements in equity.

Revenues
Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Group are recognised on the following basis:
- retail sales - on delivery of the goods;
- wholesale sales - on shipment of the goods;
- royalties and commissions - on an accrual basis.

Costs
Costs and expenses are recognised on an accrual basis.
Design and production costs for sample collections incurred during the period are correlated to the turnover from sales of collection and are thus carried in the income statement in proportion to the revenue generated. The remaining portion to be carried in the income statement during the period in which the corresponding revenue is generated is posted to other current assets.

Financial income and expenses
These include all items of a financial nature written to the income statement for the period, including interest payable on financial debts calculated using the effective interest method (mainly current account overdrafts and medium and long-term loans), foreign currency gains and losses, dividends received, and the portion of interest payable deriving from the accounting treatment of assets under finance leases (IAS 17).
Interest income and expenses are reported in the income statement for the period in which they are realised/incurred.
Dividends are recognised in the period when the Group's right to a dividend payment matures, subject to ratification.
The amount of interest payable on finance leases is booked to the income statement using the effective interest method.

Taxes
Income taxes for the period include current and deferred taxes. Income taxes for the period are recorded in the income statement; however, when they relate to components recorded directly as shareholders' equity, they are recognised as shareholders' equity.
Taxes other than income taxes, such as property tax, are reported under operating expenses.

Current taxes on income taxable in the period represent the tax burden calculated using current rates of taxation in force on the balance sheet date and any adjustments to tax liabilities calculated in prior periods.
Deferred taxes are recognised for all temporary differences existing on the balance sheet date between the book value of assets and liabilities and the corresponding values used to determine taxable income for tax purposes.
Deferred taxes relate to:

- temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated financial statements, except for goodwill that is not tax deductible and differences arising from investments in subsidiaries that are not likely to be written off in the foreseeable future.
- positive components of income for the current period and prior periods, but taxable in future periods;
- credits for deferred tax assets are recognised;
- for all deductible temporary differences, if it is probable that taxable income will be generated for which the deductible temporary difference can be used, unless the deferred tax asset derives from the initial measurement of an asset or liability in a transaction other than a business combination that, on the transaction date, affects neither accounting profit nor taxable profit (tax loss);
- for the carryover of unused tax losses and tax credits, if it is probable that taxable income will be generated for which the tax loss or tax credit may be used.

Credits for deferred tax assets and debits for deferred tax liabilities are calculated based on the rates of taxation applicable to changes in income in periods in which temporary differences are reversed, based on the rate of taxation and tax regulations in force or essentially in force on the balance sheet date.
The impact on these taxes of any change in rates of taxation is posted to the income statement in the period in which the change occurs. Credits for deferred tax assets and debits for deferred tax liabilities are netted when they refer to taxes imposed by the same tax authorities.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding, taking account of the potential conversion of all ordinary shares with a diluting effect (e.g. employee stock option plans).

OTHER INFORMATION

Segment information

Within a group, various segments are distinguishable providing a series of homogeneous products or services (business segment) or providing products and services in a specific geographical area (geographical segment). Specifically, in Aeffe Group, two areas of activity are identified:

- Prêt-a-porter Division;
- Footwear and leather goods Division.

In accordance with IAS 14, segment information can be found in the section entitled "Segment information by business activity and by geographical area".

Management of financial risks

The management of financial requirements and the corresponding risks (mainly interest rate risks and exchange rate risks) is carried out at central treasury level and, apart from a few cases (Pollini Group and Moschino Far East), is managed by the individual companies,

coordinated by the treasury based on the guidelines defined by the Group's Managing Director and approved by the Chief Executive Officer.
The principal objective of this approach is to:

- ensure, on a consolidated basis, that the composition of liabilities and assets remains balanced so that a high degree of financial strength is maintained;
- contain and minimise the risks associated with exchange-rate fluctuations by using operational hedges.

The following main financial instruments are used:

- long-term loans repayable over several years to cover the investment in fixed assets (mainly the acquisition of controlling interests);
- short-term loans and advances with recourse against trade receivables to finance working capital, and currency loans to hedge the exchange-rate risk.

The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used. In general, the margins applied are consistent with the best market conditions.
Credit facilities, although negotiated at group level are granted to the individual companies.
The Group's interest-rate exposure mainly derives from its non-current financial payables.
The cash-flow risk associated with interest-rate fluctuations has never been managed via recourse to derivative contracts (IRS) that transform floating rates to fixed rates. There are no instruments that hedge interest-rate risk as of 31st December 2007.
Many Group companies perform commercial transactions in currencies other than the euro and are therefore exposed to an exchange rate risk.
Group companies exposed to the exchange rate risk hedge this by recoursing to forward currency transactions.
On 31st December 2007, the main Group companies with short and medium-term loans from financial institutions were the Parent Company, Pollini, Moschino and Velmar.

Management of credit risk
Credit risk is managed with reference to specific analyses and the historical experience of collection losses, having regard for the ageing of receivables, the type of recovery action taken and the status of the receivable (normal, disputed etc.).

Cash Flow Statement
The Cash Flow Statement presented by the Group in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the Cash Flow Statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.
Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.
Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are included in the cash flows from operating activities.
Under IAS 7, the Cash Flow Statement must identify separately the cash flow deriving from operating, investing and financing activities:

- cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Group using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);
- cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;
- cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

NON-CURRENT ASSETS

1. Intangible fixed assets

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Brands	Goodwill	Other	Total
Net book value as of 01.01.06	**124,313**	**54,102**	**378**	**178,793**
Increases	-	-	96	96
- increases externally acquired	-	-	*96*	*96*
- increases from business aggregations	-	-	-	-
Disposals	-	-	-56	-56
Amortisation	-3,514	-	-247	-3,761
Net book value as of 01.01.07	**120,799**	**54,102**	**172**	**175,073**
Increases	-	215	121	336
- increases externally acquired	-	-	*121*	*121*
- increases from business aggregations	-	*215*	-	*215*
Disposals	-	-	-	-
Amortisation	-3,515	-	-124	-3,638
Net book value as of 31.12.07	**117,284**	**54,317**	**170**	**171,771**

Brands
This item includes the Group's own-label brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap & Chic", "Love Moschino", "Pollini", "Studio Pollini", "Verdemare"). A breakdown of brands is given below:

(Values in thousands of EUR)	Brand residual life	31st december 2007	31st december 2006
Alberta Ferretti	35	4,375	4,500
Moschino	37	64,968	66,896
Pollini	33	47,535	48,975
Verdemare	38	406	428
Total		**117,284**	**120,799**

The decrease between the two period refers to the amortisation of brands.

Goodwill
Goodwill refers to the amounts paid by the Group to take over leases relating to directly managed stores or, in the case of business combinations, the fair value of these assets at the time of acquisition. Under Italian accounting standards, the amounts paid to previous tenants to take over commercial positions relating to stores were capitalised under intangible assets and amortised over the term of the lease. When the Group switched to IFRS, the accounting treatment of goodwill changed, since these items are considered intangible assets with an infinite useful life and as such are not amortised. In accordance with that provided by IAS 36, these assets are subjected to impairment tests and are therefore recognised at the lesser of historical cost and market value. Based on the valuations of independent experts and in view of the Group's past experience, the duration of store leases is thought to have little relevance for maintaining key money values, given the strategy pursued successfully by the Group of renewing leases before their natural expiry date.

Other
The item other mainly includes software licences.

2. Tangible fixed assets

The table below illustrates the breakdown and the changes of this item:

(Values in thousands of EUR)	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.06	**17,062**	**31,041**	**11,804**	**4,427**	**243**	**3,389**	**67,966**
Increases	-	278	3,567	309	43	846	5,043
Disposals	-	-	-788	-7	-3	-211	-1,009
Translation differences and other variations	657	3,582	9	4	6	101	4,359
Depreciation	-	-635	-3,594	-1,119	-82	-1,034	-6,464
Net book value as of 01.01.07	**17,719**	**34,266**	**10,998**	**3,614**	**207**	**3,091**	**69,895**
Increases	-	898	4,578	2,554	159	1,125	9,314
Disposals	-	-	-	-3	-9	-	-12
Translation differences and other variations	-164	-886	-215	-1	-	-13	-1,279
Depreciation	-	-815	-3,548	-1,155	-80	-1,125	-6,723
Net book value as of 31.12.07	**17,555**	**33,463**	**11,813**	**5,009**	**277**	**3,078**	**71,195**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 9,314 thousand. These mainly refer to new investments in the construction of buildings, the renovation and modernisation of shops, the purchase of plant and equipment and the purchase of electronic machines.

- Disposals, net of the accumulated depreciation, of EUR 12 thousand, due to the replacement of plant and machinery, furniture and electronic machines.
- Decrease for differences arising on translation and other variation of EUR 1,279 thousand which mainly relates to the translation differences of the subsidiary Aeffe USA.
- Depreciation of EUR 6,723 thousand charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. Equity Investments

This item includes holdings in non-consolidated associates accounted for using the equity method, in addition to other holdings measured at fair value, mainly represented by the cost.

The decrease compared with the previous financial year concerns the sale of the 50% stake in Narciso Rodriguez LLC held by Aeffe USA.

4. Other fixed assets

This item mainly includes receivables for security deposits relating to commercial leases. At 31st December 2007 the value is in line with that of 31st December 2006.

5. Deferred tax assets and liabilities

The table below illustrates the breakdown of this item at 31st December 2007 and at 31st December 2006:

	Receivables		Liabilities	
(Values in thousands of EUR)	**2007**	**2006**	**2007**	**2006**
Tangible fixed assets	-	-	-518	-674
Intangible fixed assets	3	-	-1,930	-2,126
Provisions	1,134	1,516	-136	-108
Costs deductible in future periods	2,171	85	-	-
Income taxable in future periods	-	1	-741	-1,377
Tax losses carried forward	3,015	3,111	-	-
Other	69	160	-	-
Tax assets (liabilities) from transition to IAS	2,477	5,868	-44,697	-53,019
Total	**8,869**	**10,741**	**-48,022**	**-57,304**

Changes in temporary differences during the period are illustrated in the following table:

(Values in thousands of EUR)	Opening balance	Differences arising on translation	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	-674	-	151	5	-518
Intangible fixed assets	-2,126	-	200	-1	-1,927
Provisions	1,408	-6	-404	-	998
Costs deductible in future periods	85	-	-49	2,135	2,171
Income taxable in future periods	-1,376	-	635	-	-741
Tax losses carried forward	3,111	-36	-60	-	3,015
Other	160	-7	-55	-29	69
Tax assets (liabilities) from transition to IAS	-47,151	-12	3,237	1,706	-42,220
Total	**-46,563**	**-61**	**3,655**	**3,816**	**-39,153**

Deferred tax assets and liabilities have significantly decreased following alignment with the tax rates indicated in the 2008 Finance Law.

6. Assets available for sale

This item mainly refers to the fair value of the shareholding Pollini France and the corresponding financial receivable; the Group has already finalised the sale, which it intends to complete by 2008.

CURRENT ASSETS

7. Stocks and inventories

This item comprises:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Raw, ancillary and consumable materials	17,520	14,790	2,730	18.5%
Work in progress	10,814	9,691	1,123	11.6%
Finished products and goods for resale	38,796	32,677	6,119	18.7%
Advance payments received	631	500	131	26.2%
Total	**67,761**	**57,658**	**10,103**	**17.5%**

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2008 collection.
Finished products mainly concern the Spring/Summer 2008 and the Autumn/Winter 2007 collections and the Autumn/Winter 2008 sample collection.
The increase in inventories compared with the previous period reflects the higher volume of business.

8. Trade receivables

This item is illustrated in detail in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Trade receivables	38,711	35,791	2,921	8.2%
(Allowance for doubtfull account)	-1,800	-2,361	561	-23.8%
Total	**36,911**	**33,430**	**3,481**	**10.4%**

Trade receivables amount to EUR 36,911 thousand at 31st December 2007, up 10,4% since 31st December 2006.
The allowance for doubtful accounts is determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

9. Tax receivables

As of 31st December 2007, the Group's tax receivables from the various authorities amount to EUR 4,787 thousand principally in relation to VAT recoverable (EUR 4,706 thousand).

10. Cash

This item includes:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Bank and post office deposits	13,076	10,776	2,300	21.3%
Cheques	157	34	123	356.7%
Cash in hand	1,292	335	957	285.1%
Total	**14,525**	**11,145**	**3,380**	**30.3%**

Bank and postal deposits represent the nominal value of the current account balances with credit institutions, including interest accrued on the balance sheet date.
Cash in hand and equivalents represent the nominal value of the cash held on the balance sheet date.
The increase in cash and cash equivalents, recorded at 31st December 2007 compared with the amount recorded at 31st December 2006, is EUR 3,380 thousand. About the reasons of this variation see the Cash Flow Statement.

11. Short term financial receivables

This caption has a zero balance as of 31st December 2007. At 31st December 2006, this caption was EUR 4,175 thousand due to Aeffe Retail following the disposal of the line of business represented by the Narciso Rodriguez shop in Milan. This amount was collected on 10th January 2007.

12. Other receivables

This caption comprises:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Credits for prepaid costs (costs of producing collections)	21,061	18,660	2,401	12.9%
Payments on account for royalties and commission	1,519	1,521	-2	-0.1%
Advances and payments on account to suppliers	452	1,352	-900	-66.6%
Accrued income and prepaid expenses	1,650	2,571	-921	-35.8%
Other	2,401	1,754	647	36.9%
Total	**27,083**	**25,858**	**1,225**	**4.7%**

Other current receivables increase by EUR 1,225 thousand for the increase of credits for prepaid costs for EUR 2,401 thousand partially counterbalanced by a reduction of advances to suppliers and accrued income and prepaid expenses.
Credits for prepaid expenses relate to the costs incurred to design and make samples for the Spring-Summer 2008 and Autumn/Winter 2008 collections. Such costs have been deferred and will be matched with the corresponding revenues from sales. The increase mainly reflects the growth in the volume of business.

13. Shareholders' equity

Described below are main categories of shareholders' equity at 31st December 2007, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Share capital	26,841	22,500	4,341	19.3%
Legal reserve	2,173	2,054	119	5.8%
Share premium reserve	75,308	11,345	63,962	563.8%
Translation reserve	-949	391	-1,340	n.a.
Partecipatory instruments reserve	-	12,400	-12,400	-100.0%
Other reserves	26,031	6,520	19,511	299.3%
Fair value reserve	7,901	7,448	453	6.1%
IAS reserve	11,459	11,120	340	3.1%
Profits (losses) carried-forward	679	-5,773	6,452	n.a.
Net profit for the Group	15,321	7,981	7,339	92.0%
Minority interests	29,863	26,465	3,398	12.8%
Total	**194,627**	**102,451**	**92,176**	**90.0%**

Share capital

Share capital as of 31st December 2007 is represented by 107,362,504 issued and fully-paid ordinary shares, par value EUR 0.25 each, totalling EUR 26,841 thousand.
There are no shares with restricted voting rights, without voting rights or with preferential rights.
The changes during the year are analysed below (there were no changes during 2006):

	N. of shares
Balance at 31st December 2006	**90,000,000**
12% share reduction on 2nd March 2007	- 10,800,000
Share increase on 25th May 2007	16,362,504
8% share reduction on 27th June 2007	- 7,200,000
IPO share increase on 24th July 2007	19,000,000
Balance at 31st December 2007	**107,362,504**

Legal reserve

The legal reserve has increased from EUR 2,054 thousand as of 31st December 2006 to EUR 2,173 thousand as of 31st December 2007 following the allocation of prior-year profits decided at the shareholders' meeting held on 26th March 2007.

Share premium reserve

The share premium reserve has increased from EUR 11,345 thousand as of 31st December 2006 to EUR 75,308 thousand as of 31st December 2007 due to the effect of cancelling treasury shares, the conversion of the participating equity instrument and the capital increase on completion of the listing process.

Translation reserve

The translation reserve, which amounted to EUR 391 thousand as of 31st December 2006, decreases of EUR 1,340 thousand due to the conversion of companies' financial statements in other currency than Euro.

Partecipatory instruments reserve

This caption has a zero balance as of 31st December 2007 due to the combined effect of cancelling treasury shares and converting the participating equity instrument.

Other reserves

The changes in this reserve reflect an allocation of prior-year profit and the release of the restricted reserve for participating equity instruments following the cancellation of treasury shares and the conversion of the participating equity instrument.

Fair value reserve

The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Group at their fair value, as determined with reference to an independent appraisal.
The increase generated in 2007 derives from the alignment with the new tax rates indicated in the 2008 Finance Law.

IAS reserve

The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value

that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1. Each difference was allocated on a pro rata basis to minority interests.
The increase generated in 2007 derives from the alignment with the new tax rates indicated in the 2008 Finance Law.

Profits (Losses) carried-forward
The caption profits/(losses) carried forward decreases as a consequence of the consolidated net profit earned during the year ended 31st December 2007.

Minority interests
The increase in capital and reserves is mainly due to the portion of net profit for the period at 31st December 2007 attributable to the minority shareholders.
Minority interests represent the shareholders' equity of consolidated companies owned by other shareholders and include the corresponding IAS reserve.

NON-CURRENT LIABILITIES

14.Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31st december 2006	Increases	Decreases	31st december 2007
Pension and similar obligations	1,556	95	-81	1,570
Other	185	50	-97	138
Total	**1,741**	**145**	**-178**	**1,708**

The additional client expenses reserve is determined based on an estimate of the liability relating to the severance of agency contracts, taking account of statutory provisions and any other relevant factor, such as statistical data, average duration of agency contracts and their rate of turnover. The item is calculated based on the actual value of the outflow necessary to extinguish the obligation.
Potential tax liabilities for which no reserves have been established, since it is not considered probable that they will give rise to a liability for the Group, are described in the paragraph "Contingent liabilities".

15.Post employment benefits

The severance indemnities payable on a deferred basis to all employees of the Group are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship. The total liability accrued in relation to the persons employed as of 31st December 2007 was therefore determined on the actuarial basis described in IAS 19.
For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees

whose severance indemnities are paid into approved supplementary pension funds which, in the circumstances, are deemed to represent defined contributions plans.
Commencing from 1st January 2007, the Finance Law and related enabling decrees introduced significant changes to the regulations governing severance indemnities, including the ability of employees to choose how their individual severance indemnities will be allocated. In particular, employees can now allocate the new amounts accrued to approved pension plans or decide to retain them with the employer (which must pay the related severance contributions into a treasury account managed by INPS).

16. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Loans from financial institutions	14,200	51,628	-37,428	-72.5%
Amounts due to other creditors	12,447	14,569	-2,122	-14.6%
Total	**26,647**	**66,197**	**-39,550**	**-59.7%**

The amounts due to banks relate to the portion of bank loans due beyond 12 months. This caption solely comprises unsecured loans and bank finance. Such loans are not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice.
Furthermore, there are no covenants to comply with specific financial terms or negative pledges.
The following table contains details of bank loans current as of 31st December 2007, including the current portion and long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long_term portion
Bank borrowings	32,647	18,447	14,200
Total	**32,647**	**18,447**	**14,200**

There are no amounts due beyond five years.
The following table contains details of amounts due to other creditors:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Financial leases	7,301	8,558	-1,257	-14.7%
Due to other creditors	82	50	32	63.4%
Due to shareholders (Bluebell, Moschino Far East)	4,850	5,747	-897	-15.6%
Long-term debt for Moschino Far East put/call	214	214	-	0.1%
Total	**12,447**	**14,569**	**-2,122**	**-14.6%**

The reduction in the amount due to other long term creditors compared with the prior year is almost entirely due to the decrease in the lease liability and to the reduction of Moschino debt versus Bluebell.
The lease liability relates to the leaseback transaction arranged by the Parent Company in relation to the building that is still used by Pollini.. The original amount of this loan, arranged in 2002, is EUR 17,500 thousand. The loan contract envisages a repayment schedule that terminates in September 2012. This contract includes an end-of-lease purchase payment of EUR 1,750 thousand.
The amount due to shareholders relates to the loan granted by Bluebell Far East (49.9% interest in Moschino Far East) to Moschino Far East on 18th December 2002, under the terms of the joint venture agreement with Moschino.
The non-current payable on recognising the put/call option on Moschino Far East relates to the put/call option included in the joint venture contract with Moschino. This contract provides for a reciprocal put/call mechanism, for Bluebell and Moschino respectively, for the sale/purchase of the investment in Moschino Far East held by Bluebell. The exercise price is based on a specific earn-out formula, the value of which depends - among other factors - on the profit performance of Moschino Far East.
The amounts reported on recognition of the put/call option are subject to adjustment with reference to the variable earn-out parameters.

17.Long-term not financial liabilities

This caption, in the amount of EUR 14,251 thousand, mainly refers to the debt due by the subsidiary Moschino in relation to an interest-free shareholder loan from Sinv. This liability is treated to a payment on capital account and arose on the purchase of Moschino by the Parent Company and Sinv in 1999, divided into proportional shares according to the equity interest held the Parent Company and Sinv in Moschino.

CURRENT LIABILITIES

18. Trade payables

The table below illustrates the breakdown of this item at 31st December 2007 and at 31st December 2006:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Trade payables	60,577	57,545	3,032	5.3%
Total	**60,577**	**57,545**	**3,032**	**5.3%**

The increase of 5,3% in the trade payables reflects the growth in the volume of business. Trade payables are due within 12 months and concern the debts for supplying goods and services.

19. Tax payables

Tax payables are analysed in comparison with the related balances as of 31st December 2006 in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Local business tax (IRAP)	666	507	160	31.5%
Corporate income tax (IRES)	3,479	1,352	2,127	157.3%
Amounts due to tax authority for withheld taxes	2,412	2,177	235	10.8%
VAT due to tax authority	297	351	-55	-15.5%
Other	273	565	-292	-51.6%
Total	**7,127**	**4,952**	**2,175**	**43.9%**

The Irap and Ires payables reflect the current tax charge, net of advances paid during the year.

20. Short-term financial liabilities

A breakdown of this item is given below:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Due to banks	25,105	61,829	-36,724	-59.4%
Due to other creditors	1,257	2,608	-1,351	-51.8%
Total	**26,362**	**64,437**	**-38,075**	**-59.1%**

Current bank debt includes advances granted by credit institutions, current loans and the current portion of long-term financing commitments. Advances mainly consist of withdrawals from short-term credit facilities to finance the working capital requirement. Current loans (due within 12 months) are loans granted by banks to the Parent Company and to other Group companies.
At 31st December 2007, amounts due to other creditors mainly includes financial payables recorded in the consolidated financial statements in application of the financial accounting method for leasing operations.
The reduction in this item compared with 31st December 2006 is mainly due to the reimbursement of the debt towards the designer Alberta Ferretti for EUR 1,000 thousand.

21. Other liabilities

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	**31st december 2007**	**31st december 2006**	**Change Δ**	**%**
Due to total security organization	3,711	2,526	1,185	46.9%
Due to employees	4,518	4,352	166	3.8%
Trade debtors - credit balances	3,931	2,004	1,926	96.1%
Accrued expenses and deferred income	3,113	1,680	1,433	85.3%
Other	1,975	2,206	-231	-10.5%
Total	**17,248**	**12,768**	**4,480**	**35.1%**

This caption increases by EUR 4,480 thousand mainly for the increase in debt due to security organization to clients and for accrued expenses.
The amounts due to social security and pension institutions, recorded at nominal value, relate to the social security charges on the wages and salaries of the Group's employees. The increase in this caption derives from the reform of severance indemnities.
Amounts due to customers increase by EUR 1,926 thousand following the proper classification in this caption of the liability for credit notes to be issued.
The other liabilities mainly include commission payable.

SEGMENT INFORMATION BY BUSINESS AND BY GEOGRAPHICAL AREA

A segment is part of a distinct group providing products and services (business segment) or providing products and services in a specific geographical area (geographical segment), subject to risks and benefits different from those of other sectors. Within the Group, business sectors have been identified at primary (numeric) level, while at a secondary level a geographical distribution has been applied from which information is derived on the distribution of net revenue and activities.

Segment information by business
At international level, the Group is divided into two main business sectors:
(i) Prêt-à porter Division;
(ii) Footwear and leather goods Division.
Prêt-à porter Division is mainly represented by the companies Aeffe, Moschino and Velmar, operating in the design, production and distribution of luxury prêt-à porter and lingerie, beachwear and loungewear collections.
In terms of prêt-à porter collections, the activity is carried out by Aeffe, both for the production of the Group's own-label brands ("Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino", "Moschino Cheap and Chic" and "Pollini") and brands licensed from other companies (such as "Jean Paul Gaultier" and "Authier"). Aeffe also handles the distribution of all Division products, which takes place via the retail channel through subsidiaries and via the wholesale channel.
Velmar manufactures and distributes lingerie and swimwear collections, and specifically men's/women's lingerie, underwear, beachwear, and loungewear. Collections are produced and distributes under the Group's own-label brands such as "Alberta Ferretti", "Philosophy di Alberta Ferretti", "Moschino" and "Verdemare", and under third-party licensed brands such as "Blugirl".
The prêt-à porter Division also manages licensing agreements granted to other companies to manufacture Aeffe and Moschino product lines, such as the Moschino brand licensing agreement for Love lines, "Moschino" branded perfumes and "Moschino" branded sunglasses.

The following table indicates the main economic data for the full year 2007 and 2006 of the Prêt-à porter and Footwear and leather goods Divisions:

2007 (Values in thousand of EUR)	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**235,178**	**74,535**	**-16,502**	**293,211**
of which intercompany	3,884	12,618	16,502	-
GROSS OPERATING MARGIN (EBITDA) after non-recurring operations	**36,940**	**5,356**	**-**	**42,296**
Total non-recurring operations	2,154	-	-	2,154
GROSS OPERATING MARGIN (EBITDA)	**39,094**	**5,356**	**-**	**44,450**
Total Amortisation and write-downs	-8,720	-2,002	-	-10,722
NET OPERATING PROFIT (EBIT)	**30,374**	**3,354**	**-**	**33,728**
OTHER INFORMATION				
Investments	8,886	656	-	9,543
Amortisations	8,360	2,002	-	10,362
Revaluations (write-downs)	360	-	-	360
Other non monetary costs	-	-	-	-

2006 (Values in thousand of EUR)	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**214,280**	**65,478**	**-13,623**	**266,135**
of which intercompany	2,948	10,675	13,623	-
GROSS OPERATING MARGIN (EBITDA) after non-recurring operations	**28,797**	**4,108**	**-**	**32,904**
Total non-recurring operations	4,197	-	-	4,197
GROSS OPERATING MARGIN (EBITDA)	**32,994**	**4,108**	**-**	**37,101**
Total Amortisation and write-downs	-8,612	-2,055	-	-10,666
NET OPERATING PROFIT (EBIT)	**24,382**	**2,053**	**-**	**26,435**
OTHER INFORMATION				
Investments	3,584	304	-	3,888
Amortisations	8,171	2,055	-	10,225
Revaluations (write-downs)	441	-	-	441
Other non monetary costs	-	-	-	-

The following table indicates the main patrimonial and financial data at 31st December 2007 and 2006 of the Prêt-à porter and Footwear and leather goods Divisions:

31st december 2007 (Values in thousand of EUR)	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	302,412	113,596	-22,072	393,936
OTHER ASSETS	12,407	1,249	-	13,656
CONSOLIDATED ASSETS	**314,819**	**114,844**	**-22,072**	**407,591**
SECTOR LIABILITIES	138,136	41,750	-22,072	157,814
OTHER LIABILITIES	33,524	21,626	-	55,150
CONSOLIDATED LIABILITIES	**171,660**	**63,376**	**-22,072**	**212,964**

31st december 2006 (Values in thousand of EUR)	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	289,049	114,938	-22,118	381,869
OTHER ASSETS	11,452	1,628	-	13,080
CONSOLIDATED ASSETS	**300,501**	**116,566**	**-22,118**	**394,949**
SECTOR LIABILITIES	209,293	43,067	-22,118	230,243
OTHER LIABILITIES	36,477	25,779	-	62,256
CONSOLIDATED LIABILITIES	**245,770**	**68,846**	**-22,118**	**292,499**

Segment information by geographical area

The following table indicates the revenues for the full year 2007 and 2006 divided by geographical area:

(Values in thousands of EUR)	Full Year 2007	%	Full Year 2006	%	Change Δ	Change %
Italy	113,030	38.5%	104,118	39.1%	8,912	8.6%
Europe (Italy and Russia excluded)	69,694	23.8%	60,140	22.6%	9,554	15.9%
United States	32,263	11.0%	32,985	12.4%	-722	-2.2%
Russia	22,110	7.5%	13,100	4.9%	9,010	68.8%
Japan	19,343	6.6%	21,795	8.2%	-2,452	-11.3%
Rest of the World	36,771	12.6%	33,997	12.8%	2,774	8.2%
Total	**293,211**	**100.0%**	**266,135**	**100.0%**	**27,075**	**10.2%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

22.Revenues from sales and services

The revenues from sales and services generated in 2007 amount to EUR 293,211 thousand, up 10.2%, compared with EUR 266,135 of the same period in the previous year (+12.2% at constant exchange rates and +13.4% excluding also the effect of the termination of the Narciso Rodriguez license).

This improvement reflects the excellent performance achieved by the Group's two divisions: the revenues of the prêt-à port division increases by 9.8% (+12.3% at constant exchange rates) to EUR 235,178 thousand, while the revenues of the footwear and leather goods division rise by 13.8% to EUR 74,535 thousand, before interdivisional eliminations.

These extremely positive results highlight the effectiveness of the strategic decisions made by the Group in the prior years.

23.Other revenues and income

This item comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	Change %
Extraordinary income	1,201	1,843	- 642	-34.8%
Capital gains	2,405	4,213	-1,808	-42.9%
Other income	2,053	2,883	-830	-28.8%
Total	**5,659**	**8,939**	**-3,280**	**-36.7%**

In 2007, the caption extraordinary income amounts to EUR 1,201 thousand and decreases compared with the previous year of EUR 642 thousand due to a general reduction of the items which compose the above caption (recovery of receivables from bankrupt customers, time expiry of receivables and payables that arose in prior years).

In 2007, the caption capital gains mainly relates to the registration of a net gains of roughly EUR 2 million realised by Aeffe Usa from the sale, on 18th May 2007, of its 50% stake in Narciso Rodriguez LLC, while the same item for 2006 includes EUR 4,2 million arising from the sale by the subsidiary Aeffe Retail of the part of the business relating to the Narciso Rodriguez store in Milan, on 19th December 2006.

In 2007 other income, which mainly refer to exchange gains on commercial transaction, rental income, sales of raw materials and packaging, amount to EUR 2,053 and decrease of EUR 830 thousand compared with the previous period.

24.Raw materials and consumables

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	Change %
Raw, ancillary and consumable materials and goods for resale	88,772	80,281	8,491	10.6%
Total	**88,772**	**80,281**	**8,491**	**10.6%**

This item mainly includes costs for the acquisition of raw materials such as fabrics, threads, skins and accessories, purchases of finished products for resale (products sold) and packaging.
The increase in this item is closely linked with the increase in volumes sold, with the consequent increase in revenue and production.

25. Costs of services

This item comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Subcontracted work	34,056	29,233	4,822	16.5%
Consultancy fees	12,911	12,564	347	2.8%
Advertising	17,148	15,532	1,615	10.4%
Commission	7,771	6,629	1,142	17.2%
Transport	5,787	5,564	223	4.0%
Utilities	2,448	2,515	-66	-2.6%
Directors' and auditors' fees	3,688	3,128	560	17.9%
Insurance	868	1,161	-293	-25.2%
Bank charges	1,281	1,074	208	19.3%
Travelling expenses	2,472	2,565	-93	-3.6%
Sundry industrial services	1,391	1,226	165	13.4%
Other services	5,922	6,620	-698	-10.5%
Total	**95,743**	**87,811**	**7,932**	**9.0%**

Costs of services amount to EUR 95,743 thousand, up 9.0% compared with EUR 87,811 thousand of 2006. The increase in this caption essentially reflects the growth in the volume of business during 2007.

26. Costs for use of third parties assets

This item comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Rental expenses	11,487	11,219	268	2.4%
Royalties	4,170	4,129	41	1.0%
Hire charges and similar	1,393	1,094	298	27.3%
Total	**17,050**	**16,442**	**608**	**3.7%**

27. Labour costs

The impact of costs of labour on revenues fell from 21.1% in 2006 to 19.8% in 2007. This decrease is the result of the organisational model adopted by the Group, which involves

fully outsourcing production of the ready-to-wear, lingerie and beachwear lines and at the same time maintaining constant control of key phases of the value chain.
The increase in absolute value of EUR 1,912 thousands is in line with the increase in the workforce, as described below.
In 2007 the average number of employees is:

Average number of employees by category	Full Year 2007	Full Year 2006	Change Δ	%
Workers	472	460	12	2.6%
Office staff - supervisor	933	893	40	4.5%
Executive and senoir managers	26	26	-	0.0%
Total	**1,431**	**1,379**	**52**	**3.8%**

28. Other operating expenses

This item includes:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Taxes	580	810	-230	-28.4%
Gifts	277	245	32	13.0%
Contingent liabilities	430	624	-193	-31.0%
Write-down of current receivables	497	399	98	24.4%
Foreign exchange losses	255	613	-358	-58.4%
Other operating expenses	470	462	8	1.7%
Total	**2,509**	**3,153**	**-644**	**-20.4%**

The caption other operating expenses amounts to EUR 2,509 thousand, with a reduction of 20.4% compared with EUR 3,153 thousand of 2006.

29. Amortisation and write-downs

This item includes:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Amortisation of intangible fixed assets	3,638	3,761	-123	-3.3%
Depreciation of tangible fixed assets	6,723	6,464	259	4,0%
Write-downs	360	441	-81	-18.4%
Total	**10,722**	**10,666**	**55**	**0.5%**

Amortisation of intangible fixed assets mainly refer to the amortisation of brands. Brands are amortised over 40 years.
Amortisation of tangible fixed assets increase due to the investments made in the period.

30. Financial income

This item includes:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Interest income	274	99	174	175.4%
Foreign exchange gains	76	253	-177	-69.9%
Financial discounts	34	15	19	130.5%
Other income	219	43	176	409.4%
Total	**603**	**410**	**193**	**46.9%**

31. Financial expenses

This item includes:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Bank interest expenses	7,151	5,753	1,398	24.3%
Lease interest	450	507	-57	-11.2%
Foreign exchange losses	880	1,008	-129	-12.8%
Other expenses	206	164	43	26.0%
Total	**8,687**	**7,432**	**1,254**	**16.9%**

The increase in interest payable to banks is due to the increase in the cost of money between 2006 and 2007, an increase that more than offset the reduction in the Group's net financial indebtedness.

32. Profits (losses) from equity investments in affiliates

This caption, only present in 2006, relates to the write-down of the equity investment in Narciso Rodriguez LLC previously held by the subsidiary Aeffe USA.

33. Income taxes

This item includes:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**	**Change Δ**	**%**
Current income taxes	11,028	7,426	3,602	48.5%
Deferred income (expenses) taxes	-3,653	3,324	-6,977	n.a.
Total income taxes	**7,375**	**10,750**	**-3,375**	**-31,4%**

Details of deferred tax assets and liabilities and changes in this item are described in the paragraph on deferred tax assets and liabilities.
The reconciliation between actual and theoretical taxation for 2007 and 2006 is illustrated in the following table:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
Profit before taxes	25,645	19,415
Theoretical tax rate	33%	33%
Theoretical income taxes (IRES)	**8,463**	**6,407**
Fiscal effect	-4,337	502
Effect of difference between foreign tax rates and the theoretical Italian tax rate	635	1,112
Total income taxes excluding IRAP (current and deferred)	**4,761**	**8,021**
IRAP (current and deferred)	**2,614**	**2,729**
Total income taxes (current and deferred)	**7,375**	**10,750**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow absorbed during 2007 is EUR 795 thousand.

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
OPENING BALANCE (A)	**15,320**	**7,020**
Cash flow (absorbed)/ generated by operating activity (B)	23,108	32,996
Cash flow (absorbed)/ generated by investing activity (C)	-9,543	-3,886
Cash flow (absorbed)/ generated by financing activity (D)	-14,360	-20,810
INCREASE (DECREASE) IN CASH FLOW (E)=(B)+(C)+(D)	**-795**	**8,300**
CLOSING BALANCE (F)=(A)+(E)	**14,525**	**15,320**

34. Cash flow (absorbed)/ generated by operating activity

The cash flow generated by operating activity during 2007 amounts to EUR 23,108 thousand. The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
Profit before taxes	25,645	19,293
Amortisation	10,722	10,225
Accrual (+)/availment (-) of long term provisions and post employment benefits	-2,431	694
Paid income taxes	-9,374	-4,851
Financial income (-) and financial charges (+)	8,084	7,022
Change in operating assets and liabilities	-9,538	613
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**23,108**	**32,996**

35.Cash flow (absorbed)/ generated by investing activity

The cash flow absorbed by investing activity during 2007 amounts to EUR 9,543 thousand. The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
Increase (-)/ decrease (+) in intangible fixed assets	-336	-40
Increase (-)/ decrease (+) in tangible fixed assets	-9,302	-4,034
Investments (-)/ Disinvestments (+)	95	135
Change in assets avaiable for sale	-	53
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**-9.543**	**-3,886**

36.Cash flow (absorbed)/ generated by financing activity

The cash flow absorbed by financing activity during 2007 amounts to EUR 14,360 thousand. The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
Increase in reserves and profit carried-forward to shareholders'equity	71,954	-6,000
Proceeds (repayment) of financial payments	-77,985	-9,270
Increase (-)/decrease (+) in long term financial receivables	-245	1,482
Financial income (+) and financial charges (-)	-8,084	-7,022
CASH FLOW (ABSORBED)/ GENERATED BY FINANCING ACTIVITY	**-14,360**	**-20,810**

OTHER INFORMATION

37.Net financial position

As required by Consob communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10th February 2005, the Group's net financial position as of 31st December 2007 is analysed below:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change
A - Cash in hand	1,449	369	1,080
B - Other available funds	13,076	10,776	2,300
C - Securities held for trading	-	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*14,525*	*11,145*	*3,380*
E - Short term financial receivables	-	4,175	-4,175
F - Current bank loans	-6,657	-50,360	43,703
G - Current portion of long-term bank borrowings	-18,447	-11,469	-6,978
H - Current portion of loans from other financial istitutions	-1,257	-2,608	1,351
I - Current financial indebtedness (F) + (G) + (H)	*-26,362*	*-64,437*	*38,075*
J - Net current financial indebtedness (I) + (E) + (D)	*-11,837*	*-49,117*	*37,280*
K - Non current bank loans	-14,200	-51,628	37,428
L - Issued obbligations	-	-	-
M - Other non current loans	-12,447	-14,569	2,122
N - Non current financial indebtedness (K) + (L) + (M)	*-26,647*	*-66,197*	*39,550*
O - Net financial indebtedness (J) + (N)	*-38,484*	*-115,314*	*76,830*

Net financial indebtedness of the Group amounts to EUR 38,484 thousand as of 31st December 2007 compared with EUR 115,314 thousand as of 31st December 2006. The net financial indebtedness as of 31st December 2007 compared with the net financial position of the previous year highlights a decrease of EUR 76,830 thousand consistent with the Group's objectives. The decrease is mainly due to the IPO proceeds.

Net financial indebtedness includes the recognition of the put/call option under the joint venture agreement between Moschino and Bluebell Far East for the formation of Moschino far East. In the absence of this option, net financial indebtedness would have amounted to EUR 33,420 thousand rather than 38,484 thousand as reported above.

38.Earnings per share

Basic earnings per share:

(Values in thousands of EUR)	31st December 2007	31st December 2006
Consolidated earnings for the period for shareholders of the Parent Company	15,320	7,981
Medium number of shares for the period	95,522	90,000
Basic earnings per share	**0.160**	**0.089**

Following the issue on 24th July 2007 of 19 million new shares, taken up in full, the number of shares currently outstanding is 107,362.5 thousand.

39.Related party transactions

Reciprocal transactions and balances between Group companies included within the scope of consolidation are eliminated from the consolidated financial statements and as such will not be described here.

Operations carried out with related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The Group's business dealing with other related parties are summarised below:

(Values in thousands of EUR)	31st December 2007	31st December 2006	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Brand transfer agreement	-	1.000	Financial payable
Contract for the sale of artistic assets and design	300	300	Cost
Ferrim with Aeffe S.p.a.			
Property rental	1,355	1,242	Cost
Ferrim with Moschino S.p.a.			
Property rental	776	760	Cost
Commerciale Valconca with Aeffe S.p.a.			
Commercial	187	183	Revenue
Commercial	547	992	Receivable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet, cash flow and indebtedness as of 31st December 2007 and 31st December 2006.

(Values in thousands of EUR)	Balance 2007	Value rel. part. 2007	%	Balance 2006	Value rel. part. 2006	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	293,211	187	0.1%	266,135	183	0.1%
Costs of services	95,743	300	0.3%	87,811	300	0.3%
Costs for use of third party assets	17,050	2,131	12.5%	16,442	2,002	12.2%
Incidence of related party transactions on the balance sheet						
Current financial liabilities	26,362	-	n.a.	64,437	1,000	1.6%
Trade receivables	36,910	547	1.5%	33,430	992	3.0%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by financing activity	-14,360	-1,000	7.0%	-20,810	-1,000	4.8%
Cash flow (absorbed) / generated by operating activity	23,108	-1,800	n.a.	32,996	-2,333	n.a.
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	-38,484	-2.,800	7.3%	-115,314	-3,333	2.9%

40. Business combination carried out during the year

On 3rd October 2007, the line of business represented by the clothing and accessories shop located at Via Pontaccio 19, Milan, was contributed to Clan Cafè S.r.l. with registered offices at Via delle Querce 51, S. Giovanni in Marignano, by Aeffe Retail S.p.A., while that represented by the clothing shop and adjoining bar located at Via Pontaccio 19, Milan, was contributed to the above company by Clan Cafè S.r.l. with registered offices at Via Luciano Manara 15, Milan. The cost of the combination was EUR 325 thousand. Clan Cafè Srl is 62.9% owned by Aeffe Retail.

41. Atypical and/or unusual transactions

Pursuant to Consob communication DEM/6064296 dated 28th July 2006, it is confirmed that in 2007 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

42. Significant non-recurring events and transactions pursuant to Consob regulation of 28th July 2006

During 2007, EUR 2,154 thousand of non-recurring revenues have been realised. They refer mainly to the net capital gain realised by the subsidiary Aeffe USA with the sale of its stake

(50% of capital) held in Narciso Rodriguez LLC. These revenues net of the fiscal effect amount to EUR 1,174 thousand.
As authorized at the Ordinary and Extraordinary Meeting of shareholders held on 26th March 2007, the Parent Company Aeffe S.p.A., obtained permission from Consob to publish its prospectus on 6th July 2007, has commenced the trading of its shares on the Italian Stock Exchange.
Following the issue of 19 million new shares, issued in connection with the IPO, taken up in full, the share capital of Aeffe S.p.A. now amounts to EUR 26,840,626.
Following the alignment with the new tax rates indicated in the 2008 Finance Law, deferred tax assets and liabilities recorded in previous years have been adjusted.
The following table indicates the data related on the incidence of non-recurring events and transactions on the income statement, balance sheet, cash flow and financial position as of 31st December 2007.

	Shareholders' equity		Profits for the period		Net financial position		Cash flow	
(Values in thousands of EUR)	Amount	%	Amount	%	Amount	%	Amount	%
Balance-sheet values (A)	**194,628**		**15,321**		**-38,484**		**-795**	
Effects of non recurring revenues	-1,174	-1%	-1,174	-8%	-2,154	6%	-2.154	271%
Effects of IPO	-74,303	-38%	-	n.a.	-72,168	188%	-72,168	9076%
Effects of taxes	-6,096	-3%	-5,296	-35%	-	n.a.	-	n.a.
Total effects (B)	-81,573	-42%	-6,470	-43%	-74,322	193%	-74,322	9347%
Gross imputed balance-sheet values (A+B)	**113,055**		**8,850**		**-112,806**		**-75,118**	

43.Guarantees and commitments

As of 31st December 2007, the Group has given performance guarantees to third parties totalling EUR 2,878 thousand (EUR 3,194 thousand as of 31st December 2006) and has received guarantees totalling EUR 633 thousand (EUR 633 thousand as of 31st December 2006).

44.Contingent liabilities

Tax disputes

The Group's tax dispute refers to the following companies:
Aeffe: on 16th December 2006, the Rimini Provincial Tax Commissioners published sentence no. 101/2/06 cancelling notices of assessment no. 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years and concerned costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The Company presented its counter analysis within the legally-prescribed time period. The favourable first-level decision means that further developments in this dispute can be considered in a positive light. The Company is waiting for the hearing date to be fixed.
On 22nd June 2005, the Emilia-Romagna Regional Tax Police issued inspection minutes regarding the 2003 and 2004 tax years in relation to costs not deemed deductible and the alleged improper recovery of VAT. In June 2005, the Company presented its counter analysis pursuant to art. 12 of the taxpayers' code. On 11th March 2008, the tax authorities gave notice of a meeting to settle the matter. The Company's arguments and those of the professionals

appointed to defend its position are expected to result a favourable outcome for the costs deducted.
Pollini: the company has initiated a dispute with the tax authorities for the recovery of VAT in relation to inventory differences identified in 2001;on 17th December 2007, the Forlì Provincial Tax Commissioners published a sentence that partially accepted the defendant's reasoning. An appeal will be filed, since the arguments supported by the company and the professional advisors appointed are expected to result in a positive outcome for the dispute.
In addition, a dispute is still outstanding for the recovery of VAT and IRAP (Regional business tax) charged in 2002 due to the alleged failure to invoice taxable transactions; on 17th December 2007, the Forlì Provincial Tax Commissioners published a sentence that partially accepted the defendant's reasoning. An appeal will also be filed in this case, since the arguments supported by the company and the professional advisors appointed are expected to result in a positive outcome for the dispute.
Pollini Retail S.r.l.: the company has initiated a dispute with the tax authorities for the recovery of VAT paid in 2002 following failure to recognise the VAT credit carried forward from the previous year. The company has already filed an appeal with the Bologna Regional Tax Commissioners against the sentence handed down by the Rimini Provincial Tax Commissioners, which confirmed the payment order presented by the tax office.
Ferretti Studio: in February 2007, the Cattolica Tax Police completed a general inspection regarding the 2004 - 2005 - 2006 tax years. Minor tax assessments were presented in this regard during December 2007. Settlement procedures are currently in progress.
No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the Group and its professional advisors are deemed to be fully sustainable.
Having heard the opinion of their tax consultants, the directors do not consider likely the crystallisation of liabilities in relation to the above disputes.

45. Information requested by art. 149-duodecies of the "Regolamento Emittenti" issued by Consob

The following table, prepared in accordance with art. 149-duodecies of the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2007 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	**Service provider**	**2007 fees**
Audit	MAZARS & GUERARD	224
Audit	WARD DIVECHA	16
Other services	MAZARS & GUERARD(1)	500
Total		**740**

(1) Services relating to the IPO process

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I - Consolidated Reclassified Balance Sheet

(Values in units of EUR)	31st december 2007	31st december 2006
Trade receivables	36.910.502	33.429.957
Stock and inventories	67.761.354	57.658.314
Trade payables	-60.577.085	-57.545.124
Operating net working capital	**44.094.771**	**33.543.147**
Other short term receivables	27.082.638	25.857.607
Tax receivables	4.786.640	2.339.179
Other short term liabilities	-17.248.402	-12.768.551
Tax payables	-7.127.302	-4.951.812
Net working capital	**51.588.345**	**44.019.570**
Tangible fixed assets	71.194.548	69.895.400
Intangible fixed assets	171.770.613	175.073.292
Equity Investments	21.641	120.638
Other fixed assets	3.122.044	2.877.143
Fixed assets	**246.108.846**	**247.966.473**
Post employment benefits	-11.111.030	-13.508.741
Provisions	-1.707.602	-1.741.230
Assets available for sale	1.636.885	1.636.885
Long term not financial liabilities	-14.251.237	-14.045.132
Deferred tax assets	8.869.181	10.741.117
Deferred tax liabilities	-48.022.235	-57.303.971
NET CAPITAL INVESTED	**233.111.153**	**217.764.971**
Share capital	26.840.626	22.500.000
Other reserves	121.923.828	51.277.701
Profits (Losses) carried-forward	679.150	-5.773.135
Profits/(Loss) for the period	15.320.586	7.981.220
Group interest in shareholder's equity	**164.764.190**	**75.985.786**
Minority interests in shareholder's equity	29.863.431	26.465.309
Total shareholder's equity	**194.627.621**	**102.451.095**
Short term financial receivables	-	-4.175.000
Cash	-14.525.033	-11.145.222
Long term financial liabilities	26.646.683	66.196.757
Short term financial liabilities	26.361.882	64.437.341
NET FINANCIAL POSITION	**38.483.532**	**115.313.876**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**233.111.153**	**217.764.971**

ATTACHMENT II - CONSOLIDATED ASSETS BALANCE SHEET with related parties

Pursuant to Consob Resolution N. 15519 of 27th July 2006

(Values in units of EUR)	NOTES	31st december 2007	of which related parties	31st december 2006	of which related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Goodwill		54,316,280		54,101,757	
Trademarks		117,284,499		120,799,010	
Other intangible fixed assets		169,834		172,525	
Total intangible fixed assets	(1)	171,770,613		175,073,292	
Tangible fixed assets					
Lands		17,555,245		17,719,245	
Buildings		33,462,497		34,265,872	
Leasehold improvements		11,812,881		10,998,186	
Plant and machinary		5,008,897		3,613,970	
Equipment		277,380		207,035	
Other tangible fixed assets		3,077,648		3,091,092	
Total tangible fixed assets	(2)	71,194,548		69,895,400	
Other fixed assets					
Equity investments	(3)	21,641		120,638	
Other fixed assets	(4)	3,122,044		2,877,143	
Deferred tax assets	(5)	8,869,181		10,741,117	
Assets available for sale	(6)	1,636,885		1,636,885	
Total other fixed assets		13,649,751		15,375,783	
TOTAL NON-CURRENT ASSETS		**256,614,912**		**260,344,475**	
CURRENT ASSETS					
Stocks and inventories	(7)	67,761,354		57,658,314	
Trade receivables	(8)	36,910,502	546,792	33,429,957	992,042
Tax receivables	(9)	4,786,640		2,339,179	
Cash	(10)	14,525,033		11,145,222	
Short term financial receivables	(11)	-		4,175,000	
Other receivables	(12)	27,082,638		25,857,607	
TOTAL CURRENT ASSETS		**151,066,167**		**134,605,279**	
TOTAL ASSETS		**407,681,079**		**394,949,753**	

ATTACHMENT III - CONSOLIDATED LIABILITIES BALANCE SHEET with related parties

Pursuant to Consob Resolution N. 15519 of 27th July 2006

(Values in units of EUR)	NOTES	31st december 2007	of which related parties	31st december 2006	of which related parties
SHAREHOLDERS' EQUITY					
Group interest					
Share capital		26,840,626		22,500,000	
Share premium reserve		75,307,855		11,345,480	
Translation reserve		-948,776		391,200	
Partecipatory instruments reserve		-		12,400,000	
Other reserves		28,204,017		8,572,760	
Fair Value reserves		7,901,240		7,448,484	
IAS reserves		11,459,492		11,119,777	
Profit (losses) carried-forward		679,150		-5,773,135	
Net profit for the group		15,320,586		7,981,220	
Group interests in shareholder's equity		164,764,190		75,985,786	
Minority interests					
Minority interests in share capital and reserves		26,913,875		25,903,380	
Net profit for the minority interests		2,949,556		561,929	
Minority interests in shareholder's equity		29,863,431		26,465,309	
TOTAL SHAREHOLDERS' EQUITY	**(13)**	**194,627,621**		**102,451,095**	
NON-CURRENT LIABILITIES					
Provisions	(14)	1,707,602		1,741,230	
Deferred tax liabilities	(5)	48,022,235		57,303,971	
Post employment benefits	(15)	11,111,030		13,508,741	
Long term financial liabilities	(16)	26,646,683		66,196,757	
Long term not financial liabilities	(17)	14,251,237		14,045,132	
TOTAL NON-CURRENT LIABILITIES		**101,738,787**		**152,795,831**	
CURRENT LIABILITIES					
Trade payables	(18)	60,577,085		57,545,124	
Tax payables	(19)	7,127,302		4,951,812	
Short term financial liabilities	(20)	26,361,882		64,437,341	1,000,000
Other liabilities	(21)	17,248,402		12,768,551	
TOTAL CURRENT LIABILITIES		**111,314,671**		**139,702,827**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**407,681,079**		**394,949,753**	

ATTACHMENT IV - CONSOLIDATED INCOME STATEMENT with related parties

Pursuant to Consob Resolution N. 15519 of 27th July 2006

(*Values in units of EUR*)	NOTES	Full Year 2007	of which related parties	Full Year 2006	of which related parties
REVENUES FROM SALES AND SERVICES	**(22)**	**293.210.633**	**187.000**	**266.135.146**	**183.000**
Other revenues and income	(23)	5.659.038		8.938.830	
TOTAL REVENUES		**298.869.671**		**275.073.976**	
Changes in inventory of work in process, semi-finished, finished goods		7.851.559		5.998.441	
Costs of raw materials, cons. and goods for resale	(24)	-88.772.356		-80.281.499	
Costs of services	(25)	-95.743.447	- 300.000	-87.811.086	- 300.000
Costs for use of third parties assets	(26)	-17.049.562	- 2.131.000	-16.442.105	-2.002.000
Labour costs	(27)	-58.195.922		-56.283.623	
Other operating expenses	(28)	-2.509.319		-3.152.756	
Total Operating Costs		-254.419.047		-237.972.628	
GROSS OPERATING MARGIN (EBITDA)		**44.450.624**		**37.101.348**	
Amortisation of intangible fixed assets		-3.638.463		-3.761.118	
Depreciation of tangible fixed assets		-6.723.449		-6.464.281	
Revaluations (write-downs)		-359.770		-440.791	
Total Amortisation and write-downs	(29)	-10.721.682		-10.666.190	
NET OPERATING PROFIT (EBIT)		**33.728.942**		**26.435.158**	
Financial income	(30)	602.757		410.179	
Financial expenses	(31)	-8.686.927		-7.432.356	
Total Financial Income (expenses)		-8.084.170		-7.022.177	
Profit (loss) from equity investments in affiliates	(32)	-		-119.455	
PROFIT BEFORE TAXES		**25.644.772**		**19.293.525**	
Current income taxes		-11.027.823		-7.426.035	
Deferred income (expenses) taxes		3.653.193		-3.324.342	
Total Income Taxes	(33)	-7.374.630		-10.750.377	
PROFIT NET OF TAXES		**18.270.142**		**8.543.149**	
(Profit) loss attributable to minority shareholders		-2.949.556		-561.929	
NET PROFIT FOR THE GROUP		**15.320.586**		**7.981.220**	

ATTACHMENT V - CONSOLIDATED CASH FLOW STATEMENT with related parties

Pursuant to Consob Resolution N. 15519 of 27th July 2006

(Values in thousands of EUR)	NOTES	Full Year 2007	of which related parties	Full Year 2006	of which related parties
OPENING BALANCE		**15,320**		**7,020**	
Profit before taxes		25,645	-2,245	19,293	-2,119
Amortisation		10,722		10,225	
Accrual (+)/availment (-) of long term provisions and post employment benefits		-2,431		694	
Paid income taxes		-9,374		-4,851	
Financial income (-) and financial charges (+)		8,084		7,022	
Change in operating assets and liabilities		-9,538	445	613	- 214
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(34)**	**23,108**		**32,996**	
Increase (-)/ decrease (+) in intangible fixed assets		-336		-40	
Increase (-)/ decrease (+) in tangible fixed assets		-9,302		-4,034	
Investments (-)/ Disinvestments (+)		95		135	
Change in assets avaiable for sale		-		53	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(35)**	**-9,543**		**-3,886**	
Increase in reserves and profit carried-forward to shareholders'equity		71,954		-6,000	
Proceeds (repayment) of financial payments		-77,985	- 1,000	-9,270	- 1,000
Increase (-)/decrease (+) in long term financial receivables		-245		1,482	
Financial income (+) and financial charges (-)		-8,084		-7,022	
CASH FLOW (ABSORBED)/ GENERATED BY FINANCING ACTIVITY	**(36)**	**-14,360**		**-20,810**	
CLOSING BALANCE		**14,525**		**15,320**	

Certification of the Consolidated Financial Statements pursuant to art.81-ter of Consob Regulation N. 11971 of 14th May 1999, as amended

The undersigned Massimo Ferretti as Chairman of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A. 's financial reports, hereby certify that the administrative and accounting procedures for the preparation of the consolidated financial statements:

a) are consistent with the Group's administrative/accounting system and organisational structure;

b) their adequacy has been checked;

c) were actually used during the period to which the consolidated financial statements relate.

The undersigned also certify that the consolidated financial statements:

a) correspond to the results documented in the books, accounting and other records;

b) have been prepared in accordance with International Financial Reporting Standards by the European Union, as well as with the provisions issued in implementation of art.9 of the D.Lgs N. 38/2005, and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the Group companies included in the scope of consolidation.

29th April 2008

Chairman of the board of directors

Massimo Ferretti

Manager responsible for preparing
Aeffe S.p.A. financial reports
Marcello Tassinari

ANNUAL REPORT OF AEFFE SPA AS OF 31st DECEMBER 2007

AEFFE SPA FINANCIAL STATEMENTS

ASSETS BALANCE SHEET (*)

(Values in units of EUR)	NOTES	31st december 2007	31st december 2006	Change 2007/06
NON-CURRENT ASSETS				
Intangible fixed assets				
Trademarks		4,375,000	4,500,000	-125,000
Other intangible fixed assets		22,779	56,696	-33,917
Total intangible fixed assets	(1)	4,397,779	4,556,696	-158,917
Tangible fixed assets				
Lands		15,803,400	15,803,400	-
Buildings		25,437,905	25,059,116	378,789
Leasehold improvements		3,324,212	2,855,994	468,218
Plant and machinary		2,468,259	784,868	1,683,391
Equipment		17,116	5,097	12,019
Other tangible fixed assets		924,945	707,571	217,374
Total tangible fixed assets	(2)	47,975,837	45,216,046	2,759,791
Other fixed assets				
Equity investments	(3)	86,155,455	86,154,934	521
Other fixed assets	(4)	44,226,437	48,726,850	-4,500,413
Deferred tax assets	(5)	2,242,115	867,639	1,374,476
Total other fixed assets		132,624,007	135,749,423	-3,125,416
TOTAL NON-CURRENT ASSETS		**184,997,623**	**185,522,165**	**- 524,542**
CURRENT ASSETS				
Stocks and inventories	(6)	23,491,098	21,348,664	2,142,434
Trade receivables	(7)	42,815,191	33,692,387	9,122,804
Tax receivables	(8)	4,407,963	1,878,761	2,529,202
Cash	(9)	4,036,674	1,812,302	2,224,372
Other receivables	(10)	13,624,030	12,807,587	816,443
TOTAL CURRENT ASSETS		**88,374,956**	**71,539,701**	**16,835,255**
TOTAL ASSETS		**273,372,579**	**257,061,866**	**16,310,713**

(*) Pursuant to Consob Resolution N. 15519 dated 27th July 2006, the effects of transactions with related parties on the Balance Sheet of Aeffe S.p.A. are shown in Attachment V and described in Notes 36 and 37.

LIABILITIES BALANCE SHEET (*)

(Values in units of EUR)	NOTES	31st december 2007	31st december 2006	Change 2007/06
SHAREHOLDERS' EQUITY				
Share capital		26,840,626	22,500,000	4,340,626
Share premium reserve		75,307,855	11,345,480	63,962,375
Partecipatory instruments reserve		-	12,400,000	-12,400,000
Other reserves		28,204,015	7,438,355	20,765,660
Fair Value reserve		7,742,006	7,306,128	435,878
IAS reserve		-203,646	-551,525	347,879
Profit/(losses) carried-forward		2,171,895	1,134,406	1,037,489
Net profit		5,738,517	3,403,151	2,335,366
TOTAL SHAREHOLDERS' EQUITY	(11)	**145,801,268**	**64,975,995**	**80,825,273**
NON-CURRENT LIABILITIES				
Provisions	(12)	1,330,955	1,294,850	36,105
Deferred tax liabilities	(5)	7,972,888	8,527,845	-554,957
Post employment benefits	(13)	6,096,530	7,814,389	-1,717,859
Long term financial liabilities	(14)	19,325,528	58,508,588	-39,183,060
TOTAL NON-CURRENT LIABILITIES		**34,725,901**	**76,145,672**	**- 41,419,771**
CURRENT LIABILITIES				
Trade payables	(15)	63,805,483	55,485,142	8,320,341
Tax payables	(16)	4,388,607	2,601,970	1,786,637
Short term financial liabilities	(17)	17,926,043	53,352,048	-35,426,005
Other liabilities	(18)	6,725,277	4,501,039	2,224,238
TOTAL CURRENT LIABILITIES		**92,845,410**	**115,940,199**	**- 23,094,789**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**273,372,579**	**257,061,866**	**16,310,713**

(*) Pursuant to Consob Resolution N. 15519 dated 27th July 2006, the effects of transactions with related parties on the Balance Sheet of Aeffe S.p.A. are shown in Attachment VI and described in Notes 36 and 37.

INCOME STATEMENT (*)

(Values in units of EUR)	NOTES	Full Year 2007	% on revenues	Full Year 2006	% on revenues	Change Δ	%
REVENUES FROM SALES AND SERVICES	(19)	**155,388,756**	**100.0%**	**135,449,924**	**100.0%**	**19,938,832**	**14.7%**
Other revenues and income	(20)	3,437,264	2.2%	4,926,088	3.6%	-1,488,824	-30.2%
TOTAL REVENUES		**158,826,020**	**102.2%**	**140,376,012**	**103.6%**	**18,450,008**	**13.1%**
Changes in inventory of work in process, semi-finished, finished goods		1,613,998	1.0%	3,371,160	2.5%	-1,757,162	-52.1%
Costs of raw materials, cons. and goods for resale	(21)	-48,802,236	-31.4%	-42,530,095	-31.4%	-6,272,141	14.7%
Costs of services	(22)	-49,185,147	-31.7%	-45,309,200	-33.5%	-3,875,947	8.6%
Costs for use of third parties assets	(23)	-19,753,106	-12.7%	-17,507,641	-12.9%	-2,245,465	12.8%
Labour costs	(24)	-22,597,997	-14.5%	-22,282,858	-16.5%	-315,139	1.4%
Other operating expenses	(25)	-873,988	-0.6%	-1,666,115	-1.2%	792,127	-47.5%
Total Operating Costs		-139,598,476	-89.8%	-125,924,749	-93.0%	-13,673,727	10.9%
GROSS OPERATING MARGIN (EBITDA)		**19,227,544**	**12.4%**	**14,451,263**	**10.7%**	**4,776,281**	**33.1%**
Amortisation of intangible fixed assets		-175,050	-0.1%	-186,876	-0.1%	11,826	-6.3%
Depreciation of tangible fixed assets		-2,011,279	-1.3%	-1,521,635	-1.1%	-489,644	32.2%
Total Amortisation and write-downs	(26)	-2,186,329	-1.4%	-1,708,511	-1.3%	-477,818	28.0%
NET OPERATING PROFIT (EBIT)		**17,041,215**	**11.0%**	**12,742,752**	**9.4%**	**4,298,463**	**33.7%**
Financial income	(27)	402,243	0.3%	342,873	0.3%	59,370	17.3%
Financial expenses	(28)	-6,384,666	-4.1%	-5,861,866	-4.3%	-522,800	8.9%
Total Financial Income/(expenses)		-5,982,423	-3.8%	-5,518,993	-4.1%	-463,430	8.4%
PROFIT BEFORE TAXES		**11,058,792**	**7.1%**	**7,223,759**	**5.3%**	**3,835,033**	**53.1%**
Current income taxes		-4,330,682	-2.8%	-3,108,880	-2.3%	-1,221,802	39.3%
Deferred income/(expenses) taxes		-989,593	-0.6%	-711,728	-0.5%	-277,865	39.0%
Total Income Taxes	(29)	-5,320,275	-3.4%	-3,820,608	-2.8%	-1,499,667	39.3%
NET PROFIT		**5,738,517**	**3.7%**	**3,403,151**	**2.5%**	**2,335,366**	**68.6%**

(*) Pursuant to Consob Resolution N. 15519 dated 27th July 2006, the effects of transactions with related parties on the Income Statement of Aeffe S.p.A. are shown in the income statement presented in Attachment VII and described in Notes 36 and 37.

CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	NOTES	Full Year 2007	Full Year 2006
OPENING BALANCE		**1,812**	**1,196**
Profit before taxes		11,059	7,224
Amortisation		2,186	1,709
Accrual (+)/availment (-) of long term provisions and post employment benefits		-1,682	523
Paid income taxes		-2,544	-1,589
Financial income (-) and financial charges (+)		5,982	5,519
Change in operating assets and liabilities		-4,066	6,286
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	(30)	**10,935**	**19,670**
Increase (-)/ decrease (+) in intangible fixed assets		-16	-33
Increase (-)/ decrease (+) in tangible fixed assets		-4,771	-741
Investments (-)/ Disinvestments (+)		-1	-4
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	(31)	**-4,788**	**-778**
Increase in reserves and profit carried-forward to shareholders'equity		72,168	-6,000
Proceeds (repayment) of financial payments		-74,609	-7,470
Increase (decrease) in long term financial receivables		4,500	713
Financial income and financial charges		-5,982	-5,519
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	(32)	**-3,923**	**-18,276**
CLOSING BALANCE		**4,036**	**1,812**

(*) Pursuant to Consob Resolution N. 15519 dated 27th July 2006, the effects of transactions with related parties on the cash flows of Aeffe S.p.A. are shown in the Cash Flow Statement presented in Attachment VIII and described in Note 37.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Partecipatory instruments reserve	Other reserves	Fair Value reserve	IAS reserve	Profit/(losses) carried-forward	Net profit	Total shareholders' equity
BALANCES AT 31st December 2005	**22,500**	**11,345**	**-**	**23,889**	**2,930**	**-552**	**-**	**3,084**	**63,196**
Allocation of net profit at 31st december 2005	-	-	-	1,950	-	-	1,134	-3,084	-
Revaluations	-	-	-	-	4,376	-	-	-	4,376
Net profit at 31st December 2006	-	-	-	-	-	-	-	3,403	3,403
Partecipatory instrument	-	-	12,400	-18,400	-	-	-	-	-6,000
BALANCES AT 31st December 2006	**22,500**	**11,345**	**12,400**	**7,439**	**7,306**	**-552**	**1,134**	**3,403**	**64,975**

(Values in thousands of EUR)	Share capital	Share premium reserve	Partecipatory instruments reserve	Other reserves	Fair Value reserve	IAS reserve	Profit/(losses) carried-forward	Net profit	Total shareholders' equity
BALANCES AT 31st December 2006	**22,500**	**11,345**	**12,400**	**7,439**	**7,306**	**-552**	**1,134**	**3,403**	**64,975**
Allocation of net profit at 31st december 2006	-	-	-	2,365	-	-	1,038	-3,403	-
Net profit at 31st December 2007	-	-	-	-	-	-	-	5,739	5,739
Cancellation of own shares	-4,500	-16,600	2,700	18,400	-	-	-	-	-
Conversion of partecipatory instrument	4,091	11,009	-15,100	-	-	-	-	-	-
Increase in shareholders'equity for IPO	4,750	69,553	-	-	-	-	-	-	74,303
Other movements	-	-	-	-	436	348	-	-	784
BALANCES AT 31st December 2007	**26,841**	**75,307**	**-**	**28,204**	**7,742**	**-204**	**2,172**	**5,739**	**145,801**

AEFFE SPA REPORT ON OPERATIONS

1. ECONOMIC BACKGROUND

Shareholders,
The principal macroeconomic factors influencing the Company's activities are discussed below.

INTERNATIONAL MACROECONOMIC SITUATION

During 2007, the world economy was affected by the US mortgage lending crisis, which became sharply evident during the summer, and by the major increase in fuel and food prices.
The deterioration of macroeconomic conditions essentially affected the developed economies, especially the United States, while the unabated expansion of the emerging economies continued to sustain world economic growth.
In the Euro area, the recent trend in GDP has been adversely affected by the higher cost of raw materials and, following an acceleration in the third quarter with growth of 0.8% compared with the previous quarter, there was a slight slowdown in the last part of the year.
The Italian economy also slowed towards the end of 2007. Following a modest recovery in the third quarter, industrial production fell by about one percentage point; this reflected the stagnation of consumer demand during the second half, following strong support for domestic demand during the first part of the year. Capital investment also slowed in line with the trend in GDP, while foreign demand was progressively affected by the appreciation of the Euro and the easing of growth in the principal destination markets. Unit payroll costs rose by more than in 2006. As elsewhere in the Euro area, retail prices were influenced in 2007 by the higher cost of raw materials - especially the price of oil - resulting in a 2% rise in the RPI over the year.
The depreciation of the dollar, the higher cost of commodities (the price of oil has jumped by 20% in Euro terms over the past six months, while food prices climbed by 10% in the same period), and the crisis in the US property market all cast a shadow of uncertainty over the outlook for 2008. The risk of a cyclic slowdown in the United States and other developed economies might materialise and this, combined with rising raw material prices, could lead to an upturn in inflation. Countering this, productivity improvements and sustainable competitive advantages might also be attained, based on the use of know-how and innovation.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

Following the signs of recovery seen in 2006, the clothing sector performed well overall in 2007, despite the marked slowdown in growth during the last three months of the year. This was due to the higher cost of energy, not yet reflected in higher selling prices for finished products, and the appreciation of the Euro which has affected competition within the sector.
The expansion of such emerging markets as China, Russia and India, combined with the stability of sales in Europe despite the slowdown of consumption in Germany, has helped to offset the fall in revenues from established markets including, in particular, Japan and the United States.

2. INCOME STATEMENT

Revenues from sales and services
Revenues increased by 14.7%, from EUR 135,450 thousand in 2006 to EUR 155,389 thousand in 2007.
The highly satisfactory results achieved by all the brands managed by the Company highlight the effectiveness of the strategic decisions taken in prior years.
Analysing brand performance in greater detail:

- Pollini - revenues from sales and services rose by 25%;
- Alberta Ferretti and Philosophy - revenues from sales and services rose by 22.5%;
- Moschino and Cheap&Chic - revenues from sales and services rose by 15.5%;
- Authier - revenues from sales and services rose by 15%;
- Jean Paul Gaultier - revenues from sales and services rose by 11%.

In line with historical trends, 28% of revenues were earned in Italy and 72% came from foreign markets.

Labour costs

Labour costs rose from EUR 22,282 thousand in 2006 to EUR 22,598 thousand in 2007.
This increase is consistent with the increase in employment from 568 persons as of 31st December 2006 to 597 as of 31st December 2007.
The incidence of labour costs on revenues from sales did however fall from 16.5% in 2006 to 14.5% in 2007.

Gross operating margin (EBITDA)

GM rose from 10.7% in 2006 to 12.4% in 2007, representing an increase in absolute terms of EUR 4,776 thousand.
There were two key factors behind this improvement:
- increased margin due to growth in the sales of clothing and accessories;
- the lower incidence of fixed costs.

Net operating profit (EBIT)

Net operating profit rose from 9.4% in 2006 to 11% in 2007.

Profit before taxes

Profit before taxes climbed from EUR 7,223 thousand in 2006 to EUR 11,058 thousand in 2007, up 53.1%.

Net profit

Net profit increased from EUR 3,403 thousand in 2006 to EUR 5,738 thousand in 2007, up 68.6%.

3. BALANCE SHEET (See Attachment IV)

NET CAPITAL INVESTED

Net capital invested has increased by 2.3% since 31st December 2006.

Net working capital

Net working capital has increased by EUR 2,279 thousand. The changes in the main items are described below:

- trade receivables, inventories and trade payables have increased by EUR 2,944 thousand, due to the increase in sales achieved during 2007;
- other current receivables have risen by EUR 816 thousand. This increase was essentially due to the deferral of higher sample collection costs relating to the Spring/Summer and Autumn/Winter 2008-2009 collections, with respect to Spring/Summer and Autumn/Winter 2007-2008, due to the growth in turnover;
- tax receivables have risen by EUR 2,529 thousand due to the increase in VAT recoverable from the tax authorities;
- other current payables have risen by EUR 2,224 thousand. This reflects the increased liability to social security institutions following the reform of severance indemnities, as discussed in note 13, and the proper classification of amounts due to customers for credit notes to be issued;

- tax payables amount to EUR 1,786 thousand following the increase in the IRES and IRAP liability.

Fixed assets

Fixed assets have decreased by EUR 1,899 thousand since 31st December 2006. The changes in the main items are described below:

- tangible fixed assets have increased by EUR 2,760 thousand following additions of EUR 4,793 thousand during 2007 for buildings under construction, the renovation and modernisation of shops, and the purchase of specific plant and machinery and electronic equipment, net of depreciation and retirements totalling respectively EUR 2,011 thousand and EUR 22 thousand;
- intangible fixed assets have decreased by EUR 159 thousand, following investment of EUR 16 thousand and amortisation of EUR 175 thousand;
- equity investments have increased by EUR 0.5 thousand due to the purchase on 2nd March 2007, by notarised deed, of a further 5% interest in Ferretti Studio S.r.l.;
- other non-current assets have decreased by EUR 4,500 thousand following the repayment of loans previously granted to Group companies.

NET FINANCIAL POSITION

The Company's net financial position has improved by EUR 76,833 thousand, from EUR 110,048 thousand as of 31st December 2006 to EUR 33,214 thousand as of 31st December 2007, due in large measure to the proceeds from the IPO.

SHAREHOLDERS' EQUITY

Total shareholders' equity has increased by EUR 80,825 thousand. The reasons for this increase are detailed in the Explanatory Notes.

4. RESEARCH & DEVELOPMENT

Considering the particular nature of our products, research & development activities consist in the continual technical/stylistic renewal of our models and the constant improvement of the materials employed in production.
These costs, totalling EUR 24,595 thousand, satisfy the requirements for deferral among the intangible fixed assets as R&D expenses; nevertheless, they have been charged to the 2007 Income Statement.

5. INFORMATION PURSUANT TO POINT 6-BIS OF ART. 2428.2 OF THE ITALIAN CIVIL CODE

Pursuant to point 6-bis of art. 2428.2 of the Italian Civil Code, it is confirmed that the Company does not use financial instruments.
Financing requirements and the related risks are managed by the central treasury.
The principal objective is to ensure that the composition of liabilities and assets remains balanced, so that a high degree of financial strength is maintained.
The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used. In general, the margins applied are consistent with the best market conditions.
The exchange risk associated with commercial transactions not denominated in the functional currency is hedged by entering into forward currency transactions.

6. INFORMATION ABOUT SHARE CAPITAL

Information about the share capital is provided in the Report on Corporate Governance prepared pursuant to arts. 124 bis of the Consolidated Finance Law and 89 bis of the Consob's Issuers' Regulations, and art. IA2.6 of the related Market Instructions. This report was approved by the Board of Directors on 28th March 2008 and is available in the Governance section of the Company's website: www.aeffe.com.
The following parties each hold more than 2% of the Company's shares as of 31st December 2007:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.A.	24.410%
JP Morgan Asset Management (UK) Ltd.	5.682%
Julius Bear Investment Management Llc.	3.260%
Tullio Badioli	2.235%
Morgan Stanley Corp.	2.165%
Other shareholders	24.861%

7. TREASURY SHARES

As of 31st December 2007, the Company does not hold any treasury shares or shares or quotas in parent companies, nor has it carried out any transactions in such securities since the date of admission to the stock exchange.

8. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

The Shareholders' Meeting held on 3rd March 2008 approved a plan for the purchase and use of treasury shares pursuant to art. 2357 et seq. of the Italian Civil Code.
This plan authorises the Board of Directors to purchase up to 10% of the Company's share capital, on one or more occasions on a revolving basis, over a maximum period of 18 months, and to use such shares without time limit.
The mandate envisages that the unit price paid for the shares may not be more than 10% higher or lower than the reference price established for them in trading session immediately prior to each transaction.
The purpose of this operation is to facilitate the making of investments that are consistent with the strategic guidelines for the Company, as well as possible acquisitions involving the exchange of treasury shares or other special finance transactions that include the allocation or disposition of such shares.
In addition, the plan approved by the shareholders will enable Aeffe, acting in compliance with current regulations, to stabilise the market price of the Company's shares and moderate the price fluctuations deriving from unusual market conditions, by facilitating trades when shares are in short supply and by helping to maintain normal trading conditions.

9. OUTLOOK

There are no trade restrictions on textiles in Europe from 2008, while the USA will only lift quotas at the end of the year; nevertheless, competition from the emerging nations such as China does not represent the principal risk factor.

The critical issues are mainly found within the western economies, due to the slowdown in the economic cycle. Economic conditions in Europe will be affected by the easing of consumption in Germany, which has lead growth in the Euro area over the past two years. The weakening of the dollar against the Euro and higher raw material prices compound business uncertainty over investment decisions and, above all, the crisis of consumer confidence which is lowering demand for consumable goods. Indeed, the perceived reduction in the purchasing power of disposable income and the tendency for this to remain low are adversely affecting the level of household consumption.

The intensity and duration of this inversion in the economic cycle will depend on the extent of interest rate cuts, which will probably be substantial in the USA but minimal in Europe. In Italy, the outcome of the elections will hopefully result in mainly fiscal measures designed to support the level of disposable income available to households, thus easing the current brake on consumption.

We are confident that strong sales growth will be achieved in 2008, with profits up even more, although we are fully aware of the current difficulties faced by consumption. This confidence is based on the strength and complementary nature of our brands, which are all clearly positioned at the top end of the luxury brand, and on our presence both in areas of rapid growth and in consolidated markets where demand is less volatile.

10. PRIVACY

Pursuant to point 26 of Attachment B to Decree no. 196/2003 governing the protection of personal information, the directors confirm that the Company has adopted the necessary protective measures, having regard for the timing, basis and instructions included in Decree no. 196/2003. In particular, the Security Planning Document, filed at the registered offices, is freely available for inspection.

11. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE PROFIT FOR 2007

Shareholders,
In presenting the financial statements as of 31st December 2007 for your approval, we propose that the profit for the year of EUR 5,738,517 be allocated as follows:

- Legal Reserve, EUR 286,926;
- Dividend to the shareholders, EUR 0,02 for each ordinary share, totalling about EUR 2,1 million;
- Extraordinary Reserve, the residual balance of about EUR 3,3 million.

The dividend will be payable from 15th May 2008, with a coupon detachment date of 12th May 2008, on the shares outstanding at that date.

29th April 2008

For the Board of Directors

Chairman

Massimo Ferretti

AEFFE SPA

REPORT OF THE BOARD OF STATUTORY AUDITORS

Shareholders,
The financial statements as of 31/12/2007, presented for your approval, are the first to be prepared by the company's directors in accordance with international accounting standards (IAS/IFRS), pursuant to European Regulation 1606 issued in July 2002 and adopted in Italy by Decree 38/2005.
These are also the first financial statements presented to the shareholders following the listing of the company's shares in the STAR segment of the Italian Stock Exchange (MTA). We monitored the listing process and verified the legitimacy, propriety and timeliness of the various transactions, resolutions and formalities.

The financial statements, received from the directors within the timescale established in art. 2429 of the Civil Code, report a net profit of EUR 5,738,517 and comprise the balance sheet, the income statement, the cash flow statement and the statement of changes in shareholders' equity. They are accompanied by the director's report on operations, the annual report on corporate governance, the explanatory notes and the schedule of significant investments pursuant to art. 125 of Consob Regulation 11971/99 and subsequent amendments.
As required by art. 2428 of the Civil Code, the directors' report on operations describes the results of operations and the activities carried out by the Company, both directly and via its subsidiaries. The report also provides information about the financial position and discusses the outlook for operations.
We performed the supervisory activities required by law during the year, having regard for the code of practice recommended by the Italian Accounting Profession.
In particular:

- we monitored compliance with the law and the articles of association, and respect for the principles of proper administration;
- we attended the shareholders' meetings and the meetings of the board of directors and the internal audit committee, obtaining periodic information from the directors on the results of operations and the outlook for the future, as well as on the principal economic, financial and equity transactions carried out by the Company, ensuring that the resolutions adopted and implemented were not obviously imprudent, reckless, subject to potential conflicts of interest, in contrast with shareholders' resolutions or likely to generate losses for the Company;
- we obtained information about the Company's organisational structure and monitored its adequacy, to the extent required of us, via direct observation and information obtained from the representatives of Mazars & Guérard S.p.a., the firm appointed to audit the financial statements and the half-year report, as well as via meetings with them to exchange data and information, which did not reveal any significant matters;
- we also assessed and monitored the adequacy of the administrative and accounting system, as well as its reliability in terms of properly presenting the results of operations, by obtaining information, examining Company documentation and analysing the results of the work performed by the auditing firm.
- our Chairman attended the meetings of the internal control committee, enabling us to evaluate the activities of the internal control manager, which we consider appropriate in view of the structure of the Company;
- we also monitored how the corporate governance rules envisaged by the code of self-regulation are applied by the Company in practical terms. In particular, we checked on an annual basis that the non-executive directors, the auditing firm and the statutory auditors satisfy the necessary independence requirements;
- we assessed and monitored the adequacy of the instructions given to subsidiaries. These instructions ensured that they provided information to the Parent Company on a timely basis, in order to comply with the disclosure requirements envisaged by the regulations;
- we checked compliance with the legal requirements for the preparation of the individual and consolidated financial statements as of 31st December 2007, prepared in accordance with international accounting standards (IAS/IFRS), and of the related reports on operations, both via direct verification and information obtained from the auditing firm;

No omissions, censurable facts or irregularities to be reported to the relevant external supervisory and control bodies, or mentioned in this report, were identified during the supervisory work

described above.
As required by Consob recommendations and indications, the Board of Statutory Auditors also confirms:

- the absence of atypical and/or unusual transactions, including operations with group companies or related parties, that might significantly affect the Company's economic, financial or equity position;
- the adequacy of the information provided by the board of directors, including that concerning intercompany transactions and those with related parties. In particular, such latter transactions were relevant and related to achievement of the corporate objects; the characteristics and economic effects of these routine transactions are described in the explanatory notes and considered to be fair and carried out in the interests of the Company. Furthermore, in this regard, no potential conflicts of interest were identified, or transactions that might have a significant effect of the economic, financial and equity position of the Company;
- during 2007:

– the Board of Statutory Auditors held periodic meetings and exchanged information with the representatives of Mazars & Guérard S.p.a. , who, in their auditors' reports on the individual financial statements of the Parent Company Aeffe S.p.A. and on the consolidated financial statements, have no qualifications to release on the economic, financial and equity position of the Company.
– the Board of Statutory Auditors released opinions pursuant to art. 2389.3 of the Civil Code, para. 1 of art. 154 bis of Decree 58/1998 and art. 159.1 of Decree 58/1998;
– the Board of Statutory Auditors held 7 meetings and attended 8 meetings of the board of directors and 4 shareholders' meetings. The Chairman of the Board of Statutory Auditors also attended 4 meetings of the internal audit committee;
– no complaints were received pursuant to art. 2408 of the Civil Code, or statements from third parties.
– with a favourable opinion from the Board of Statutory Auditors, the Company has appointed Mazars & Guérard S.p.a. to audit the individual financial statements, the consolidated financial statements and the half-year reports for the period 2007/2015, as well as to check that the accounting records are properly kept throughout each of these years.

We have examined the financial statements as of 31/12/2007, considering their general form and general compliance with the legislation governing their preparation and structure and, in this regard, we have no particular observations to make.
Accordingly, having regard for the results of the work performed by the independent auditing firm, we recommend that the shareholders' meeting approve the financial statements and report on operations for the year ended 31/12/2007 as presented by the board of directors.
Lastly, we concur with the proposed allocation of net profit and the payment of a unit dividend of EUR 0.02.

On completion of our three-year mandate, we thank you for your confidence in us and invite you to appoint a new Board of Statutory Auditors.
In this connection, with regard to the independence of the current members, we confirm that we have maintained intact our independence and freedom of judgment throughout the entire period of our mandate.

San Giovanni in Marignano, 10th April 2008

The Board of Statutory Auditors

Romano Del Bianco — President

Bruno Piccioni — Statutory Auditor

Vittorio Baiocchi — Statutory Auditor

REPORT OF THE AUDITING COMPANY

MAZARS

AUDITORS' REPORT ON THE FINANCIAL STATEMENTS PURSUANT TO ART. 156 OF LEGISLATIVE DECREE NO. 58 OF FEBRUARY 24, 1998

To the Stockholders of Aeffe S.p.A.

We have audited the financial statements of Aeffe S.p.A. as of and for the year ended December 31, 2007, which comprise the balance sheet, the statements of income, changes in stockholders' equity and cash flows and the related explanatory notes. These financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present for comparative purposes the corresponding data for the year 2006 reconciled in accordance with the IFRS adopted by the European Union. We have audited the statements of reconciliation and, therefore, reference should be made to the special purpose auditor's report we issued on September 25, 2007.

In our opinion, the financial statements present fairly the financial position of Aeffe S.p.A. as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/2005.

Bologna, Italy, April 10, 2008

Mazars & Guerard S.p.A.

/s/ SIMONE DEL BIANCO
Simone Del Bianco
Partner

This report has been translated into the English language solely for the convenience of international readers.

MAZARS & GUÉRARD

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TEL: +39 051 22 05 66 - FAX: +39 051 22 08 11 - www.mazars.it

MAZARS

Aeffe S.p.A.
Auditors' report on the IFRS 1 reconciliation schedules ("non consolidated" individual accounts) with an illustration of the impact of transition to the International Financial Reporting Standards (IFRS)

To the Board of Directors of Aeffe S.p.A.

1. We have performed the audit of the enclosed International Financial Reporting Standards ("IFRS") schedules of Aeffe S.p.A. that consist of the schedule of the impact of transition to IFRS on the financial position of the company and of the reconciliation to net equity as at 1 January 2005, as at 31 December 2005, as at 31 December 2006 and of the schedule of the impact of transition to IFRS on the statement of assets and liabilities and on the reconciliation of the net result for the years ended 31 December 2005 and 31 December 2006 and of the related notes to the accounts prepared in accordance with the criteria and the prescriptions provided for by CONSOB communication n. 6064313 dated 28 July 2006 in the appendix entitled "Transition to the international accounting principles" of the half yearly report as at 30 June 2007. The above mentioned IFRS reconciliation schedules derive from the financial statements of Aeffe S.p.A. for the years ended 31 December 2004, 2005 and 2006, prepared in accordance with the prescriptions of law that discipline the criteria relating to the preparation of the financial statements audited by us and on which we have issued our reports on 8 April 2005, 6 April 2006 and 26 March 2007. The IFRS reconciliation schedules present the impact of the transition to the International Financial Reporting Standards adopted by the European Union that are applicable to the Parent Company Aeffe S.p.A., in accordance with art. 4 of Legislative Decree nr. 38/2005. The preparation of the IFRS reconciliation schedules is the responsibility of the Directors of Aeffe S.p.A. We are responsible for the professional opinion expressed on such schedules, based on the audit.

2. Our work was performed in accordance with statutory accounting principles. In accordance with these accounting principles, the audit was planned and performed for the purpose of acquiring the necessary information in order to ascertain that the IFRS reconciliation schedules were free of significant errors. The audit procedure includes an examination, on a sample basis, of evidence supporting the balances and the information contained in the IFRS reconciliation schedules, as well as an evaluation of the appropriateness and the correctness of the accounting criteria employed and of the reasonableness of the estimates made by the Directors. In our opinion, the work performed offers a reasonable basis for the expression of our professional opinion.

3. In our opinion, the IFRS reconciliation schedules identified in paragraph 1 above, have been prepared, as a whole, in accordance with the criteria and the prescriptions provided for by CONSOB communication n. 6064313 dated 28 July 2006.

4. As described in the notes to the accounts, we would bring to your attention that the figures presented in the IFRS reconciliation schedules could undergo certain changes for the purpose of their usage as comparative data in the financial statements of Aeffe S.p.A. as at 31 December 2007, the first complete set of financial statements prepared in accordance with IFRS, endorsed by the European Commission, subsequent to the issuance of new versions, modifications or interpretations of the IFRS. As well as this, as described in the notes to the accounts, since the IFRS reconciliation schedules have been prepared uniquely for transition purposes to the first complete set of financial statements prepared in accordance with IFRS, adopted by the European Union, these do not include any comparative data nor the necessary notes to the accounts that would normally be required in order to correctly represent in a complete manner the financial position and the economical results of Aeffe S.p.A. in accordance with the IFRS accounting principles.

Bologna, 20 settembre 2007

Mazars & Guérard S.p.A.

Simone Del Bianco

socio

This report has been translated into the English language solely for the convenience of international readers.

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SPA - CAPITALE SOCIALE € 2.020.000,00 I.V. - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO
REA N. 1059307 - COD. FISC. N. 01507630489 - P. IVA 05902570158 - AUTORIZZATA AI SENSI DI L. 1966/39 - REGISTRO DEI REVISORI CONTABILI GU 60/1997
ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 10829 DEL 16/07/1997
UFFICI IN ITALIA: BOLOGNA - FIRENZE - MILANO - NAPOLI - PADOVA - PALERMO - ROMA – TORINO - UDINE

AEFFE SPA EXPLANATORY NOTES

GENERAL INFORMATION

The financial statements of Aeffe S.p.A. as of 31st December 2007 are the first to be prepared by the Company under the IAS/IFRS (International Accounting Standards/International Financial Reporting Standards) issued by the International Accounting Standards Board, as published in the EU Official Gazette. In prior years, the financial statements were prepared in accordance with the requirements of the Italian Civil Code (arts. 2423 et seq.), as interpreted and supplemented by the Accounting Standards issued by the Italian Accounting Profession or, where not available, by the International Accounting Standards Board (IAS/IFRS).
The issues surrounding first-time adoption, with specific reference to the standards adopted and elections made by the Company in this context, are all described in detail in the Appendix entitled "First-time adoption of International Financial Reporting Standards", which is an integral part of this document. This Appendix provides the detailed information required by IFRS 1, which is the standard that governs the first-time adoption of the International Financial Reporting Standards.
Aeffe S.p.A. (the "Company") is an Italian legal entity and a Parent Company that holds, directly or indirectly, equity investments in the companies that lead the business sectors in which the Aeffe Fashion Group is active.
The Company is based in San Giovanni in Marignano (Rimini) and is currently listed in the - STAR Segment - of the MTA, the Italian Stock Exchange operated by Borsa Italiana.
These financial statements have been prepared in Euro, which is the functional currency of the economy in which the Company operates.
The financial statements are accompanied by notes that explain the Company's economic and financial position as of and for the year ended 31st December 2007. This information is presented on a comparative basis, after adjusting the prior year's financial statements for consistency.
Unless stated otherwise, all amounts have been rounded to thousands of euro.
The financial statements comprise the balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and these explanatory notes.
Unless stated otherwise in the accounting policies described below, these financial statements have been prepared on a historical cost basis.
The financial statements have been audited by Mazars & Guérard S.p.A..
The company is controlled by Fratelli Ferretti Holding S.r.l. which was formed during 2007. The holding company's financial statements are not yet available.

DECLARATION OF CONFORMITY AND REPORTING PRINCIPLES

Pursuant to art. 3 of Decree 38/2005 dated 28th February 2005, these financial statements have been prepared in accordance with International Accounting Standards (IAS/IFRS). The explanatory notes, also prepared in accordance with IAS/IFRS, have been supplemented by the additional information requested by CONSOB and by its instructions issued in accordance with art. 9 of Decree 38/2005 (resolutions 15519 and 15520 dated 27th July 2006 and communication DEM/6064293 dated 28th July 2006, pursuant to art. 114.5 of the Consolidated Finance Law), by art. 78 of the Issuers' Regulations, by the EC document issued in November 2003 and, where applicable, by the Italian Civil Code. Consistent with last year's annual report, some of the required information is presented in the Directors' Report (Report on operations).

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31st December 2007 are presented below:

Financial Statement Formats

As part of the options available under IAS 1 for the presentation of its economic and financial position, the Company has elected to adopt a balance sheet format that distinguishes between current and non-current assets and liabilities, and an income statement that classifies costs by type of expenditure, since this is deemed to reflect more closely its business activities. The cash flow statement is presented using the "indirect" format.
With reference to Consob Resolution no. 15519 dated 27th July 2006 regarding the format of the financial statements, additional schedules have also been presented for the income statement, the balance sheet and the cash flow statement in order to identify any significant transactions with related parties. This has been done to avoid compromising the overall legibility of the main financial statements.

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the business and able to generate future economic benefits for the Company. Intangible fixed assets are initially recorded at purchase cost (being their fair value in the case of business combinations), as represented by the acquisition price paid including any charges directly attributable to the preparatory or production phase, if the conditions are met for the capitalisation of costs incurred on the internal generation of assets. Following initial recognition, intangible fixed assets are carried at cost, net of accumulated amortisation and any impairment recorded in accordance with IAS 36 (Impairment of Assets). Subsequent expenditure on intangible fixed assets is capitalised only if it increases the future economic benefits embodied in the specific asset to which it relates. All other costs are charged to the income statement as incurred.
The analysis of intangible fixed assets distinguishes between those with a finite useful life and other intangible fixed assets, the accounting policies for which are described in the following paragraphs.

Brands

Brands are recorded at cost and amortised systematically on a straight-line basis over their estimated useful life (40 years), commencing from the time the asset becomes available for use. The Company has deemed it fair to attribute a finite life of 40 years to its brand names, having regard for the prudent approach taken by other operators in the sector that consider the useful lives of their brands to be very long (given the extended utility of such assets), but not eternal or indefinite (duration not identifiable). This approach is consistent with the type of intangibles found in the fashion industry and with the long-established practices of other firms in the sector (market comparables).

Other intangible fixed assets

This caption comprises the costs incurred to acquire software, which is amortised over a period not exceeding 3 years.
The principal amortisation rates applied are summarised below:

Category	%
Royalties from patents and intellectual property	33%
Brands	2.50%

Research costs are charged to the income statement as incurred.

Tangible fixed assets

Tangible fixed assets, stated net of accumulated depreciation, are recorded at purchase or production cost except for those assets which have been revalued in accordance with specific laws. Cost includes related charges and directly-attributable expenses.
Tangible fixed assets are depreciated systematically each year on a straight-line basis using economic-technical rates that reflect the residual useful lives of each asset. Tangible fixed assets are written down in the event of permanent impairment, regardless of the depreciation already accumulated.
Ordinary maintenance expenses are charged in full to the income statement. Improvement expenditure is allocated to the fixed assets concerned and depreciated over their residual useful lives.
Construction in progress and advances to suppliers are recorded at the cost incurred, including directly-related charges.
As an exception to the general principle, the carrying amount of land and buildings has been adjusted to reflect the value determined by reference to an independent appraisal. This was performed to identify the separate value of land that was previously included in the "land and buildings" caption and consequently depreciated. The depreciation rates are applied on a straight-line basis over the new estimated useful lives of the buildings: 50 years (2%).
The depreciation rates applied are summarised below:

Category	%
Industrial buildings	2%
Plant and machinery	12.5%
Industrial and commercial equipment	25%
Electronic machines	20%
Furniture and furnishings	12.5%
Motor vehicles	20%
Cars	25%

Land is not depreciated.
Leasehold improvements, including the costs of fitting and modernising directly-managed shops and all other property used for business purposes but not owned by the Company, are depreciated over the shorter of the duration of the lease, including any renewal periods, or their useful lives.
Improvement expenditure is added to the carrying amount of the assets concerned if the future economic benefits for the Company are likely to exceed those determined originally. Such expenditure is depreciated over the residual useful lives of the assets concerned. All other maintenance costs are charged to the income statement as incurred.

Leasing

Finance leases

Assets held under finance leases, which transfer to the Company substantially all the risks and benefits of ownership, are recognised as part of property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, and stated net of accumulated depreciation. The corresponding liability to the lessor is classified among financial payables in the balance sheet. These assets are depreciated using the rates set out above.
On disposal, or when no further economic benefits are expected from use of the asset, leased assets are eliminated from the balance sheet and any gains or losses (difference between disposal proceeds and carrying amount) are reflected in the income statement for the year.

Operating leases

Leases that do not transfer to the Company substantially all the risks and benefits of ownership are recognised as operating leases. Payments under operating leases are recognised as a cost on a straight-line basis over the duration of the related lease contracts.

Impairment

Other intangible fixed assets are subjected to impairment testing each year, or more frequently if there is evidence of a possible loss of value.
Tangible fixed assets and other non-current assets are subjected to impairment testing whenever events or a change of circumstances suggest that their value may be impaired.
Impairment losses arise and are recognised when the carrying amount of an asset or a cash generating unit exceeds its recoverable value. The carrying amount of such assets is aligned with their recoverable value and the impairment loss is charged to the income statement.

Determination of recoverable value

Under IAS 36, intangible and tangible fixed assets must be subjected to impairment testing if there is evidence (events, change of circumstances) to suggest a possible loss of value. The purpose of this is to ensure that assets are not recorded in the balance sheet at an amount that exceeds their recoverable value. As already mentioned, this test is performed annually, or more frequently, in relation to assets with an indefinite useful life.
The recoverable value of these assets is their carrying amount at the reference date or, if higher, their fair value, net of disposal costs, or their value in use. In order to determine value in use, the estimated future cash flows - including those deriving from the disposal of the asset at the end of its useful life - are discounted using a post-tax rate that reflects the current market assessment of the value of money and the risks associated with the Company's activities. If separate cash flows cannot be estimated for an individual asset, the separate cash generating unit to which the asset belongs is identified.

Reinstatement of value

The value of financial assets recorded at amortised cost is reinstated when a subsequent increase in their recoverable value can, objectively, be attributed to an event that took place subsequent to recognition of the impairment loss.
The value of other non-financial assets is reinstated if the reasons for impairment no longer apply and the basis for determining their recoverable value has changed.
Write-backs are credited immediately to the income statement and the carrying amount of the asset concerned is adjusted to reflect its recoverable value. Recoverable value cannot exceed the carrying amount that would have been recognised, net of depreciation, had the value of the asset not been written down due to impairment in prior years.
The written down value of goodwill is never reinstated.

Equity investments

Investments in subsidiary and associated companies and joint venture are recorded as historical cost, as written down by any impairment recognised pursuant to IAS 36. Their original value is reinstated in subsequent years if the reasons for write-downs cease to apply.

Trade and other receivables

Receivables are stated at their estimated realisable value, being their nominal value less the allowance for collection losses on doubtful accounts. They are review regularly in terms of ageing and seasonality in order to avoid adjustments for unexpected losses. Non-current receivables that include an element of embedded interest are discounted using a suitable market rate. This caption also includes the accrued income and prepaid expenses recorded to match income and costs relating to more than one year in the accounting periods to which they relate.

Inventories

Inventories are recorded at purchase or production cost or, if lower, at their estimated net realisable value.

Net realisable value is the estimated selling price under normal operating conditions, net of completion costs and all other selling-related expenses.
The cost of production of finished products includes the cost of raw materials, outsourced materials and processing, and all other direct and indirect manufacturing costs reasonably attributable to them, with the exclusion of financing costs.
Obsolete and slow-moving inventories are written down to reflect their likely use or realisability.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances, demand deposits and all highly liquid investments with an original maturity of three months or less. Securities included in cash and cash equivalents are measured at their fair value.

Provisions
The provisions for risks and charges cover known or likely losses or charges, the timing and extent of which cannot be determined at period end. Provisions are recorded only when there is a legal or implicit obligation that, to be settled, requires the consumption of resources capable of generating economic benefits, and the amount concerned can be estimated reliably. If the effect is significant, provisions are calculated by discounting expected future cash flows using a pre-tax rate that reflects the current market assessment of the present value of money and the specific risks associated with the liability.

Employee benefits
Employee severance indemnities are covered by IAS 19 ("Employee Benefits") since they are deemed to be a form of defined benefit plan. Company contributions to defined benefit plans are charged to the income statement on accrual basis.
The Company's net liability for defined benefit plans is determined on actuarial basis, using the projected unit credit method. All actuarial gains and losses determined as of 1st January 2005, the IFRS transition date, have been recognised.
Actuarial gains and losses arising subsequent to 1st January 2005, on calculation of the Company's liability for the severance indemnities due to its Italian employees ("TFR"), are recognised using the corridor method. Consistent with this methodology, the Company recognises a part of its actuarial gains or losses as income or a cost of the total net value of the actuarial gains and losses arising in the year exceeds 10% of the value of the obligation at the start of the year.

Financial payables
Financial payables, excepting derivates, are recorded at the fair value, after transactions costs directly attributable.

Bank overdrafts and loans
Loans are initially measured at cost, which approximates their fair value, net of any transaction-related expenses. Subsequently, they are measured at amortised cost. Any difference between cost and the redemption value is recorded in the income statement over the duration of the loan, using the effective interest method.
Loans are classified as current liabilities unless the Company has an unconditional right to defer their settlement for at least twelve months subsequent to the accounting reference date.

Trade and other payables
Payables are stated at the nominal value. The financial element embedded in non-current payables is separated using a market rate of interest.

Revenues
Revenues are stated net of returns, discounts, allowances and rebates, as well as the taxes associated with the sale of goods and the provision of services. Revenues from sales are recognised when the seller has transferred the principal risks and benefits of ownership to the purchaser. The principal types of revenue realised by the Company are recognised on the

following basis:

- retail sales - on delivery of the goods;
- wholesale sales - on shipment of the goods;
- royalties and commissions - on accrual basis.

Costs

Costs and expenses are recorded on accrual basis.
The costs incurred during the year for the creation and production of samples are matched with revenues from the sales of the related collections; accordingly, they are charged to the income statement in proportion to the revenues earned. The residual costs to be expensed when the related revenues are earned are classified as other current assets.

Financial income and expense

This comprises all the financial items recorded in the income statement for the year, including the interest accrued on financial payables using the effective interest method (mainly bank overdrafts, long-term loans), exchange gains and losses, dividend income, and the lease interest identified using finance lease accounting (IAS 17).
Interest income and expense is recorded in the income statement in the year in which it is earned/incurred.
Dividends are recognised in the year in which the Company's right to collect them is established (when they are declared).
The interest embedded in finance lease payments is charged to the income statement using the effective interest method.

Taxes

The income tax charge includes both current and deferred taxes. Income taxes for the year are charged to the income statement unless they relate to items recorded directly as part of shareholders' equity, in which case they are recorded in the latter caption.
Indirect taxes, such as property taxes, are classified as operating expenses.
Current taxes on the taxable income for the year include the tax charge determined using the tax rates applying at the reference date, and any adjustments made to the tax liabilities recorded in prior years.
Deferred taxes are recorded in relation to all temporary differences at the reference date between the carrying amount of assets and liabilities and the corresponding amounts used to determine taxable income for fiscal purposes.
Deferred taxes are recorded in relation to:

- temporary differences between the tax base for an asset or liability and its carrying amount in the financial statements, except for the goodwill disallowed for fiscal purposes and the differences deriving from investments in subsidiaries, which are not expected to reverse in the foreseeable future;
- income recorded in the current and prior years that will become taxable in future years;
- deferred tax assets are recorded in the financial statements;
- all deductible temporary differences, if they are likely to be recoverable against future taxable income, are recognised unless the deferred tax asset derives from the initial recognition of an asset or a liability, in a transaction that is not a business combination, which does not affect the book results or taxable income (tax loss) at the date of the transaction;
- unused tax losses carried forward and unused tax credits are recognised if they are likely to be recoverable against future taxable income.

Deferred tax assets and liabilities are determined using the income tax rates expected to apply in the tax years when the temporary differences reverse, with reference to the tax legislation in force or effectively in force at the accounting reference date.
The effect of changes in tax rates on the above deferred taxation is recorded in the income statement for the year in which the changes occur. Deferred tax assets and liabilities are only offset against each other if they relate to taxes levied by the same tax authority.

Earnings per share
Basic earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding, taking account of the potential conversion of all ordinary shares with a diluting effect (e.g. employee stock option plans).

OTHER INFORMATION

Management of financial risks
The Company always devotes special attention to the management of financial risk by constantly monitoring its risk exposures.
The principal objective of this approach is to:

- ensure that the composition of liabilities and assets remains balanced so that a high degree of financial strength is maintained;
- contain and minimise the risks associated with exchange-rate fluctuations by using operational hedges.

The following main financial instruments are used:

- long-term loans repayable over several years, to cover the investment in fixed assets (mainly the acquisition of controlling interests);
- short-term loans and advances with recourse against trade receivables, to finance working capital, and currency loans to hedge the exchange-rate risk.

The average cost of borrowing is essentially linked to 3/6-month EURIBOR plus a spread that principally depends on the type of financial instrument used. In general, the margins applied are consistent with the best market conditions.
The Company's interest-rate exposure mainly derives from its non-current financial payables. The cash-flow risk associated with interest-rate fluctuations has never been managed via recourse to derivative contracts (IRS) that transform floating rates to fixed rates. There are no instruments that hedge interest-rate risk as of 31st December 2007.
Commercial transactions that are not denominated in the functional currency expose the Company to exchange-rate risk, which is covered by recourse to forward currency transactions.

Management of credit risk
Credit risk is managed with reference to specific analyses and the historical experience of collection losses, having regard for the ageing of receivables, the type of recovery action taken and the status of the receivable (normal, disputed etc.).

Cash Flow Statement
The cash flow statement presented by the Company in accordance with IAS 7 has been prepared using the indirect method. The cash and cash equivalents included in the cash flow statement represent the amounts reported in the balance sheet at the accounting reference date. Cash equivalents comprise short term and highly liquid applications of funds that can be readily converted into cash; the risk of changes in their value is minimal. Accordingly, a financial investment is usually classified as a cash equivalent if it matures rapidly, i.e. within three months or less of the acquisition date.
Bank overdrafts are generally part of financing activities, except when they are repayable on demand and are an integral part of the management of a company's cash and cash equivalents, in which case they are classified as a reduction of its cash equivalents.
Foreign currency cash flows have been translated using the average exchange rate for the year. Income and expenses deriving from interest, dividends received and income taxes are

included in the cash flows from operating activities.
Under IAS 7, the cash flow statement must identify separately the cash flow deriving from operating, investing and financing activities:

- cash flow from operating activities: the cash flow deriving from operating activities mainly relates to income-generating activities and is presented by the Company using the indirect method; on this basis, net profit is adjusted for the effects of items that did not give rise to payments or cash inflows during the year (non-monetary transactions);
- cash flow from investing activities: investing activities are presented separately since, among other factors, they reflect the investment/disposals made in order to obtain future revenues and cash inflows;
- cash flow from financing activities: financing activities comprise the cash flows that modify the size and composition of shareholders' equity and financial payables.

COMMENTS ON THE BALANCE SHEET

NON-CURRENT ASSETS

1. Intangible fixed assets

The composition of intangible fixed assets is analysed in the following table, together with the changes that took place during the year:

(Values in thousands of EUR)	Brands	Other	Total
Net book value as of 01.01.06	**4,625**	**86**	**4,711**
Increases externally acquired	-	33	33
Amortisation	-125	-62	-187
Net book value as of 01.01.07	**4,500**	**57**	**4,557**
Increases externally acquired	-	16	16
Amortisation	-125	-50	-175
Net book value as of 31.12.07	**4,375**	**23**	**4,398**

Brands
This caption comprises the value of the brand names owned by the Company: "Alberta Ferretti" and "Philosophy di Alberta Ferretti".
The residual amortisation period for this caption is 35 years.

Other
The "Other" relates to user licenses for software.

2. Tangible fixed assets

The composition of tangible fixed assets is analysed in the following table, together with the changes that took place during the year:

(Values in thousands of EUR)	Lands	Buildings	Leasehold improvements	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
Net book value as of 01.01.06	**14,976**	**20,549**	**3,221**	**1,125**	**1**	**639**	**40,511**
Increases	-	245	407	54	11	369	1,086
Disposals	-	-	-237	-6	-3	-99	-345
Other variations	828	4,570	-	4	3	81	5,486
Depreciation	-	-305	-535	-392	-7	-283	-1,522
Net book value as of 01.01.07	**15,804**	**25,059**	**2,856**	**785**	**5**	**707**	**45,216**
Increases	-	898	1,107	2,162	43	583	4,793
Disposals	-	-	-	-	-5	-17	-22
Depreciation	-	-519	-639	-479	-26	-348	-2,011
Net book value as of 31.12.07	**15,804**	**25,438**	**3,324**	**2,468**	**17**	**925**	**47,976**

Tangible fixed assets have changed as follows:

- Additions of EUR 4,793 thousand. These mainly comprise new investment in the construction of buildings, the renovation and modernisation of shops, the purchase of plant and equipment and the purchase of electronic machines.
- Decreases of EUR 22 thousand. These relate to the replacement of plant and machinery, furniture and electronic machines.
- Depreciation of EUR 2,011 thousand charged in relation to all tangible fixed assets, except for land, using the rates applicable to each category (see the accounting policies relating to tangible fixed assets for further details).

Other non-current assets

3. Equity investments

This caption comprises the investments held in subsidiary and associated companies. A complete list, together with the information requested by Consob, is presented in Attachment I.

The increase of EUR 0.5 thousand was due to the purchase on 2nd March 2007, by notarised deed, of a further 5% interest in Ferretti Studio S.r.l.

4. Other fixed assets

This caption principally includes amounts due from subsidiary companies, which have decreased by EUR 4,500 thousand following the repayment of loans previously granted to Group companies.

5. Deferred tax assets and liabilities

This caption is analysed below as of 31st December 2007 and 31st December 2006:

(Values in thousands of EUR)	Receivables 2007	Receivables 2006	Liabilities 2007	Liabilities 2006
Tangible fixed assets	-	-	-299	-355
Intangible fixed assets	-	-	-169	-199
Provisions	275	420	-38	-40
Costs deductible in future periods	-39	8	-	-
Income taxable in future periods	1,535	-	-4	-110
Tax losses carried forward	-	-	-	-
Other	-	-	-	-
Tax assets (liabilities) from transition to IAS	471	439	-7,463	-7,824
Total	**2,242**	**867**	**-7,973**	**-8,528**

The changes in temporary differences during the year are shown in the following table:

(Values in thousands of EUR)	Opening balance	Recorded in the income statement	Other	Closing balance
Tangible fixed assets	-355	56	-	-299
Intangible fixed assets	-199	30	-	-169
Provisions	380	-143	-	237
Costs deductible in future periods	8	-47	-	-39
Income taxable in future periods	-110	-494	2,135	1,531
Tax losses carried forward	-	-	-	-
Other	-	-	-	-
Tax assets (liabilities) from transition to IAS	-7,385	-496	889	-6,992
Total	**-7,661**	**-1,094**	**3,024**	**-5,731**

Deferred tax assets have increased by EUR 1,375 thousand due to the deferred deductibility of the IPO costs for fiscal purposes.
Deferred tax liabilities have decreased by EUR 555 thousand following alignment with the tax rates indicated in the 2008 Finance Law.

CURRENT ASSETS

6. Stocks and Inventories
This caption comprises:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Raw, ancillary and consumable materials	6,861	6,387	474	7.4%
Work in progress	6,443	6,469	-26	-0.4%
Finished products and goods for resale	10,059	8,420	1,639	19.5%
Advance payments received	128	73	55	75.3%
Total	**23,491**	**21,349**	**2,142**	**10.0%**

Inventories of raw materials and work in progress essentially relate to production of the Spring/Summer 2008 collections.
Finished products mainly relate to the Spring/Summer 2008 and the Autumn/Winter 2007 collections and the Autumn/Winter 2008 sample collection.
The increase in inventories since 31st December 2006 reflects the higher volume of business.

7. Trade receivables
This caption is analysed in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Customers receivables	14,327	9,351	4,976	53.2%
Subsidiaries receivables	29,052	25,186	3,866	15.3%
(Allowance for doubtfull account)	-564	-845	281	-33.3%
Total	**42,815**	**33,692**	**9,123**	**27.1%**

The rise in trade receivables was due to the increase in sales achieved during 2007.
The allowance for doubtful accounts was determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

8. Tax receivables
Tax receivables mainly comprise the VAT recoverable transferred from Group companies. This amount has increased significantly with respect to the prior year.

9. Cash

This caption comprises:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Bank and post office deposits	3,937	1,786	2,151	120.4%
Cheques	80	12	68	566.7%
Cash in hand	19	14	5	35.7%
Total	**4,036**	**1,812**	**2,224**	**122.7%**

Bank and postal deposits represent the nominal value of the current account balances with banks, including interest accrued at period end.
Cash and cash equivalents represent the nominal value of the cash held at period end.
As of 31st December 2007, cash and cash equivalents are EUR 2,224 thousand higher than at the end of the previous year. The reasons for this are analysed in the cash flow statement.

10. Other receivables

This caption comprises:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Credits for prepaid costs (costs of producing collections)	10,680	10,005	675	6.7%
Payments on account for royalties and commission	1,508	1,521	-13	-0.9%
Advances and payments on account to suppliers	870	657	213	32.4%
Accrued income and prepaid expenses	332	519	-187	-36.0%
Other	234	106	128	120.8%
Total	**13,624**	**12,808**	**816**	**6.4%**

Prepaid expenses relate to the costs incurred to design and make samples for the Spring/Summer 2008-2009 and Autumn/Winter 2008-2009 collections. Such costs have been deferred and will be matched with the corresponding revenue from sales. The increase mainly reflects the growth in the volume of business.

11. SHAREHOLDERS' EQUITY

The main elements comprising shareholders' equity as of 31st December 2007 are described below.

(Values in thousands of EUR)	31st december 2007	31st december 2006	Δ	Change %
Share capital	26,841	22,500	4,341	19.3%
Legal reserve	2,173	2,054	119	5.8%
Share premium reserve	75,307	11,345	63,962	563.8%
Partecipatory instruments reserve	-	12,400	-12,400	-100.0%
Other reserves	26,031	5,385	20,646	383.4%
Fair value reserve	7,742	7,306	436	6.0%
IAS reserve	-204	-552	348	-63.0%
Profit/(losses) carried-forward	2,172	1,134	1,038	91.5%
Net profit for the period	5,739	3,403	2,336	68.6%
Total	**145,801**	**64,975**	**80,826**	**124.4%**

Share capital

Share capital as of 31st December 2007 is represented by 107,362,504 issued and fully-paid ordinary shares, par value EUR 0.25 each, totalling EUR 26,841 thousand.
There are no shares with restricted voting rights, without voting rights or with preferential rights.
The changes during the year are analysed below (there were no changes during 2006):

	N. of shares
Balance at 31st December 2006	**90,000,000**
12% share reduction on 2nd March 2007	- 10,800,000
Share increase on 25th May 2007	16,362,504
8% share reduction on 27th June 2007	- 7,200,000
IPO share increase on 24th July 2007	19,000,000
Balance at 31st December 2007	**107,362,504**

Legal reserve

The legal reserve has increased from EUR 2,054 thousand as of 31st December 2006 to EUR 2,173 thousand as of 31st December 2007 following the allocation of prior-year profits decided at the shareholders' meeting held on 26th March 2007.

Share premium reserve

The share premium reserve has increased from EUR 11,345 thousand as of 31st December 2006 to EUR 75,307 thousand as of 31st December 2007 due to the effect of cancelling treasury shares, the conversion of the participating equity instrument and the capital increase on completion of the listing process.

Partecipatory istruments reserve
This caption has a zero balance as of 31st December 2007 due to the combined effect of cancelling treasury shares and converting the participating equity instrument.

Other reserves
The changes in this reserve reflect an allocation of prior-year profit and the release of the restricted reserve for participating equity instruments following the cancellation of treasury shares and the conversion of the participating equity instrument.

Fair value reserve
The fair value reserve derives from the application of IAS 16 in order to measure the land and buildings owned by the Company at their fair value, as determined with reference to an independent appraisal.
The increase generated in 2007 derives from the alignment with the new tax rates indicated in the 2008 Finance Law.

IAS reserve
The IAS reserve, formed on the first-time adoption of IFRS, reflects the differences in value that emerged on the transition from ITA GAAP to IFRS. The differences reflected in this equity reserve are stated net of tax effect, as required by IFRS 1.
The increase generated in 2007 derives from the alignment with the new tax rates indicated in the 2008 Finance Law.

Profit/(losses) carried-forward
Retained earnings have increased as a consequence of the net profit earned in the prior year.

Net profit for the period
The profit for the year was EUR 5,738 thousand.

Information on distributable reserves
The following schedule provides information on the way each equity reserve can be used and/or distributed, together with how they have been used in the past three years.

(Amounts in thousands of EUR)				Uses in prior years		
	Amount	Possible uses	Amount distributable	To cover losses	For capital increases	Distributed to shareholders
Share capital	26,841					
Legal reserve	2,173	B				
Share premium reserve:						
- including	72,112	A,B,C	72,112			
- including	3,195	B				
Other reserves:						
- inc. non-distributable reserve for unrealised exchange gains	303	A,B				
- inc. extraordinary reserve	25,728	A,B,C	25,728			
IAS reserve	-204					
Fair value reserve	7,742					
Profit/(losses) carried-forward	2,172	A,B,C	2,172			
Total	**140,062**	**-**	**100,012**	**-**		**-**

"KEY: A (for share capital increases); B (to cover losses); C (for distribution to shareholders)"

Restricted Reserves

Pursuant to art. 109.4.b) of the Consolidated Income Tax Law approved by Decree 917 dated 22/12/86, as modified by Decree 344 dated 12/12/03, the restricted reserves as of 31/12/07 comprise:

- restriction for IRES purposes totalling EUR 400,173.81;
- restriction for IRAP purposes totalling EUR 56,971.51.

In the absence of freely-distributable reserves or profits, these reserves would be taxable upon distribution.

NON-CURRENT LIABILITIES

12. Provisions

The changes in the item are analysed below:

(Values in thousands of EUR)	31st december 2006	Increases	Decreases	31st december 2007
Pensions and similar obligations	1,295	77	-41	1,331
Total	**1,295**	**77**	**-41**	**1,331**

The additional client expenses reserve is determined based on an estimate of the liability relating to the severance of agency contracts, taking account of statutory provisions and any other relevant factor, such as statistical data, average duration of agency contracts and their rate of turnover. The item is calculated based on the actual value of the outflow necessary to extinguish the obligation.

Potential tax liabilities for which no reserves have been established, since it is not considered probable that they will give rise to a liability for the Company, are described in the paragraph "Contingent liabilities".

13. Post-employment benefits

The severance indemnities payable on a deferred basis to all employees of the Company are deemed to represent a defined benefits plan (IAS 19), since the employer's obligation does not cease on payment of the contributions due on the remuneration paid, but continue until termination of the employment relationship. The total liability accrued in relation to the persons employed as of 31st December 2007 was therefore determined on the actuarial basis described in IAS 19.

For plans of this type, the standard requires the amount accrued to be projected forward in order to determine the amount that will be paid on the termination of employment, based on an actuarial valuation that takes account of employee turnover, likely future pay increases and any other applicable factors. This methodology does not apply to those employees whose severance indemnities are paid into approved supplementary pension funds which, in the circumstances, are deemed to represent defined contributions plans.

Commencing from 1st January 2007, the Finance Law and related enabling decrees introduced significant changes to the regulations governing severance indemnities, including the ability of employees to choose how their individual severance indemnities will be allocated. In particular, employees can now allocate the new amounts accrued to approved pension plans or decide to retain them with the employer (which must pay the related severance contributions into a treasury account managed by INPS).

14.Long-term financial liabilities

Non-current financial liabilities are analysed in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Loans from financial institutions	12,024	48,196	-36,172	-75.1%
Loans from financial subsidiaries	-	1,755	-1,755	-100.0%
Amounts due to other creditors	7,301	8,558	-1,257	-14.7%
Total	**19,325**	**58,509**	**-39,184**	**-67.0%**

The amounts due to banks relate to the portion of bank loans due beyond 12 months. This caption solely comprises unsecured loans and bank finance. Such loans are not assisted by any form of security and they are not subject to special clauses, except for the early repayment clauses normally envisaged in commercial practice.
Furthermore, there are no covenants to comply with specific financial terms or negative pledges.
The following table details the bank loans outstanding as of 31st December 2007, including both the current and the non-current portions:

(Values in thousands of EUR)	Total amount	Current portion	Long-term portion
Bank borrowings	28,224	16,200	12,024
Total	**28,224**	**16,200**	**12,024**

There are no amounts due beyond five years.
The amounts due to other providers of finance are analysed in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Financial leases	7,301	8,558	-1,257	-14.7%
Total	**7,301**	**8,558**	**-1,257**	**-14.7%**

The decrease in the long-term amounts due to other providers of finance since 31st December 2006 reflects the reduction in the liability to leasing companies.
The reduction in amounts due to subsidiary companies since 31st December 2006 reflect repayment of the amount due to Pollini S.p.A. following the purchase of the industrial building situated in Gatteo (Forlì-Cesena).
The lease liability relates to the leaseback transaction arranged by the Company in relation to that building, which is still used by Pollini. The original amount of this loan, arranged in 2002, was EUR 17,500 thousand. The loan contract envisages a repayment schedule that

terminates in September 2012. This contract includes an end-of-lease purchase payment of EUR 1,750 thousand.

CURRENT LIABILITIES

15.Trade payables

This caption is analysed on a comparative basis:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Trade payables	63,805	55,485	8,320	15.0%
Total	**63,805**	**55,485**	**8,320**	**15.0%**

The 15% increase in trade payables reflects the growth in the volume of business during 2007.
Trade payables are due within 12 months and concern the debts for supplying goods and services.

16.Tax payables

Tax payables are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Local business tax (IRAP)	233	123	110	89.4%
Corporate income tax (IRES)	2,893	1,338	1,555	116.2%
Amounts due to tax authority for withheld taxes	1,255	1,139	116	10.2%
Other	8	2	6	300.0%
Total	**4,389**	**2,602**	**1,787**	**68.7%**

The Irap and Ires payables reflect the current tax charge, net of advances paid during the year.

17. Short-term financial liabilities

These are analysed in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Δ	Change %
Due to banks	16,669	50,381	-33,712	-66.9%
Due to other creditors	1,257	2,971	-1,714	-57.7%
Total	**17,926**	**53,352**	**-35,426**	**-66.4%**

Bank overdrafts include advances from banks, short-term loans and the current portion of long-term loans. Advances mainly comprise the drawdown against short-term lines of credit arranged to finance working capital. Short-term loans (due within 12 months) represent loans granted to the Company by the banking system.
As of 31st December 2007, other providers of finance principally include the payables recorded in the financial statements in accordance with finance lease accounting methodology.
These captions are analysed in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Δ	Change %
Current bank debt	469	39,779	-39,310	-98.8%
Long-term bank borrowings - current	16,200	10,602	5,598	52.8%
Due to shareholder Alberta Ferretti	-	1,000	-1,000	-100.0%
Leasing payables -current	1,257	1,197	60	5.0%
Due to subsidiaries	-	363	-363	-100.0%
Due to other creditors	-	411	-411	-100.0%
Total	**17,926**	**53,352**	**-35,426**	**-66.4%**

18. Other liabilities

Other current liabilities are analysed on a comparative basis in the following table:

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Due to total security organization	1,788	1,306	482	36.9%
Due to employees	2,061	1,937	124	6.4%
Trade debtors - credit balances	2,688	1,108	1,580	142.6%
Accrued expenses and deferred income	93	14	79	564.3%
Other	95	136	-41	-30.1%
Total	**6,725**	**4,501**	**2,224**	**49.4%**

The amounts due to social security and pension institutions, recorded at nominal value, relate to the social security charges on the wages and salaries of the Company's employees. The increase in this caption by EUR 482 thousand derives from the reform of severance indemnities describe in note 13) above.

Amounts due to customers have increased by EUR 1,580 thousand following the proper classification in this caption of the liability for credit notes to be issued.

COMMENTS ON THE INCOME STATEMENT

19. Revenues from sales and services

Revenues increased by 14.7%, from EUR 135,450 thousand in 2006 to EUR 155,389 thousand in 2007.
The highly satisfactory results achieved by all the brands managed by the Company highlight the effectiveness of the strategic decisions taken in prior years.
Analysing brand performance in greater detail:

- Pollini - revenues from sales and services rose by 25%;
- Alberta Ferretti and Philosophy - revenues from sales and services rose by 22.5%;
- Moschino and Cheap&Chic - revenues from sales and services rose by 15.5%;
- Authier - revenues from sales and services rose by 15%;
- Jean Paul Gaultier - revenues from sales and services rose by 11%.

In line with historical trends, 28% of revenues were earned in Italy and 72% came from foreign markets.
Revenues are analysed by geographical area below:

(Values in thousands of EUR)	**Full Year 2007**	**%**	**Full Year 2006**	**%**	**Change Δ**	**%**
Italy	44,768	28.8%	37,825	27.9%	6,943	18.4%
Europe (Italy and Russia excluded)	43,118	27.7%	36,589	27.0%	6,529	17.8%
United States	21,266	13.7%	20,362	15.0%	904	4.4%
Russia	13,117	8.4%	9,687	7.2%	3,430	35.4%
Japan	11,252	7.2%	11,771	8.7%	-519	-4.4%
Rest of the World	21,868	14.1%	19,216	14.2%	2,652	13.8%
Total	**155,389**	**100.0%**	**135,450**	**100.0%**	**19,939**	**14.7%**

20. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**	**Change Δ**	**%**
Rental income	2,580	2,473	107	4.3%
Extraordinary income	363	263	100	38.0%
Other income	494	2,190	-1,696	-77.4%
Total	**3,437**	**4,926**	**-1,489**	**-30.2%**

21. Raw materials and consumables

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	48,802	42,530	6,272	14.7%
Total	**48,802**	**42,530**	**6,272**	**14.7%**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.
The increase is closely linked with the rise in the volume of sales, which resulted in greater revenues and production.

22. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Subcontracted work	24,402	22,273	2,129	9.6%
Consultancy fees	6,597	6,102	495	8.1%
Advertising	1,963	2,243	-280	-12.5%
Commission	8,593	7,472	1,121	15.0%
Transport	2,053	2,037	16	0.8%
Utilities	774	718	56	7.8%
Directors' and auditors' fees	1,523	1,511	12	0.8%
Insurance	247	326	-79	-24.2%
Bank charges	235	183	52	28.4%
Travelling expenses	1,109	921	188	20.4%
Sundry industrial services	723	697	26	3.7%
Other services	966	827	139	16.8%
Total	**49,185**	**45,310**	**3,875**	**8.6%**

The increase in this caption essentially reflects the growth in the volume of business during 2007.
The remuneration of directors and statutory auditors is detailed in Attachment II.

23. Costs for use of third parties assets

This caption comprises:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**	**Δ**	**Change %**
Rental expenses	1,847	1,736	111	6.4%
Royalties	17,191	15,249	1,942	12.7%
Hire charges and similar	715	523	192	36.7%
Total	**19,753**	**17,508**	**2,245**	**12.8%**

24. Labour costs

This caption comprises:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**	**Δ**	**Change %**
Labour costs	22,598	22,282	316	1.4%
Total	**22,598**	**22,282**	**316**	**1.4%**

Labour costs rose from EUR 22,282 thousand in 2006 to EUR 22,598 thousand in 2007.
This increase is consistent with the increase in employment from 568 persons as of 31st December 2006 to 597 as of 31st December 2007.
The incidence of labour costs on revenues from sales did however fall from 16.5% in 2006 to 14.5% in 2007.
The applicable national payroll contract covers the textiles and clothing sector. This contract, signed on 28th May 2004, is currently being re-negotiated.
The average number of employees during 2007 is analysed below:

Average number of employees by category	**Full Year 2007**	**Full Year 2006**	**Δ**	**Change %**
Workers	218	172	46	27%
Office staff - supervisor	364	380	-16	-4%
Executive and senoir managers	15	16	-1	-6%
Total	**597**	**568**	**29**	**5%**

25. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Taxes	153	158	-5	-3.2%
Gifts	158	228	-70	-30.7%
Contingent liabilities	30	293	-263	-89.8%
Other operating expenses	533	987	-454	-46.0%
Total	**874**	**1,666**	**-792**	**-47.5%**

26. Ammortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Amortisation of intangible fixed assets	175	187	-12	-6.4%
Depreciation of tangible fixed assets	2,011	1,521	490	32.2%
Total	**2,186**	**1,708**	**478**	**28.0%**

The increase in the depreciation charge follows completion of the construction of a new building Via Tamerici and the renovation of the building in Via Degli Olmi, both in San Giovanni in Marignano (Rimini).

27. Financial income

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	%
Interest income	375	315	60	19.0%
Financial discounts	27	27	-	n.a.
Total	**402**	**342**	**60**	**17.5%**

28.Financial expenses

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	Change %
Bank interest expenses	5,758	5,210	548	10.5%
Lease interest	450	507	-57	-11.2%
Other expenses	177	145	32	22.1%
Total	**6,385**	**5,862**	**523**	**8.9%**

The increase in bank interest expenses essentially reflects the rise in the cost of money between 2006 and 2007, which more than offset the reduction in the Company's net borrowing during the year.

29.Income taxes

This caption comprises:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change Δ	Change %
Current income taxes	4,331	3,109	1,222	39.3%
Deferred income (expenses) taxes	989	712	277	38.9%
Total income taxes	**5,320**	**3,821**	**1,499**	**39.2%**

The changes in deferred tax assets and liabilities are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2006 and 2007 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	**Full Year 2007**	**Full Year 2006**
Profit before taxes	11,059	7,224
Theoretical tax rate	33%	33%
Theoretical income taxes (IRES)	**3,649**	**2,384**
Fiscal effect	365	222
Total income taxes excluding IRAP (current and deferred)	**4,014**	**2,606**
IRAP (current and deferred)	**1,306**	**1,215**
Total income taxes (current and deferred)	**5,320**	**3,821**

This reconciliation of the theoretical and effective tax rates does not take account of IRAP, given that it does not use profit before taxes to calculate the taxable amount. Accordingly, the inclusion of IRAP in the reconciliation would generate distorting effects between years.

COMMENTS ON THE CASH FLOW STATEMENT

The cash flow generated during 2007 amounted to EUR 2,224 thousand.

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change
OPENING BALANCE (A)	**1,812**	**1,196**	**616**
Cash flow (absorbed)/ generated by operating activity (B)	10,935	19,670	-8,735
Cash flow (absorbed)/ generated by investing activity (C)	-4,788	-778	-4,010
Cash flow (absorbed)/ generated by financing activity (D)	-3,923	-18,276	14,353
INCREASE (DECREASE) IN CASH FLOW (E) = (B) + (C) + (D)	**2,224**	**616**	**1,609**
CLOSING BALANCE (F) = (A) + (E)	**4,036**	**1,812**	**2,224**

30.Net cash flow generated by operating activity

The cash flow generated by operating activity during 2007 amounted to EUR 10,935 thousand.
The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change
Profit before taxes	11,059	7,224	3,835
Amortisation	2,186	1,709	478
Accrual (+)/availment (-) of long term provisions and post employment benefits	-1,682	523	-2,205
Paid income taxes	-2,544	-1,589	-955
Financial income (-) and financial charges (+)	5,982	5,519	463
Change in operating assets and liabilities	-4,066	6,286	-10,352
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**10,935**	**19,670**	**-8,735**

31. Net cash flow absorbed by investing activity

The cash flow absorbed by investing activity during 2007 amounted to EUR 4,788 thousand. The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change
Increase (-)/ decrease (+) in intangible fixed assets	-16	-33	17
Increase (-)/ decrease (+) in tangible fixed assets	-4,771	-741	-4,030
Investments (-)/ Disinvestments (+)	-1	-4	3
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**-4,788**	**-778**	**-4,010**

32. Net cash flow absorbed by financing activity

The cash flow absorbed by financing activity during 2007 amounted to EUR 3,923 thousand. The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2007	Full Year 2006	Change
Increase in reserves and profit carried-forward to shareholders'equity	72,168	-6,000	78,168
Proceeds (repayment) of financial payments	-74,609	-7,470	-67,139
Increase (-)/decrease (+) in long term financial receivables	4,500	713	3,787
Financial income (+) and financial charges (-)	-5,982	-5,519	-463
CASH FLOW (ABSORBED)/ GENERATED BY FINANCING ACTIVITY	**-3,923**	**-18,276**	**14,353**

OTHER INFORMATION

33.Stock option plans

Information on the stock option plans is provided in the report on operations attached to the consolidated financial statements.
Details about the stock options allocated to directors, general managers and executives with strategic responsibilities are provided in Attachment III.

34.Net financial position

As required by Consob communication DEM/6264293 dated 28th July 2006 and in compliance with the CESR's "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses" dated 10th February 2005, the Company's net financial position as of 31st December 2007 is analysed below:

(Values in thousands of EUR)	**31st december 2007**	**31st december 2006**	**Change**
A - Cash in hand	99	26	73
B - Other available funds	3,937	1,786	2.151
C - Securities held for trading	-	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*4,036*	*1,812*	*2,224*
E - Short term financial receivables	-	-	-
F - Current bank loans	-469	-39,779	39,310
G - Current portion of long-term bank borrowings	-16,200	-10,602	-5,598
H - Current portion of loans from other financial istitutions	-1,257	-2,970	1,713
I - Current financial indebtedness (F) + (G) + (H)	*-17,926*	*-53,351*	*35,425*
J - Net current financial indebtedness (I) + (E) + (D)	*-13,890*	*-51,539*	*37,649*
K - Non current bank loans	-12,024	-48,196	36,172
L - Issued obbligations	-	-	-
M - Other non current loans	-7,301	-10,313	3,012
N - Non current financial indebtedness (K) + (L) + (M)	*-19,325*	*-58,509*	*39,184*
O - Net financial indebtedness (J) + (N)	*-33,215*	*-110,048*	*76,833*

Current bank loans include advances from banks that mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.
The current portion of loans from other financial institutions principally includes the financial payables recorded in the financial statements in accordance with finance lease accounting methodology.
The reduction in non current bank loans by EUR 36,172 thousand mainly reflects the reclassification of the current portion and repayments using the proceeds of the IPO.
Consistent with the Company's objectives, the net financial position as of 31st December 2007 is EUR 76,833 thousand lower than at the end of the prior year. This reduction mainly derives from allocation of the proceeds obtained from the IPO.

35. Earnings per share

Basic earnings per share

(Values in thousands of EUR)	**31st december 2007**	**31st december 2006**
Earnings for the period	5,739	3,403
Medium number of shares for the period	95,522	90,000
Basic earnings per share	**0,060**	**0,038**

Following the issue on 24th July 2007 of 19 million new shares, taken up in full, the number of shares currently outstanding is 107,362.5 thousand.

36. Intercompany transactions

Aeffe S.p.A. also operates via its own direct or indirect subsidiaries. Operations carried out with them mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.

The effect of these transactions on the individual captions reported in the 2007 and 2006 financial statements, as shown in the supplementary income statement and balance sheet prepared for this purpose, is summarised in the following tables:

2007 *(Values in thousands of EUR)*	**Revenues from sales and services**	**Other revenues and income**	**Costs of raw materials, cons. and goods for resale**	**Costs of services**	**Costs for use of third parties assets**	**Financial income (expenses)**
Gruppo Moschino	11,384	35	493	2,946	7,831	-463
Gruppo Pollini	1,479	2,158	8,023	1	165	199
Gruppo Aeffe Retail	5,576	414	16	458	1	97
Ferretti Studio S.r.l.	171	12	-	-	5,536	-
Velmar S.p.A.	206	31	9	39	-	-
Nuova Stireria Tavoleto S.r.l.	116	11	-	1,128	-	-
Av Suisse S.r.l.	3	1	-	-	186	-
Aeffe Usa Inc.	17,524	1	-	242	-	8
Aeffe UK L.t.d.	1,032	7	-	535	17	-
Aeffe France S.a.r.l.	921	4	-	525	-	-
Fashion Retail S.r.o.	71	-	-	-	-	-
Fashoff UK	585	-	-	586	-	-
Total Group companies	**39,068**	**2,674**	**8,541**	**6,460**	**13,736**	**-159**
Total income statement	**155,389**	**3,437**	**48,802**	**49,185**	**19,753**	**-5,982**
Incidence on income statement	**25.1%**	**77.8%**	**17.5%**	**13.1%**	**69.5%**	**2.7%**

2006 *(Values in thousands of EUR)*	Revenues from sales and services	Other revenues and income	Costs of raw materials, cons. and goods for resale	Costs of services	Costs for use of third parties assets	Financial income (expenses)
Gruppo Moschino	11,656	23	-	2,284	6,931	-250
Gruppo Pollini	1,027	2,110	6,364	-	127	150
Gruppo Aeffe Retail	4,889	460	-	501	-	-
Ferretti Studio S.r.l.	178	9	-	-	4,592	-
Velmar S.p.A.	239	20	-	61	-	-
Nuova Stireria Tavoleto S.r.l.	115	11	1,038	477	-	-
Av Suisse S.r.l.	13	-	-	-	147	-
Aeffe Usa Inc.	17,745	-	-	162	-	33
Aeffe UK L.t.d.	888	-	-	446	18	-
Aeffe France S.a.r.l.	420	-	-	541	-	-
Fashion Retail S.r.o.	125	-	-	-	-	-
Fashoff UK	618	-	-	459	-	-
Total Group companies	**37,913**	**2,633**	**7,402**	**4,931**	**11,815**	**-67**
Total income statement	**135,450**	**4,926**	**42,530**	**45,309**	**17,508**	**-5,519**
Incidence on income statement	**28.0%**	**53.5%**	**17.4%**	**10.9%**	**67.5%**	**1.2%**

2007 *(Values in thousands of EUR)*	Other fixed assets	Trade receivables	Trade payables
Gruppo Moschino	32,772	7,551	21,879
Gruppo Pollini	4,000	12,893	1,963
Gruppo Aeffe Retail	2,000	2,150	886
Ferretti Studio S.r.l.	-	19	1,013
Velmar S.p.A.	-	1,063	905
Nuova Stireria Tavoleto S.r.l.	-	270	1,187
Av Suisse S.r.l.	100	311	216
Aeffe Usa Inc.	-	4,139	478
Aeffe UK L.t.d.	432	313	505
Aeffe France S.a.r.l.	4,899	88	407
Fashion Retail S.r.o.	-	222	-
Ozbek London L.t.d.	-	-	236
Narciso Rodriguez LLC	-	34	188
Total Group companies	**44,203**	**29,053**	**29,863**
Total balance sheet	**44,226**	**42,815**	**63,805**
Incidence on balance sheet	**99.9%**	**67.9%**	**46.8%**

2006 *(Values in thousands of EUR)*	**Other fixed assets**	**Trade receivables**	**Trade payables**
Gruppo Moschino	32,772	6,852	17,956
Gruppo Pollini	4,000	9,817	2,486
Gruppo Aeffe Retail	6,212	1,038	682
Ferretti Studio S.r.l.	-	72	977
Velmar S.p.A.	350	1,248	161
Nuova Stireria Tavoleto S.r.l.	-	140	960
Av Suisse S.r.l.	50	194	140
Aeffe Usa Inc.	714	5,310	139
Aeffe UK L.t.d.	472	175	542
Aeffe France S.a.r.l.	4,099	10	845
Fashion Retail S.r.o.	-	234	-
Ozbek London L.t.d.	-	-	260
Narciso Rodriguez LLC	-	96	87
Total Group companies	**48,669**	**25,186**	**25,235**
Total balance sheet	**48,727**	**33,692**	**55,485**
Incidence on balance sheet	**99.9%**	**74.8%**	**45.5%**

37. Transactions with related parties

Transactions between the Company and related parties mainly concern the exchange of goods, the performance of services and the provision of financial resources. All transactions arise in the ordinary course of business and are settled on market terms i.e. on the terms that are or would be applied between two independent parties.
The following schedule summarises the Company's transactions with other related parties:

(Values in thousands of EUR)	**31st december 2007**	**31st december 2006**	**Nature of the transactions**
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Brand transfer agreement	-	1,000	Financial payable
Contract for the sale of artistic assets and design	300	300	Cost
Ferrim with Aeffe S.p.a.			
Property rental	1,355	1,242	Cost
Commerciale Valconca with Aeffe S.p.a.			
Commercial	187	183	Revenue
Commercial	547	992	Receivable

The following table analyses the incidence of the balances and transactions with related parties on the Company's income statement, balance sheet, cash flow and indebtedness as of 31st December 2007 and 2006:

(*Values in thousands of EUR)*	Balance 2007	Value rel. party 2007	%	Balance 2006	Value rel. party 2006	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	155,389	187	0.1%	135,450	183	0.1%
Costs of services	49,185	300	0.6%	45,309	300	0.7%
Costs for use of third party assets	19,753	1,355	6.9%	17,508	1,242	7.1%
Incidence of related party transactions on the balance sheet						
Current financial liabilities	17,926	-	n.a.	53,352	1,000	1.9%
Trade receivables	42,815	547	1.3%	33,692	992	2.9%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by financing activity	-3,923	-1,000	25.5%	-18,276	-1,000	5.5%
Cash flow (absorbed) / generated by operating activity	10,935	-1,023	n.a.	19,670	-1,573	n.a
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	-33,215	-2,023	6.1%	-110,048	-2,573	2.3%

38. Atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064296 dated 28th July 2006, it is confirmed that the Company did not enter into any atypical and/or unusual transactions (as defined in such Communication) during 2007.

39. Significant non-recurring events and transactions pursuant to the Consob regulation of 28th July 2006.

As authorised at the Ordinary and Extraordinary Meeting of shareholders held on 26th March 2007, the Company obtained permission from Consob to publish its prospectus on 6th July 2007, has commenced the trading of its shares on the Italian Stock Exchange.
Following the issue of 19 million new shares, taken up in full, the Company's share capital amounts to EUR 26,840,626.
Following the change in tax rates approved in the 2008 Finance Law, the rates used in prior years to calculate deferred tax assets and liabilities have been aligned.

The following table analyses the incidence of non-recurring events and transactions on the Company's income statement, balance sheet, cash flow and financial position as of 31st December 2007:

	Shareholders' equity		Profits for the period		Net financial position		Cash flow	
(Values in thousands of EUR)	Amount	%	Amount	%	Amount	%	Amount	%
Balance-sheet values (A)	**145,801**		**5,739**		**-33,215**		**3,932**	
Effects of IPO	-74,303	-51%	-	n.a.	-72,168	217%	-72,168	-1835%
Effects of taxes	-614	n.a.	169	3%	-	n.a.	-	n.a.
Total effects (B)	-74,917	-51%	169	n.a.	-72,168	217%	-72,168	-1835%
Gross imputed balance-sheet values (A+B)	**70,884**		**5,908**		**-105,383**		**-68,236**	

40.Guarantees and commitments

(Values in thousands of EUR)	31st december 2007	31st december 2006	Change Δ	%
Guarantees given				
- on behalf of Group companies	2,700	3,141	-441	-14.0%
- on behalf of third parties	334	659	-325	-49.3%
Total	**3,034**	**3,800**	**-766**	**-20.2%**

41.Contingent liabilities

Tax disputes

Aeffe: on 16th December 2006, the Rimini Provincial Tax Commissioners published sentence no. 101/2/06 cancelling notices of assessment no. 81203T100562 (RG no. 43/05) and 81203T100570 (RG no. 69/05) issued by the Rimini Tax Authorities in November 2004. The issues raised related to the 1999 and 2000 tax years and concerned costs deemed not allowable and the write-down of the investment in Moschino. The Rimini tax office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners. The Company presented its counter analysis within the legally-prescribed time period. The favourable first-level decision means that further developments in this dispute can be considered in a positive light. The Company is waiting for the hearing date to be fixed.
On 22nd June 2005, the Emilia-Romagna Regional Tax Police issued inspection minutes regarding the 2003 and 2004 tax years in relation to costs not deemed deductible and the alleged improper recovery of VAT. In June 2005, the Company presented its counter analysis pursuant to art. 12 of the taxpayers' code. On 11th March 2008, the tax authorities gave notice of a meeting to settle the matter. The Company's arguments and those of the professionals appointed to defend its position are expected to result a favourable outcome for the costs deducted.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the Company and its professional advisors are deemed to be fully sustainable.
Having heard the opinion of their tax consultants, the directors do not consider likely the crystallisation of liabilities in relation to the above disputes.

42. Information requested by art. 149-duodecies of the "Regolamento Emittenti" issued by Consob

The following table, prepared in accordance with art. 149-duodecies of the "Regolamento Emittenti" issued by Consob, reports the amount of fees charged in 2007 for the audit and audit related services provided by the Audit Firm. No services were provided by members of the auditing firm's network.

(Values in thousands of EUR)	Service provider	2007 fees
Audit	MAZARS & GUERARD	68
Other services	MAZARS & GUERARD(1)	500
Total		**568**

(1) Services relating to the IPO process

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I - LIST OF INVESTMENTS IN SUBSIDIARY COMPANIES

requested by Consob Communication no. DEM/6064293 dated 28th July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
Subsidiaries companies								
Italian Companies								
Aeffe Retail S.p.A.	**S.G. in Marignano (RN) Italia**							
At 31/12/06			8,585,150	3,080,048	22,527,284	100%	8,585,150	16,493,345
At 31/12/07			8,585,150	920,004	23,337,271	100%	8,585,150	16,493,345
AV Suisse S.r.l.	**Contrà Canove (VI) Italia**							
At 31/12/06			10,000	11,045	-5,881	70%	7,000	7,839
At 31/12/07			10,000	-83,989	-89,869	70%	7,000	7,839
Ferretti Studio S.r.l.	**S.G. in Marignano (RN) Italia**							
At 31/12/06			10,400	-42,564	429,831	95%	n.d.*	9,813
Acquisition 5%								520
At 31/12/07			10,400	42,064	471,894	100%	n.d.*	10,333
Moschino S.p.A.	**S.G. in Marignano (RN) Italia**							
At 31/12/06			20,000,000	2,250,248	35,386,894	70%	14,000,000	14,085,199
At 31/12/07			20,000,000	4,346,824	39,733,720	70%	14,000,000	14,085,199
Nuova Stireria Tavoleto S.r.l.	**Tavoleto (PU) Italia**							
At 31/12/06			10,400	148,784	947,195	100%	n.d.*	773,215
At 31/12/07			10,400	151,953	1,116,026	100%	n.d.*	773,215
Pollini S.p.A.	**Gatteo (FC) Italia**							
At 31/12/06			6,000,000	168,526	22,428,299	72%	4,320,000	40,745,452
At 31/12/07			6,000,000	222,159	22,650,464	72%	4,320,000	40,745,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italia**							
At 31/12/06			492,264	648,269	1,237,148	75%	71,550	774,685
At 31/12/07			492,264	530,144	1,767,294	75%	71,550	774,685
Foreign Companies								
Aeffe France S.a.r.l.	**Parigi (FR)**							
At 31/12/06			1,550,000	-153,292	1,121,662	99.9%	n.d.*	2,118,720
At 31/12/07			1,550,000	-149,888	971,773	99.9%	n.d.*	2,118,720
Aeffe UK L.t.d.	**Londra (GB)**							
At 31/12/06		GBP	310,000	61,694	256,770	100%		
			461,653	91,875	382,383	100%	n.d.*	478,400
At 31/12/07		GBP	310,000	160,714	417,484	100%		
			422,689	234,790	569,245	100%	n.d.*	478,400
Aeffe USA Inc.	**New York (USA)**							
At 31/12/06		USD	600,000	139,319	12,537,404	100%		
			455,581	110,949	9,519,669	100%	800	10,664,812
At 31/12/07		USD	600,000	1,871,500	14,408,904	100%		
			407,581	1,365,460	9,787,993	100%	800	10,664,812
Total interests in subsidiaries:								**86,152,000**

(*) quota

LIST OF INVESTMENTS IN OTHER COMPANIES

requested by Consob Communication no. DEM/6064293 dated 28th July 2006

Company	Registered office	Currency	Share Capital (EUR)	Net profit for the period (EUR)	Net equity (EUR)	Direct interest	Number of shares	Book value
(Values in units of EUR)								
In other companies								
Conai								
At 31/12/06								98
At 31/12/07								98
Caaf Emilia Romagna								
At 31/12/06						0.688%	5,000	2,582
At 31/12/07						0.688%	5,000	2,582
Assoform								
At 31/12/06						1.670%	n.d.*	258
At 31/12/07						1.670%	n.d.*	258
Consorzio Assoenergia Rimini								
At 31/12/06						1.720%	n.d.*	517
At 31/12/07						1.620%	n.d.*	517
Total interests in other companies:								**3,455**

(*) quota

ATTACHMENT II - REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

(art. 78 of Consob Regulation no. 11971/99)

Name and Surname (Values in thousand of EUR)	Appointments held in 2007	Period in office	Mandate expiry date *	Emoluments for office	Other remuner-ation	Total
DIRECTORS						
Massimo Ferretti	Chairman	01/01-31/12/2007	2008	604	253	857
Alberta Ferretti	Deputy Chairman and Executive Director	01/01-31/12/2007	2008	455	110	565
Simone Badioli	Chief Executive Officer and Executive Director	01/01-31/12/2007	2008	253	100	353
Marcello Tassinari	Managing Director and Executive Director	01/01-31/12/2007	2008	272**	85	357
Gianfranco Vanzini	Non-executive Director	01/01-31/12/2007	2008	30		30
Umberto Paolucci	Independent, non-executive Director	01/01-31/12/2007	2008	60		60
Roberto Lugano	Independent, non-executive Director	24/07-31/12/07	2008			0
STATUTORY AUDITORS						
Romano Del Bianco	President	01/01-31/12/2007	2008	16	10	26
Bruno Piccioni	Statutory Auditor	01/01-31/12/2007	2008	10	7	17
Vittorio Baiocchi	Statutory Auditor	01/01-31/12/2007	2008	10		10
EXECUTIVES WITH STRATEGIC RESPONSIBILITIES (***)					**875**	**875**
Total				**1,710**	**1,440 (1)**	**3,150 (2)**

(*) year in which the shareholders' meeting is held to approve the financial statements and at which the mandate expires
(**) inc. 30 thousand as director's emoluments and the balance as executive of the Company
(***) includes three executives
(1) includes remuneration for work as employee and on behalf of subsidiary companies
(2) excludes employer's social security contributions

ATTACHMENT III - STOCK OPTIONS GRANTED TO DIRECTORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

(art. 78 of Consob Regulation no. 11971/99)

Name and Surname	Appointments held in 2007	Options held as of 31/12/06			Options granted in 2007			Options exercised in 2007			Expired options	Options held at the end of 2007		
		No. of options	Average exercise price	Average expiry	No. of options	Average exercise price	Average expiry	No. of options	Average exercise price	Average expiry	No. of options	No. of options (11)= 1+4-7-10	Average exercise price	Average expiry
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)		(12)	(13)
Massimo Ferretti	Chairman				1,189,466	4.1	2,010					1,189,466	4.1	2,010
Alberta Ferretti	Deputy Chairman and Executive Director				1,189,466	4.1	2,010					1,189,466	4.1	2,010
Simone Badioli	Chief Executive Officer and Executive Director				1,132,825	4.1	2,010					1,132,825	4.1	2,010
Marcello Tassinari	Managing Director and Executive Director				1,132,825	4.1	2,010					1,132,825	4.1	2,010
Other employees of the Company					509,769	4.1	2,010					509,769	4.1	2,010
Total					**5,154,351**						**0**	**5,154,351**		

ATTACHMENT IV - RECLASSIFIED BALANCE SHEET

(Values in units of EUR)	31st dicembre 2007	31st dicembre 2006
Trade receivables	42,815,191	33,692,387
Stock and inventories	23,491,098	21,348,664
Trade payables	-63,805,483	-55,485,142
Operating net working capital	**2,500,806**	**-444,091**
Other short term receivables	13,624,030	12,807,587
Tax receivables	4,407,963	1,878,761
Other short term liabilities	-6,725,277	-4,501,039
Tax payables	-4,388,607	-2,601,970
Net working capital	**9,418,915**	**7,139,248**
Tangible fixed assets	47,975,837	45,216,046
Intangible fixed assets	4,397,779	4,556,696
Equity Investments	86,155,455	86,154,934
Other fixed assets	44,226,437	48,726,850
Fixed assets	**182,755,508**	**184,654,526**
Post employment benefits	-6,096,530	-7,814,389
Provisions	-1,330,955	-1,294,850
Deferred tax assets	2,242,115	867,639
Deferred tax liabilities	-7,972,888	-8,527,845
NET CAPITAL INVESTED	**179,016,165**	**175,024,329**
Share capital	26,840,626	22,500,000
Other reserves	111,050,230	37,938,438
Profits/(Losses) carried-forward	2,171,895	1,134,406
Profits/(Loss) for the period	5,738,517	3,403,151
Shareholders' equity	**145,801,268**	**64,975,995**
Cash	-4,036,674	-1,812,302
Long term financial liabilities	19,325,528	58,508,588
Short term financial liabilities	17,926,043	53,352,048
NET FINANCIAL POSITION	**33,214,897**	**110,048,334**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**179,016,165**	**175,024,329**

ATTACHMENT V - ASSETS BALANCE SHEET with related parties

Pursuant to Consob Resolution no. 15519 dated 27th July 2006

(Values in units of EUR)	NOTES	31st dicembre 2007	of which related parties	31st dicembre 2006	of which related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Trademarks		4,375		4,500	
Other intangible fixed assets		23		57	
Total intangible fixed assets	(1)	4,398		4,557	
Tangible fixed assets					
Lands		15,803		15,803	
Buildings		25,438		25,059	
Leasehold improvements		3,324		2,856	
Plant and machinary		2,468		785	
Equipment		17		5	
Other tangible fixed assets		925		708	
Total tangible fixed assets	(2)	47,976		45,216	
Other fixed assets					
Equity investments	(3)	86,155	86,152	86,155	86,152
Other fixed assets	(4)	44,226	44,203	48,727	48,669
Deferred tax assets	(5)	2,242		868	
Total other fixed assets		132,624		135,749	
TOTAL NON-CURRENT ASSETS		**184,998**		**185,522**	
CURRENT ASSETS					
Stocks and inventories	(6)	23,491		21,349	
Trade receivables	(7)	42,815	29,600	33,692	26,178
Tax receivables	(8)	4,408		1,879	
Cash	(9)	4,037		1,812	
Other receivables	(10)	13,624		12,808	
TOTAL CURRENT ASSETS		**88,375**		**71,540**	
TOTAL ASSETS		**273,373**		**257,062**	

ATTACHMENT VI - LIABILITIES BALANCE SHEET with related parties

Pursuant to Consob Resolution no. 15519 dated 27th July 2006

(Values in units of EUR)	NOTES	31st dicembre 2007	of which related parties	31st dicembre 2006	of which related parties
SHAREHOLDERS' EQUITY					
Share capital		26,841		22,500	
Share premium reserve		75,308		11,345	
Partecipatory instruments reserve		0		12,400	
Other reserves		28,204		7,438	
Fair Value reserve		7,742		7,306	
IAS reserve		-204		-552	
Profit/(losses) carried forward		2,172		1,134	
Net profit		5,739		3,403	
TOTAL SHAREHOLDERS' EQUITY	(11)	**145,801**		**64,976**	
NON-CURRENT LIABILITIES					
Provisions	(12)	1,331		1,295	
Deferred tax liabilities	(5)	7,973		8,528	
Post employment benefits	(13)	6,097		7,814	
Long term financial liabilities	(14)	19,326		58,509	
TOTAL NON-CURRENT LIABILITIES		**34,726**		**76,146**	
CURRENT LIABILITIES					
Trade payables	(15)	63,805	29,863	55,485	25,235
Tax payables	(16)	4,389		2,602	
Short term financial liabilities	(17)	17,926		53,352	1,000
Other liabilities	(18)	6,725		4,501	
TOTAL CURRENT LIABILITIES		**92,845**		**115,940**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**273,373**		**257,062**	

ATTACHMENT VII - INCOME STATEMENT with related parties

Pursuant to Consob Resolution no. 15519 dated 27th July 2006

(Values in units of EUR)	NOTES	Full Year 2007	of which related parties	Full Year 2006	of which related parties
REVENUES FROM SALES AND SERVICES	(19)	**155,389**	**39,255**	**135,450**	**38,096**
Other revenues and income	(20)	3,437	2,674	4,926	2,633
TOTAL REVENUES		**158,826**		**140,376**	
Changes in inventory of work in process, semi-finished, finished goods		1,614		3,371	
Costs of raw materials, cons. and goods for resale	(21)	-48,802	-8,541	-42,530	-7,402
Costs of services	(22)	-49,185	-6,760	-45,309	-5,231
Costs for use of third parties assets	(23)	-19,753	-15,091	-17,508	-13,057
Labour costs	(24)	-22,598		-22,283	
Other operating expenses	(25)	-874		-1,666	
Total Operating Costs		-139,598		-125,925	
GROSS OPERATING MARGIN (EBITDA)		**19,228**		**14,451**	
Amortisation of intangible fixed assets		-175		-187	
Depreciation of tangible fixed assets		-2,011		-1,522	
Total Amortisation and write-downs	(26)	-2,186		-1,709	
NET OPERATING PROFIT (EBIT)		**17,041**		**12,743**	
Financial income	(27)	402	304	343	183
Financial expenses	(28)	-6,385	-463	-5,862	-250
Total Financial Income/(expenses)		-5,982		-5,519	
PROFIT BEFORE TAXES		**11,059**		**7,224**	
Current income taxes		-4,331		-3,109	
Deferred income/(expenses) taxes		-990		-712	
Total Income Taxes	(29)	-5,320		-3,821	
NET PROFIT		**5,739**		**3,403**	

ATTACHMENT VIII - CASH FLOW STATEMENT with related parties

Pursuant to Consob Resolution no. 15519 dated 27th July 2006

(Values in thousand of EUR)	NOTES	Full Year 2007	of which related parties
OPENING BALANCE		**1,812**	
Profit before taxes		11,059	
Amortisation		2,186	
Accrual (+)/availment (-) of long term provisions and post employment benefits		-1,682	
Paid income taxes		-2,544	
Financial income (-) and financial charges (+)		5,982	
Change in operating assets and liabilities		-4,066	1,206
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**10,935**	
Increase (-)/ decrease (+) in intangible fixed assets		-16	
Increase (-)/ decrease (+) in tangible fixed assets		-4,771	
Investments (-)/ Disinvestments (+)		-1	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**-4,788**	
Increase in reserves and profit carried-forward to shareholders'equity		72,168	
Proceeds (repayment) of financial payments		-74,609	-1,000
Increase (-)/decrease (+) in long term financial receivables		4,500	4,466
Financial income (+) and financial charges (-)		-5,982	
CASH FLOW (ABSORBED)/ GENERATED BY FINANCING ACTIVITY	**(32)**	**-3,923**	
CLOSING BALANCE		**4,036**	

Certification of the Financial Statements pursuant to art.81-ter of Consob Regulation N. 11971 of 14th May 1999, as amended

The undersigned Massimo Ferretti as Chairman of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A. 's financial reports, hereby certify that the administrative and accounting procedures for the preparation of the financial statements:

a) are consistent with the Company's administrative/accounting system and organisational structure;
b) their adequacy has been checked;
c) were actually used during the period to which the financial statements relate.

The undersigned also certify that the financial statements:

a) correspond to the results documented in the books, accounting and other records;
b) have been prepared in accordance with International Financial Reporting Standards by the European Union, as well as with the provisions issued in implementation of art.9 of the D.Lgs N. 38/2005, and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the Company's economic and financial position.

29th April 2008

Chairman of the board of directors

Massimo Ferretti

Manager responsible for preparing
Aeffe S.p.A. financial reports
Marcello Tassinari

Certification of the Financial Statements pursuant to art.154-bis DLGS 58/98

TRANSITION TO INTERANTIONAL FINANCIAL REPORTING STANDARDS (IAS/IFRS) BY AEFFE SPA (FIRST TIME ADOPTION)

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IAS/IFRS) BY AEFFE S.p.A. (First-time adoption)

Introduction to the transition process

Up to and including the year ended 31st December 2006, Aeffe S.p.A. prepared its financial statements and other periodic information in accordance with the accounting standards issued by the OIC – Italian Accountancy Board.

Now that European Regulation 1606 issued in July 2002 has come into force and in compliance with:

- Issuers' Regulation no. 11971 dated 14th May 1999 and subsequent amendments and additions,
- Decree 38/2005, which adopted the above European Regulation in Italy,

the Company has adopted the International Financial Reporting Standards issued by the International Accounting Standards Board from 1st January 2007 and, accordingly, will present its first full set of financial statements prepared under IAS/IFRS as of 31st December 2007.

The first financial statements prepared by Aeffe S.p.A. under IAS/IFRS comprise the income statement, balance sheet, cash flow statement and statement of changes in shareholders' equity attached to the half-year report as of 30th June 2007.

As part of the IFRS transition process and in order to prepare the above schedules as of 30th June 2007 and the financial statements as of 31st December 2007 under IAS/IFRS, the following accounting documents have therefore been restated in accordance with IAS/IFRS:

- balance sheet on the IAS/IFRS transition date (1st January 2005);
- balance sheets as of 31st December 2005 and 2006;
- income statement for the year ended 31st December 2006.

As required by IFRS 1 – First-time Adoption of IFRS -, the purpose of this document is to present:

- schedules reconciling shareholders' equity as of 31st December 2006;
- schedules reconciling the results for the year ended 31st December 2006;
- explanatory notes prepared under the previous accounting standards and in accordance with IAS/IFRS.

This information has been prepared solely for the transition to IAS/IFRS and in order to prepare both the half-year report as of 30th June 2007 and the first full set of financial statements as of 31st December 2007 under the IAS/IFRS endorsed by the European Commission; accordingly, it does not include all the statements, comparative data and explanatory notes that would be required in the annual financial statements for a complete presentation of the company's financial position and results of operations under IAS/IFRS.

The adjustments made and reported in the attached schedules were determined with reference to the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and endorsed by the European Commission, in force from 1st January 2007. These include the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as well as the previous International Accounting Standards (IAS) and interpretations of the Standard Interpretations Committee (SIC) that were still in force on that date.

For the sake of simplicity, all the standards and interpretations mentioned above are referred to herein as the "IAS/IFRS".

The process of endorsing the IFRS by the European Commission and the work of official bodies to revise and interpret them is still in progress. These standards and their application might therefore not coincide with those in force as of 31st December 2007, due to the issue of new standards or interpretations by the competent bodies; accordingly, the following data, valuations and results might change on preparation of the full IAS/IFRS financial statements as of 31st December 2007.

General Principle

The company has applied the accounting standards in force for the year ended 31st December 2006 retrospectively to all the periods included in the first IFRS financial statements and to the opening balance sheet, except for the adoption of certain optional

exemptions allowed under IFRS 1, as described further below.
The opening balance sheet as of 1st January 2005 reflects the following differences in treatment compared with the balance sheet as of 31st December 2004 prepared under Italian accounting standards:

- all assets and liabilities recognized under International Accounting Standards, including those not recognized under Italian accounting standards, have been recorded and measured in accordance with International Accounting Standards;
- all assets and liabilities recognized under Italian accounting standards, but not under International Accounting Standards, have been eliminated;
- certain captions have been reclassified pursuant to International Accounting Standards.

The effects of these adjustments have been recognized as a direct adjustment of opening shareholders' equity.
The reclassifications and adjustments made to each financial statement caption are detailed in the tables presented further below.

Optional exemptions adopted by the Company
On first-time adoption, the Company elected to apply certain optional exemptions allowed under IFRS 1 when preparing the transition-date balance sheet.
The principal elections made related to:

- employee benefits: as allowed under IAS 19, the Company has decided to adopt the "corridor method" in relation to the actuarial gains and losses generated subsequent to 1st January 2005;
- valuation of tangible fixed assets and intangible fixed assets: on the transition to International Accounting Standards, tangible fixed assets and intangible fixed assets as of 1st January 2005 may be measured at their fair value, or revalued cost, rather than at their historical cost. The Company has elected to apply this exemption solely in relation to land and buildings, which are measured at their fair value rather than at their depreciated historical cost;

The effects of the above adjustments have been recognized directly in opening shareholders' equity. The reclassifications and adjustments made to each financial statement caption are detailed in the tables presented further below.

BALANCE SHEET SCHEDULES RECONCILING ITALIAN AND INTERNATIONAL ACCOUNTING STANDARDS:

BALANCE SHEET AS OF 1ST JANUARY 2005

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
ASSETS					
Intangible fixed assets					
Goodwill	2,763	-	-2,763	-	
Other intangible fixed assets	8,687	-3,558	-309	4,820	
Total intangible fixed assets	**11,450**	**-3,558**	**-3,072**	**4,820**	**A**
Tangible fixed assets					
Land and buildings	6,428	3,040	27,075	36,543	
Leasehold improvements	-	3,558	-	3,558	
Plant and machinery	1,537	-	-	1,537	
Equipment	2	-	-	2	
Other tangible fixed assets	3,806	-3,040	-	766	
Total tangible fixed assets	**11,773**	**3,558**	**27,075**	**42,406**	**B**
Other fixed assets					
Non-instrumental property investments					
Equity investments	86,330	-	-1,685	84,645	
Deferred tax assets	-	360	402	762	
Other long-term receivables	60,487	-6,129	-2,794	51,564	
Total other fixed assets	**146,817**	**-5,769**	**-4,077**	**136,971**	**C**
Total non-current assets	**170,040**	**-5,769**	**19,926**	**184,197**	
Non-current assets held for sale					
Assets held for sale					**D**
Current assets					
Inventories	19,326	-	-	19,326	
Trade receivables	27,852	-545	-313	26,994	
Other short-term receivables	14,917	-4,793	-	10,124	
Current tax assets	1,887	-	-	1,887	
Cash and cash balances	879	-	-	879	
Total current assets	**64,861**	**-5,338**	**-313**	**59,210**	**E**
Total assets	**234,901**	**-11,107**	**19,613**	**243,407**	

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	22,500	-	-	22,500	
Share premium	11,345	-	-	11,345	
IAS reserve	-	-	-552	-552	
Fair value reserve	-	-	2,930	2,930	
Other reserves	21,064	-	-	21,064	
Retained earnings (loss)	-	-	-	-	
Profit (loss) for the period	2,825	-	-	2,825	
Total shareholders' equity	**57,734**	**-**	**2,378**	**60,112**	**H**
Non-current liabilities					
Long-term financial liabilities	38,312	10,413	10,895	59,620	
Deferred tax liabilities	677	-	5,386	6,063	
Employee benefits	6,587	-	307	6,894	
Long-term reserves	2,262	-545	-439	1,278	
Other long-term liabilities	19,336	-19,336	-	-	
Total non-current liabilities	**67,174**	**-9,468**	**16,149**	**73,855**	**F**
Current liabilities					
Trade payables	43,429	-3,001	-	40,428	
Other current liabilities	56,668	6,527	1,086	64,281	
Current tax liabilities	1,142	-	-	1,142	
Current financial liabilities	8,754	-5,165	-	3,589	
Total current liabilities	**109,993**	**-1,639**	**1,086**	**109,440**	**G**
Total liabilities and shareholders' equity	**234,901**	**-11,107**	**19,613**	**243,407**	

BALANCE SHEET AS OF 31ST DECEMBER 2005

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
ASSETS					
Intangible fixed assets					
Goodwill	2,548	-	-2,548	-	
Other intangible fixed assets	8,043	-3,222	-110	4,711	
Total intangible fixed assets	**10,591**	**-3,222**	**-2,658**	**4,711**	A
Tangible fixed assets					
Land and buildings	6,210	2,351	26,964	35,525	
Leasehold improvements	-	3,222	-	3,222	
Plant and machinery	1,123	-	-	1,123	
Equipment	1	-	-	1	
Other tangible fixed assets	2,990	-2,351	-	639	
Total tangible fixed assets	**10,324**	**3,222**	**26,964**	**40,510**	B
Other fixed assets					
Non-instrumental property investments					
Equity investments	87,835	-	-1,685	86,150	
Deferred tax assets	-	545	402	947	
Other long-term receivables	56,717	-4,834	-2,442	49,441	
Total other fixed assets	**144,552**	**-4,289**	**-3,725**	**136,538**	C
Total non-current assets	**165,467**	**-4,289**	**20,581**	**181,759**	
Non-current assets held for sale					
Assets held for sale					D
Current assets					
Inventories	18,245	-	-	18,245	
Trade receivables	34,455	-545	-313	33,597	
Other short-term receivables	15,814	-4,610	-	11,204	
Current tax assets	2,313	-	-	2,313	
Cash and cash balances	1,196	-	-	1,196	
Total current assets	**72,023**	**-5,155**	**-313**	**66,555**	E
Total assets	**237,490**	**-9,444**	**20,268**	**248,314**	

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	22,500	-	-	22,500	
Share premium	11,345	-	-	11,345	
IAS reserve	-	-	-552	-552	
Fair value reserve	-	-	2,929	2,929	
Other reserves	23,890	-	-	23,890	
Retained earnings (loss)	-	-	-	-	
Profit (loss) for the period	1,950	-	1,134	3,084	
Total shareholders' equity	**59,685**	**-**	**3,511**	**63,196**	**H**
Non-current liabilities					
Long-term financial liabilities	52,055	3,118	9,755	64,928	
Deferred tax liabilities	732	-	6,055	6,787	
Employee benefits	7,063	-	268	7,331	
Long-term reserves	2,262	-545	-461	1,256	
Other long-term liabilities	10,393	-10,393	-	-	
Total non-current liabilities	**72,505**	**-7,820**	**15,617**	**80,302**	**F**
Current liabilities					
Trade payables	48,358	-2,987	-	45,371	
Other current liabilities	46,322	6,940	1,140	54,402	
Current tax liabilities	1,082	-	-	1,082	
Current financial liabilities	9,538	-5,577	-	3,961	
Total current liabilities	**105,300**	**-1,624**	**1,140**	**104,816**	**G**
Total liabilities and shareholders' equity	**237,490**	**-9,444**	**20,268**	**248,314**	

BALANCE SHEET AS OF 31ST DECEMBER 2006

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
ASSETS					
Intangible fixed assets					
Goodwill	2,333	-	-2,333	-	
Other intangible fixed assets	7,351	-2,856	62	4,557	
Total intangible fixed assets	**9,684**	**-2,856**	**-2,271**	**4,557**	**A**
Tangible fixed assets					
Land and buildings	5,940	2,593	32,329	40,862	
Leasehold improvements	-	2,856	-	2,856	
Plant and machinery	785	-	-	785	
Equipment	5	-	-	5	
Other tangible fixed assets	3,301	-2,593	-	708	
Total tangible fixed assets	**10,031**	**2,856**	**32,329**	**45,216**	**B**
Other fixed assets					
Non-instrumental property investments					
Equity investments	87,840	-	-1,685	86,155	
Tresury shares	18,400	-	-18,400	-	
Deferred tax assets	-	429	439	868	
Other long-term receivables	54,355	-3,540	-2,089	48,726	
Total other fixed assets	**160,595**	**-3,111**	**-21,735**	**135,749**	**C**
Total non-current assets	**180,310**	**-3,111**	**8,323**	**185,522**	
Non-current assets held for sale					
Assets held for sale					**D**
Current assets					
Inventories	21,349	-	-	21,349	
Trade receivables	34,537	-545	-300	33,692	
Other short-term receivables	16,972	-4,164	-	12,808	
Current tax assets	1,879	-	-	1,879	
Cash and cash balances	1,812	-	-	1,812	
Total current assets	**76,549**	**-4,709**	**-300**	**71,540**	**E**
TOTAL ASSETS	**256,859**	**-7,820**	**8,023**	**257,062**	

(Values in thousands of EUR)	ITALIAN GAAP ACCOUNTING STANDARD	RECLASSIFICATION	ADJUSTMENT	IFRS PRINCIPLES	NOTES
LIABILITIES AND SHAREHOLDERS' EQUITY					
Shareholders' equity					
Share capital	22,500	-	-	22,500	
Share premium	11,345	-	-	11,345	
IAS reserve	-	-	-552	-552	
Fair value reserve	-	-	7,306	7,306	
Partecipatory instruments reserve	12,400	-	-	12,400	
Tresury shares reserve	18,400	-	-18,400	-	
Other reserves	7,439	-	-	7,439	
Retained earnings (loss)	-	-	1,134	1,134	
Profit (loss) for the period	2,366	-	1,037	3,403	
Shareholders' equity	**74.450**		**-9,475**	**64,975**	**H**
Non-current liabilities					
Long-term financial liabilities	48,196	1,755	8,558	58,509	
Deferred tax liabilities	704	-	7,824	8,528	
Employee benefits	7,475	-	339	7,814	
Long-term reserves	2,260	-545	-420	1,295	
Other long-term liabilities	7,383	-7,383	-	-	
Total non-current liabilities	**66,018**	**-6,173**	**16,301**	**76,146**	**F**
Current liabilities					
Trade payables	58,494	-3,010	-	55,484	
Other current liabilities	50,792	1,363	1,197	53,352	
Current tax liabilities	2,602	-	-	2,602	
Current financial liabilities	4,503	-	-	4,503	
Total current liabilities	**116,391**	**-1,647**	**1,197**	**115,941**	**G**
Total liabilities and shareholders' equity	**256,859**	**-7,820**	**8,023**	**257,062**	

SHAREHOLDERS' EQUITY EFFECTS AS OF 31ST DECEMBER 2006

(*Values in thousands of EUR*)	Shareholders' equity	Profit or loss for the period
Aeffe S.p.A.	**74,450**	**2,366**
IFRS adjustments	**-9,475**	**1,037**
Of which:		
A) Goodwill	-2,333	215
B) Brands	62	171
C) Land and buildings	32,329	154
D) Deferred tax assets/liabilities	-7,385	-623
E) Treasury shares	-18,400	-
F) Ias 17	-11,844	1,218
G) Equity depreciation	-1,685	-
H) Other IFRS adjustments	-219	-98
Aeffe including IFRS adjustments	**64,975**	**3,403**

NOTES ON THE PRINCIPAL RECONCILING ITEMS BETWEEN ITALIAN ACCOUNTING STANDARDS AND IFRS

The following section describes the principal differences between Italian accounting standards and IFRS with an effect on Aeffe's financial statements.

A) Intangible fixed assets

The transactions affecting the "goodwill" caption are detailed below:

Goodwill		**1st January 2005**	
(*Values in thousands of EUR)*	**Reclassifications**	**Adjustments**	**Total**
Write-off of non capitalized ancillary costs	-	-2,763	-2,763
Total	**-**	**-2,763**	**-2,763**

Goodwill		**31st December 2005**	
(*Values in thousands of EUR)*	**Reclassifications**	**Adjustments**	**Total**
Write-off of non capitalized ancillary costs	-	-2,548	-2,548
Total	**-**	**-2,548**	**-2,548**

Goodwill		**31st December 2006**	
(*Values in thousands of EUR)*	**Reclassifications**	**Adjustments**	**Total**
Write-off of non capitalized ancillary costs	-	-2,333	-2,333
Total	**-**	**-2,333**	**-2,333**

Transactions affecting "other intangible fixed assets":

Other intangible fixed assets (Values in thousands of EUR)	Reclassifications	1st January 2005 Adjustments	Total
Recovery of depreciation on Alberta Ferretti brand	-	250	250
Write-off of non capitalized ancillary costs	-	-559	-559
Leasehold improvements	-3,558	-	-3,558
Total	**-3,558**	**-309**	**-3,867**

Other intangible fixed assets (Values in thousands of EUR)	Reclassifications	31st December 2005 Adjustments	Total
Recovery of depreciation on Alberta Ferretti brand	-	375	375
Write-off of non capitalized ancillary costs	-	-485	-485
Leasehold improvements	-3,222	-	-3,222
Total	**-3,222**	**-110**	**-3,332**

Other intangible fixed assets (Values in thousands of EUR)	Reclassifications	31st December 2006 Adjustments	Total
Recovery of depreciation on Alberta Ferretti brand	-	500	500
Write-off of non capitalized ancillary costs	-	-438	-438
Leasehold improvements	-2,856	-	-2,856
Total	**-2,856**	**62**	**-2,794**

Reclassifications:
Other intangible fixed assets also reflect reclassifications made in accordance with IAS 16, which requires independent and separately useful leasehold improvements to be reclassified to a specific caption within tangible fixed assets.

Adjustments:
The Company capitalised certain costs under Italian accounting standards that must be expensed as incurred under IFRS; in particular, start-up and expansion costs have been eliminated, net of the related accumulated amortization, as required by IAS 38.
The valuer deemed it fair to attribute a finite life of 40 years to the "trademarks" (brands), in view of their estimated useful lives and their key role in the strategy of the Company. In addition, the estimated useful life of 40 years is consistent with the type of intangibles found in the fashion industry and with the long-established practices of other firms in the sector (market comparables).

B) Tangible fixed assets

The following tables report the transactions that influenced the initial values determined for land and buildings:

Land and buildings (Values in thousands of EUR)	Reclassifications	1st January 2005 Adjustments	Total
Revaluation of San Giovanni in Marignano land	-	3,680	3,680
17 IAS application to Gatteo Mare land	-	7,154	7,154
Revaluation of Gatteo Mare land	-	2,591	2,591
Recovery of S. Giovanni in Marignano land depreciation	-	142	142
Reclassification from buildings	295	-	295
Total land	**295**	**13,567**	**13,862**
From other tangible fixed assets	3,040	-	3,040
Land reclassified	-295	-	-295
17 IAS application to Gatteo Mare building	-	9,296	9,296
Revaluation of Gatteo Mare building	-	3,365	3,365
Revaluation of San Giovanni in Marignano building	-	847	847
Totale fabbricati	**2,745**	**13,508**	**16,253**
Total	**3,040**	**27,075**	**30,115**

Land and buildings (Values in thousands of EUR)	Reclassifications	31st December 2005 Adjustments	Total
Revaluation of land	-	3,680	3,680
17 IAS application to Gatteo Mare land	-	6,925	6,925
Revaluation of Gatteo Mare land	-	2,591	2,591
Recovery of Gatteo Mare land depreciation	-	229	229
Recovery of S. Giovanni in Marignano land depreciation	-	151	151
Reclassification from buildings	361	-	361
Total land	**361**	**13,576**	**13,937**
From other tangible fixed assets	2,351	-	2,351
Land reclassified	-361	-	-361
17 IAS application to Gatteo Mare building	-	9,000	9,000
Revaluation of Gatteo Mare building	-	3,365	3,365
Recovery of Gatteo Mare building depreciation	-	21	21
Revaluation of San Giovanni in Marignano building	-	847	847
Recovery of S. Giovanni in Marignano land depreciation	-	155	155
Total buildings	**1,990**	**13,388**	**15,378**
Total	**2,351**	**26,964**	**29,315**

Land and buildings (Values in thousands of EUR)	Reclassifications	31st December 2006 Adjustments	Total
Revaluation of land	-	4,144	4,144
17 IAS application to Gatteo Mare buildings	-	6,697	6,697
Revaluation of Gatteo Mare land	-	2,955	2,955
Recovery of Gatteo Mare land depreciation	-	458	458
Recovery of S. Giovanni in Marignano land depreciation	-	151	151
Reclassification from buildings	361	-	361
Total land	**361**	**14,405**	**14,766**
From other tangible fixed assets	2,593	-	2,593
Land reclassified	-361	-	-361
17 IAS application to Gatteo Mare building	-	8,703	8,703
Revaluation of Gatteo Mare building	-	5,254	5,254
Recovery of Gatteo Mare building depreciation	-	42	42
Revaluation of San Giovanni in Marignano building	-	3,615	3,615
Recovery of S. Giovanni in Marignano land depreciation	-	310	310
Total buildings	**2,232**	**17,924**	**20,156**
Total	**2,593**	**32,329**	**34,922**

Land and buildings are recorded at the fair value determined by reference to an independent appraisal. This was carried out to identify the separate value of land previously included in the land and buildings caption and depreciated in accordance with IAS 16.

Reclassifications:

The land previously purchased together with buildings was recorded together with the value of such buildings and depreciated at the same rate. Land should not be depreciated since it has an unlimited useful life; accordingly, its separate value has been identified with reference to the most recently available appraisals, and the depreciation accumulated in relation to this amount has been eliminated.

As discussed in point A), IAS 16 requires independent and separately useful leasehold improvements to be reclassified to a specific caption within tangible fixed assets. Such assets have therefore been reclassified from intangible fixed assets.

Reclassifications have also been made from other tangible fixed assets to the buildings caption.

Adjustments:

Transactions relating to land and buildings have resulted in the most significant adjustments. The adjustments reflect the alignment with appraised values (determined by an independent valuer) of the land and buildings used by the Company, and the consequent redetermination of their residual useful lives. The additional value of land and buildings determined by the independent valuer takes account of the related tax effects.

The depreciation accumulated previously has also been written back in accordance with IAS 16, which states that land has an unlimited useful life and must not be depreciated.

C) Other non-current assets

Reclassifications:
Certain other non-current receivables have been offset by the Company against non-current payables of the same type relating to the advance billing of leasing charges.

Adjustments:
The equity investments caption has been adjusted for the equity depreciation of the two companies Divè S.A. and Ozbek London Ltd.
The adjustment of other non-current receivables relates to the application of IAS 17.
The adjustment of deferred tax assets reflects the net tax effect of the differences between Italian accounting standards and IFRS.
The adjustment of own shares relates to the application of IAS 32.

E) Current assets

Reclassifications:
The principal reclassification to trade receivables relates to the provision for commercial risks, which was previously classified among the provisions for risks and charges.
The principal reclassifications of a commercial nature to the other current receivables caption relate to the current portion of deferred leasing charges on the property used as the headquarters of Pollini; these deferrals relate to the advance billing of leasing charges, as discussed in point C).

Adjustments:
The adjustments to trade receivables mainly relate to the measurement of receivables at their present value. This is done when their collection is deferred with respect to the commercial terms normally allowed to other customers. The effect is determined by estimating the collection timescale and discounting the expected cash flows at a rate representative of the Company's average cost of money.

F) Non-current liabilities

Reclassifications:
The reclassifications to non-current financial liabilities as of 1st January 2005 mainly relate to the lease liability previously recorded among other non-current liabilities, and to the amount due to Alberta Ferretti for the purchase of the brand name, as well as the financial payable to Four Pollini, which was previously classified among other non-current payables. The same reclassifications have also been recorded as of 31st December 2005 and 2006 , except for the amount due to Four Pollini which was repaid during 2005.
The reduction of non-current provisions reflects the reclassification of a provision for commercial risks as a deduction from trade receivables.
Other non-current liabilities as of 1st January 2005 reflect the reclassification of the lease liability to non-current financial liabilities; in addition, this caption also reflects the offset against the lease liability of the leasing charges billed in advance, as described earlier in point C). The non-current portion of the amount due to Alberta Ferretti for the purchase of the brand name has been reclassified to non-current financial liabilities and the financial payable to Four Pollini has been reclassified to non-current financial liabilities. The same reclassifications have also been recorded as of 31st December 2005 and 2006, except for the amount due to Four Pollini which was repaid during 2005.

Adjustments:
The non-current financial liabilities caption has been adjusted to reflect application of IAS 17.
Deferred tax liabilities reflect the net tax effect of the differences between Italian accounting standards and IFRS.
On the adoption of International Accounting Standards, employee severance indemnities are considered to be a defined benefit obligation to be recorded pursuant to IAS 19 - Employee

Benefits, and therefore recalculated using the "projected unit credit method". The Company has decided to apply the "corridor method", whereby actuarial gains and losses determined using the above method are not recognized as income or expense if they do not exceed 10% of the present value of the defined benefit obligation.
The provisions caption has been adjusted to record the value of agents' termination indemnities identified following an independent appraisal. This provision reflects the estimated value of forecast indemnity payments determined, in part, with reference to historical experience. The estimated amount due on the termination of agency contracts has, in accordance with the new accounting standards, been measured at its present value using an appropriate discounting rate, as required by IAS 37.

Demographic and financial assumptions	YEAR 2004-05-06
Mortality	ISTAT 2000
Disability	Separate INPS tables by age and gender
Retirement age	Enasarco requirements reached
Redundancy	5.00%
Discount rate	3.00%

G) Current liabilities

Reclassifications:
Trade payables have been reduced by the reclassification of the current portion of the amount due to Alberta Ferretti for the purchase of the brand name to non-current financial liabilities, as well as by the reclassification of advances received and the current portion of the lease liability.
Other current liabilities were reduced as of 1st January 2005 on the reclassification of the financial payables due to Four Pollini as current financial liabilities. As of 31st December 2005 and 2006, this caption has been reduced following the reclassification of the current portion of the lease liability.
Current financial liabilities were increased as of 1st January 2005 on the proper classification within this caption of the current portion of the amount due to Alberta Ferretti for the purchase of the brand name, together with the financial payables due to Four Pollini and the current portion of the lease liability determined in accordance with IAS 17.. The same reclassifications have also been made as of 31st December 2005 and 2006, except for the amount due to Four Pollini which was repaid in 2005.

Adjustments:
The adjustment of current financial liabilities relates to the application of IAS 17.

H) Shareholders' equity

Shareholders' equity as of 1st January 2005 reflects the net effect, after taxation, of the adjustments made to the balance sheet prepared under Italian accounting standards on the first-time adoption of IFRS.
Shareholders' equity as of 31st December 2005 and 2006 reflects the net effect, after taxation, of the adjustments made to the balance sheet prepared under Italian accounting standards on the first-time adoption of IFRS and the IFRS adjustments made to the income statements for 2005 and 2006

Economic effects as of 31st December 2006

Reconciliation of the income statement prepared under Italian accounting standards and IAS/IFRS:

(Values in thousands of EUR)	2006 ITAA GAAP	Reclassifications	Adjustments	2006 IFRS		NOTES
A1) Revenue from sales and services	138,392	-2,942	-	135,450	Revenue from sales and services	(2) (1)
A2) Change in inventories work in progress, semi-finished and finished goods	2,203	-2,203	-	-		(1)
A5a) Investment grants	-	-	-	-		
A5b) Other	3,615	1,311	-	4,926	Other revenues and income	(3)
A) OUTPUT VALUE	**144,210**	**-3,834**		**140,376**	**A) TOTAL REVENUES**	
B6) Costs of raw materials, consumables and goods for resale	43,420	-890	-	42,530	Costs of raw materials, consumables and goods for resale	(1)
B7) Costs of services	47,027	-1,774	56	45,309	Costs of services	(2) (6)
B8) Costs for use of third parties assets	19,508	-	-2,000	17,508	Costi per godimento beni di terzi	(6)
B9) Labour costs	22,198	14	71	22,283	Labour costs	(4)(6)
B10a) Amortization of intangible fixed assets	1,076	-1,076	-	-		(5)
B10b) Depreciation of tangible fixed assets	954	-954	-	-		(5)
B10c) Other write-downs of fixed assets	-	-	-	-		
B10d) Write-downs of current receivables	-	-	-	-		
B11) Change in raw, materials, consumables and goods for resale	-890	-2,481	-	-3,371	Change in inventories	(1)
B13) Other provisions	41	-41	-	-		
B14) Other operating expenses	749	890	27	1,666	Other operating expenses	(4) (6)
B) OUTPUT COSTS	**134,083**	**-6,312**	**-1,846**	**125,925**	**B) TOTAL OPERATING COST**	
A)-B) DIFFERENCE BETWEEN OUTPUT VALUE AND OUTPUT COSTS	**10,127**	**2,478**	**1,846**	**14,451**	**C) EBITDA (*) (A - B)**	
	-	1,401	120	1,521	Depreciation of tangible fixed assets	(5) (7) (8)
	-	629	-442	187	Amortization of intangible fixed assets	(5) (7) (8)
	-	-	-	-	Write-downs /revaluations of fixed assets	
	-	2,030	-322	1,708	D) DEPRECIATION AND AMORTIZATION	

(Values in thousands of EUR)	2006 ITAA GAAP	Reclassifications	Adjustments	2006 IFRS		NOTES
	-	448	2,168	12,743	E) EBIT (C - D)	
Financial income	1,655	-1,312	-	343	Financial income	(3) (10)
Financial expenses	-5,968	614	-508	-5,862	Financial expenses	(3) (10)
C) FINANCIAL INCOME AND EXPENSES	**-4,313**	**-698**	**-508**	**-5,519**	**F) TOTAL FINANCIAL INCOME AND EXPENSES**	
D) VALUE ADJUSTMENTS TO FIXED ASSETS	**-**	**-**	**-**	**-**		
E20) Extraordinary income	-	-	-	-		
E21) Extraordinary expenses	-250	250	-	-		(4)
E) EXTRAORDINARY INCOME AND EXPENSES	**-250**	**250**	**-**	**-**		
PROFIT BEFORE TAXES	**5,564**	**-**	**1,660**	**7,224**	**H) PROFIT BEFORE TAXES (E + F + G)**	
TAXES	**-3,198**	**-**	**-623**	**-3,821**	**I) TAXES**	**(11)**
NET PROFIT	**2,366**	**-**	**1,037**	**3,403**	**L) NET PROFIT (H - I)**	

(*) GM represents the operating profit before provisions and depreciation. GM as defined above is a parameter used by the Company to monitor and assess its operating performance; it is not an accounting measure in the context of Italian accounting standards or IFRS and, as such, must not be used as an alternative parameter for evaluating the performance of the Group. Since the composition of the GM is not governed by the reference accounting standards, the criteria applied by the Company to determine its value might not be consistent with those adopted by others and, accordingly, the amounts concerned might not be comparable.

The first-time adoption of IFRS as of 31st December 2006 has resulted in changes that benefited profit before taxation by 1,660 thousand, which has therefore increased from EUR 5,564 thousand to EUR 7,224 thousand.
The positive impact of this transition on GM was EUR 1,846 thousand.
The effect of the first-time adoption of IFRS on revenues is indicated below.

Reclassifications:

(1) from the change in inventories of finished products, EUR 2,203 thousand, to the change in inventories of raw, ancillary and consumable materials classified as part of operating costs, EUR 3,371 thousand, and to revenues from sales and services, EUR 1,168 thousand with opposite sign;

(2) to revenues from sales and services from the cost of services, EUR 1,774 thousand, in order to improve the classification of certain items;

(3) net exchange-rate differences of EUR 698 thousand reclassified from financial income/expense to revenues and, if relating to the purchase of materials, to the costs of purchasing raw materials and finished products;

The effect of the first-time adoption of IFRS on operating costs is indicated below.

Reclassifications:

(4) the principal reclassifications of the income statement relate to this area since, in addition to those indicated in point A) above, they include the reclassification of non-operating expenses totalling EUR 250 thousand to other operating expenses, EUR 236 thousand, and to labour costs, EUR 14 thousand;

(5) slastly, non-monetary costs represented by the amortization of intangible fixed assets and the depreciation of tangible fixed assets, amounting to EUR 1,076 thousand and EUR 954 thousand respectively, were moved outside of the GM calculation.

Adjustments:

(6) adjustments totalled EUR 1,846 thousand, gross of the related tax effect, deriving from:
- application of IAS 17 with a positive effect of EUR 2,000 thousand;
- application of IAS 19 relating to employee benefits with an adverse effect of EUR 71 thousand;
- application of IAS 38 with an adverse effect of EUR 56 thousand;
- application of IAS 37 with an adverse effect of EUR 27 thousand.

The effect of the first-time adoption of IFRS on depreciation and the write-down/write-back of fixed assets is indicated below.

Reclassifications:

(7) EUR 447 thousand reclassified from the amortization of intangible fixed assets to the depreciation of tangible fixed assets following the reclassification of leasehold improvements as a separate caption within tangible fixed assets.

Adjustments:

(8) the depreciation of tangible fixed assets was adjusted by EUR 120 thousand, gross of the related tax effect. Of this, EUR 273 thousand relates to the net effect of eliminating the depreciation charged on land and buildings under Italian accounting standards, but not recognized under IFRS, EUR 119 thousand relates to the new depreciation charged on buildings restated to their appraised values, and EUR 275 thousand relates to the depreciation recognized in accordance with IAS 17;

(9) the amortization of intangible fixed assets was adjusted by a total of EUR 442 thousand, gross of the related tax effect, due to:
- elimination of the amortization charged on goodwill with an indefinite useful life, EUR 215 thousand;
- elimination of the amortization of intangible fixed assets that must be expensed as incurred under IAS 38, EUR 81 thousand;
- the effect on brand names of EUR 146 thousand deriving from the elimination of amortization accumulated in relation to the Alberta Ferretti brands, amortized under Italian accounting standards over 20 years, and the recognition of the new amortization based on their new residual useful lives determined with reference to an independent appraisal.

The above first-time adoption adjustments mainly affected net operating profit.

FINANCIAL INCOME AND EXPENSE

Reclassifications:
The reclassifications are discussed in point (3).

Adjustments:
(10) adverse adjustments to financial charges amounted to EUR 508 thousand, gross of the related tax effect, due to the application of IAS 17.

Taxes
(11) The increases reflect the tax effect of the adjustments described above.