CONSOLIDATED AND STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2010

Disclaimer

The consolidated and statutory financial statements at 31 December 2010 have been translated into English solely for the convenience of the International reader. In the event of conflict or inconsistency between the terms used in the Italian Version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the

CHAIRMAN'S LETTER

The luxury market has "survived" the worst crisis of all time and currently appears to be in good shape. The major brands are stronger, while others have been forced out of the market (especially in the most affected areas, such as Japan). Consumers have become more sophisticated, less loyal to brands and distribution channels, and more attentive to quality, style and value. Direct retail, via mono-brand stores, has become the most incisive way to reach the end consumer, while on-line channels are enjoying ever greater success. The reference markets are no longer the United States and Japan, but China and the other emerging countries. This means that our sector is once again faced with a challenge, since heightened complexity requires excellence in all drivers of the value chain.

Against this background, we are highly satisfied with the results achieved in 2010, which saw the steady acceleration of sales and a more than proportional increase in profitability. In particular, operating income in 2010 was 16.5 million euro greater than in 2009, confirming the validity and effectiveness of the cost-containment programs that have improved efficiency throughout the Group.

The rationalization of business processes, the 12% growth achieved by the Spring/Summer 2011 collections, the healthy state of orders for the Fall/Winter 2011/2012 collections, and the progress made by the retail channel in early 2011, all provide the Group with a firm foundation for the development of the business over the year. This will be reflected in both sales growth and a more than proportionate rise in margins.

The Chairman of the Board of Directors

Massimo Ferretti

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Board of directors and statutory auditors of the Parent Company

Board of Directors

Chairman
Massimo Ferretti

Deputy Chairman
Alberta Ferretti

Chief Executive Officer
Simone Badioli

Directors
Marcello Tassinari – Managing Director
Umberto Paolucci
Roberto Lugano
Pierfrancesco Giustiniani

Board of Statutory

President
Fernando Ciotti

Statutory Auditors
Bruno Piccioni
Romano Del Bianco

Alternate Auditors
Andrea Moretti
Pierfrancesco Gamberini

Board of Compensation Committee

President
Umberto Paolucci

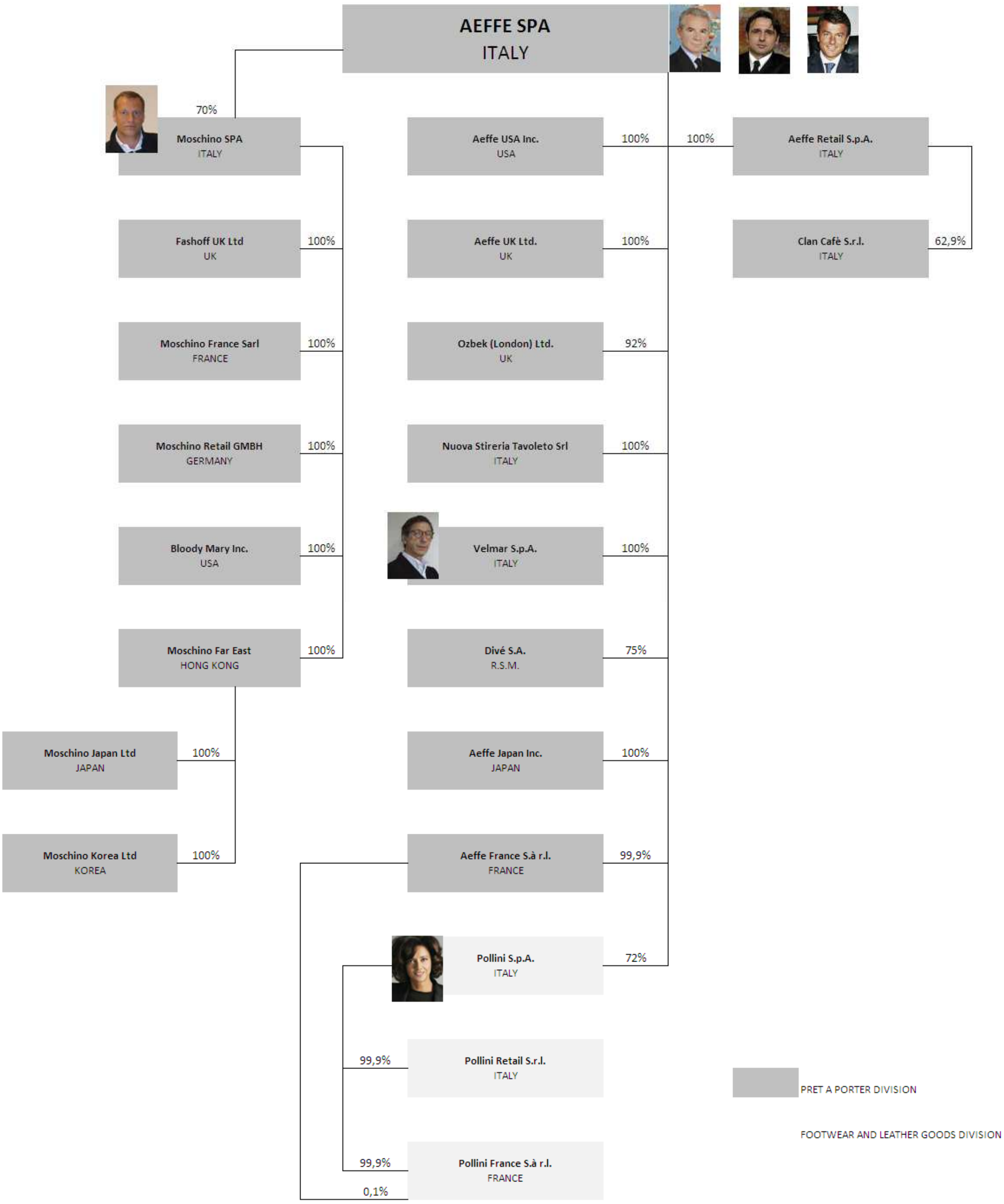
Members
Pierfrancesco Giustiniani
Roberto Lugano

Board of Internal Control Committee

President
Roberto Lugano

Members
Pierfrancesco Giustiniani
Umberto Paolucci

Organisation chart



Brands portfolio

Aeffe
Clothing - Accessories

ALBERTA FERRETTI
PHILOSOPHY DI ALBERTA FERRETTI
MOSCHINO
MOSCHINO CHEAPANDCHIC
Jean Paul GAULTIER
cacharel

Pollini Footwear – Leather goods	Moschino Licences – Design	Velmar Beachwear - Lingerie
POLLINI STUDIO POLLINI	MOSCHINO	MOSCHINO
MOSCHINO MOSCHINO CHEAPANDCHIC	MOSCHINO CHEAPANDCHIC	blugirl beachwear blugirl underwear
LOVE MOSCHINO	LOVE MOSCHINO	get lost

Headquarters

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

MOSCHINO
Via San Gregorio, 28
20124 - Milan
Italy

POLLINI
Via Erbosa I° tratto, 92
Gatteo (FC)
47030 - Italy

VELMAR
Via Degli Ippocastani, 329
San Giovanni in Marignano (RN)
47842 - Italy

Showrooms

MILAN
(FERRETTI – GAULTIER – CACHAREL – POLLINI)
Via Donizetti, 48
20122 - Milan
Italy

LONDON
(FERRETTI)
205-206 Sloane Street
SW1X9QX - London
UK

PARIS
(GRUPPO)
6, Rue Caffarelli
75003 - Paris
France

TOKYO
(GRUPPO)
Lexington Bldg. 4F
5-11-9, Minami Aoyama Minato-ku
107-0062 - Tokyo
Japan

MILAN
(MOSCHINO)
Via San Gregorio, 28
20124 - Milan
Italy

LONDON
(MOSCHINO)
28-29 Conduit Street
W1R 9TA - London
UK

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

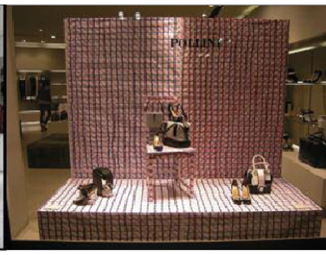
Main flagshipstore locations under direct management

ALBERTA FERRETTI
Milan
Rome
Capri
Paris
London
New York
Los Angeles
Osaka
Tokyo
Nagoya
Kobe City

POLLINI
Milan
Rome
Florence
Venice
Bolzano
Varese
Verona

SPAZIO A
Florence
Venice

MOSCHINO
Milan
Rome
Capri
Paris
London
Berlin
New York
Osaka
Tokyo
Nagoya
Kobe City
Seoul
Pusan
Daegu



Main economic-financial data

		Full Year 2009	Full Year 2010
Total revenues	(Values in millions of EUR)	222.9	225.1
Gross operating margin (EBITDA)	(Values in millions of EUR)	-13.0	3.5
Net operating profit (EBIT)	(Values in millions of EUR)	-27.1	-13.1
Profit before taxes	(Values in millions of EUR)	-30.8	-14.6
Net profit for the Group	(Values in millions of EUR)	-20.1	-12.5
Basic earnings per share	(Values in units of EUR)	-0.197	-0.123
Cash Flow (net profit + depreciation)	(Values in millions of EUR)	-10.5	-0.5
Cash Flow/Total revenues	(Values in percentage)	-4.7	-0.2

		31 December 2009	31 December 2010
Net capital invested	(Values in millions of EUR)	258.2	251.1
Net financial indebtedness	(Values in millions of EUR)	87.7	95.5
Group net equity	(Values in millions of EUR)	143.2	129.8
Group net equity per share	(Values in units of EUR)	1.3	1.2
Current assets/ current liabilities	(Ratio)	2.1	2.1
Current assets less invent./ current liabilities (ACID test)	(Ratio)	1.0	0.9
Net financial indebtedness/ Net equity	(Ratio)	0.5	0.6
ROI: Net operating profit/ Net capital invested	(Values in percentage)	-10.5	-5.2

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2010

AEFFE

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which our Group has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

As announced at the end of 2009, 2010 was the year of recovery. A recovery experienced at two speeds, however. Growth continues to flag in the advanced economies, with unemployment and repeated signs of financial stress on the margins of the Euro area as ongoing risk factors. Activities in the emerging economies, on the other hand, are expanding, despite the emergence of inflationary pressures and the first signs of overheating. The developing countries have also returned to growth at a sustained pace.

World growth is expected to have been about 5% in 2010, compared with the 0.6% contraction in global GDP experienced in 2009.

As mentioned, the emerging countries were the locomotive of world growth, with China and India expanding at expected rates of 10.5% and 9.7% respectively in 2010. Such expansion is increasingly attributable to domestic demand, which has become one of the primary drivers of growth. Brazil is the surprise entry at third place in this classification of countries with the fastest growth. GDP there is thought to have risen by 7.5% due, above all, to its exports of raw materials, but also to robust domestic demand. By contrast, the growth rate in Russia was about 3.7%, partly because the crisis there was very strong (GDP contracted by 7.9% in 2009), resulting in a slower recovery.

Turning to the advanced economies, the fastest growth was achieved by Japan, with an expected 4.3% rise in GDP during 2010, due to policies that stimulated domestic demand and new fiscal measures. The economy of the United States expanded by 2.8%, here too due to the stimulation of domestic demand. Lastly, the Euro area economies achieved the slowest growth overall, about 1.8%, with clear differences between the various countries (Germany + 3.6%, France +1.6%, Italy +1%, Spain -0.2%). Once again, fiscal policies and the stimulation of domestic demand underpinned growth, which however was affected by the financial tensions experienced on the periphery of the area (Greece, Portugal, Ireland).

Expectations for 2011 remain positive, with world GDP forecast to rise by 4.5% due to the performance of the emerging countries, likely to contribute lively growth of around 6.5% overall, and of certain developing areas.

The situation is a little different in the advanced economies, where growth might falter due to possible financial tensions in the Euro area, the absence of efficient fiscal policies over the medium term, the weakness of the real estate market and the rise in raw material prices, caused by ever higher demand from the emerging economies. Political action to reduce the vulnerability of systems and strengthen growth in the coming years will be decisive.

With regard to the Italian economy, a modest upturn in growth is expected for 2010, with a rise in GDP of 1% following the 5% drop experienced in 2009. Italy, too, is faced with uncertainties about the recovery. These are linked to the scale of demand, the unemployment rate and the tensions in Europe's financial markets, where Italy has occasionally been the target of speculation. GDP is again forecast to rise by about 1% in 2011. This is less than that expected from the bigger players in the world economy, consistent - it must be said - with the situation in the years prior to the crisis.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

Finally, with particular reference to fashion and the so-called "luxury goods" sector, the estimates for 2010 presented by Bain & Company at the Altagamma conference indicate an 8% rise in global sales, compared with a worldwide contraction of 8% in 2009. This inversion of the trend was due to the radical restructuring undertaken by the sector, and by the larger firms in particular, in response to the consequences of the economic crisis. The recovery was led by the mono-brand retail and on-line stores, rather than by the wholesale, multi-brand channel. Further growth is expected in 2011, albeit at a more modest rate of between 3% and 5%. The real challenge will be to approach the new decade with strategies capable of delivering results in line with those achieved over the past ten years.

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 "Cacharel". 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, sunglasses and other).

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 "Love Moschino") and brands licensed from other companies (such as "Jean Paul Gaultier", "Blugirl" and "Cacharel"). 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, such as "Moschino", and under third-party licensed brands such as "Blugirl" and "Get Lost".

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 line, "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" 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 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.

In 2008 Aeffe signs a licence agreement with Elizabeth Arden for the development, marketing and distribution of the "Alberta Ferretti" fragrance. Always in 2008 Aeffe signs a master franchising agreement with SE International for the distribution of "Alberta Ferretti" and "Philosophy di Alberta Ferretti" brands in Korea.

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 four single-brand Moschino stores, two in Milan one in Rome 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". Always in 2007, Moschino signs a licence agreement with Max Safety Fashion for the production of helmets branded "Moschino".

In 2008 Moschino signs a licence agreement with Altana Spa, for the creation, development and world distribution of the "Moschino" boys' and girls' collections.

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 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.

In 2010, Velmar acquires the license for the production and distribution of the women clothing lines branded "Get lost".

In 2010, Aeffe acquires the remaining 25% of Velmar's share capital.

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 two single-brand stores; one in Soho, New York and the other in West Hollywood Los Angeles.

Aeffe Retail

Aeffe Retail operates in the retail segment of the Italian market and directly manages 10 stores, both single-brand and 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.

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.

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.

Aeffe Japan

Aeffe Japan is 100% owned by Aeffe S.p.A. and is based in Tokyo. The company operates both in the wholesale and in the retail segment distributing items of clothing and accessories of the collections branded "Alberta Ferretti" and "Philosophy di Alberta Ferretti" through its showroom based in Tokyo and its flagship stores under direct management placed in the most important cities.

Moschino Far East

Moschino Far East is 100% owned by Moschino Spa and is based in Hong Kong. The company is the holding company of Moschino Japan and Moschino Korea.

Moschino Japan

Moschino Japan is 100% owned by Moschino Far East and is based in Tokyo. The company operates both in the wholesale and in the retail segment distributing items of clothing and accessories of the Moschino-branded collections through its showroom based in Tokyo and its flagship stores under direct management placed in the most important cities.

Moschino Korea

Moschino Korea is 100% owned by Moschino Far East and is based in Seoul. The company exclusively operates in the retail segment through flagship stores under direct management which sell Moschino-branded collections.

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 Moschino store in Berlin.

Bloody Mary

Bloody Mary directly manages a single-brand store Moschino store in New York.

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"" products such as umbrellas, scarves and ties.

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, Verona, Bolzano, 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 2008, the stylist Nicholas Kirkwood was appointed as design director of the Pollini accessory collections and bag collections.

Always in 2008, Pollini entered into new license agreements with Drops Srl, for the manufacturing of umbrellas, as well as Larioseta Spa, for the manufacturing and distribution of neckwear, including women's shawls, women's and men's scarves and ties.

In 2010, the stylist Nicholas Kirkwood was appointed as creative director of the "Pollini" brand.

Pollini Retail

Pollini Retail is active in the retail segment of the Italian market and directly manages 20 stores in major Italian cities such as Milan, Rome, Venice and Florence.

3. TREND OF THE GROUP MANAGEMENT

CONSOLIDATED INCOME STATEMENT

(Values in units of EUR)	Full Year 2010	% on revenues	Full Year 2009	% on revenues	Change	%
REVENUES FROM SALES AND SERVICES	**219,239,971**	**100.0%**	**217,038,684**	**100.0%**	**2,201,287**	**1.0%**
Other revenues and income	5,853,981	2.7%	5,856,492	2.7%	-2,511	0.0%
TOTAL REVENUES	**225,093,952**	**102.7%**	**222,895,176**	**102.7%**	**2,198,776**	**1.0%**
Changes in inventory	2,129,664	1.0%	-4,444,459	-2.0%	6,574,123	-147.9%
Costs of raw materials, cons. and goods for resale	-65,366,354	-29.8%	-65,159,013	-30.0%	-207,341	0.3%
Costs of services	-70,528,666	-32.2%	-79,476,770	-36.6%	8,948,104	-11.3%
Costs for use of third parties assets	-22,505,692	-10.3%	-19,232,337	-8.9%	-3,273,355	17.0%
Labour costs	-61,007,720	-27.8%	-63,065,494	-29.1%	2,057,774	-3.3%
Other operating expenses	-4,276,521	-2.0%	-4,473,299	-2.1%	196,778	-4.4%
Total Operating Costs	-221,555,289	-101.1%	-235,851,372	-108.7%	14,296,083	-6.1%
GROSS OPERATING MARGIN (EBITDA)	**3,538,663**	**1.6%**	**-12,956,196**	**-6.0%**	**16,494,859**	**-127.3%**
Amortisation of intangible fixed assets	-7,775,492	-3.5%	-6,451,667	-3.0%	-1,323,825	20.5%
Depreciation of tangible fixed assets	-6,006,009	-2.7%	-6,821,796	-3.1%	815,787	-12.0%
Revaluations/(write-downs) and provisions	-2,881,264	-1.3%	-901,843	-0.4%	-1,979,421	219.5%
Total Amortisation, write-downs and provisions	-16,662,765	-7.6%	-14,175,306	-6.5%	-2,487,459	17.5%
NET OPERATING PROFIT / LOSS (EBIT)	**-13,124,102**	**-6.0%**	**-27,131,502**	**-12.5%**	**14,007,400**	**-51.6%**
Financial income	2,439,496	1.1%	295,476	0.1%	2,144,020	725.6%
Financial expenses	-3,921,136	-1.8%	-4,000,442	-1.8%	79,306	-2.0%
Total Financial Income / (expenses)	-1,481,640	-0.7%	-3,704,966	-1.7%	2,223,326	-60.0%
PROFIT / LOSS BEFORE TAXES	**-14,605,742**	**-6.7%**	**-30,836,468**	**-14.2%**	**16,230,726**	**-52.6%**
Current income taxes	-2,795,651	-1.3%	-2,693,983	-1.2%	-101,668	3.8%
Deferred income / (expenses) taxes	3,145,987	1.4%	9,753,216	4.5%	-6,607,229	-67.7%
Total Income Taxes	350,336	0.2%	7,059,233	3.3%	-6,708,897	-95.0%
NET PROFIT / LOSS	**-14,255,406**	**-6.5%**	**-23,777,235**	**-11.0%**	**9,521,829**	**-40.0%**
(Profit) / loss attributable to minority shareholders	1,748,789	0.8%	3,689,092	1.7%	-1,940,303	-52.6%
NET PROFIT / LOSS FOR THE GROUP	**-12,506,617**	**-5.7%**	**-20,088,143**	**-9.3%**	**7,581,526**	**-37.7%**

Sales

In 2010 consolidated revenues amount to EUR 219,240 thousand compared to EUR 217,039 thousand of the year 2009, showing an increase of +1.0% (-0.6% at constant exchange rates).

Revenues of the prêt-à-porter division amount to EUR 180,767 thousand, +1.5% at current exchange rates and -0.5% at constant exchange rates compared to 2009, while revenues of the footwear and leather goods division are mainly constant and amount to EUR 50,292 thousand.

Sales by brand

(Values in thousands of EUR)	Full Year 2010	%	Full Year 2009	%	Change Δ	%
Alberta Ferretti	46,698	21.3%	47,247	21.8%	-549	-1.2%
Moschino	125,441	57.2%	115,886	53.4%	9,555	8.2%
Pollini	28,047	12.8%	31,723	14.6%	-3,676	-11.6%
J.P.Gaultier	11,330	5.2%	13,441	6.2%	-2,111	-15.7%
Other	7,724	3.5%	8,742	4.0%	-1,018	-11.6%
Total	**219,240**	**100.0%**	**217,039**	**100.0%**	**2,201**	**1.0%**

In 2010, the Alberta Ferretti brand decreases by 1.2% (-2.9% at constant exchange rates), contributing to 21.3% of consolidated sales. In the same period Moschino brand increases by 8.2% (+6.1% at constant exchange rates), contributing to 57.2% of consolidated sales.

Pollini brand records a contraction of 11.6% (-11.6% at constant exchange rates), generating 12.8% of consolidated sales, while the brand under license JP Gaultier decreases by 15.7% (-16.5% at constant exchange rates), equal to 5.2% of consolidated sales.

Sales from other minority brands show a reduction of 11.6% (-12.0% at constant exchange rates), contributing to 3.5% of consolidated sales.

Sales by geographical area

(Values in thousands of EUR)	Full Year 2010	%	Full Year 2009	%	Change Δ	%
Italy	93,123	42.5%	89,692	41.3%	3,431	3.8%
Europe (Italy and Russia excluded)	46,726	21.3%	48,493	22.3%	-1,767	-3.6%
Russia	13,473	6.1%	14,394	6.6%	-921	-6.4%
United States	19,443	8.9%	17,832	8.3%	1,611	9.0%
Japan	19,283	8.8%	15,226	7.0%	4,057	26.6%
Rest of the World	27,192	12.4%	31,402	14.5%	-4,210	-13.4%
Total	**219,240**	**100.0%**	**217,039**	**100.0%**	**2,201**	**1.0%**

In 2010, sales in Italy increase by 3.8% to EUR 93,123 thousand, contributing to 42.5% of consolidated sales.

Sales in Europe decrease by 3.6% (-4.1% at constant exchange rates), contributing to 21.3% of consolidated sales. The Russian market decreaseS by 6.4% (-6.4% at constant exchange rates), contributing to 6.1% of consolidated sales. Sales in the United States increase by 9.0% (+4.5% at constant exchange rates), contributing to 8.9% of consolidated sales, while Japan sales increase by 26.6% (+12.7% at constant exchange rates), contributing to 8.8% of consolidated sales. In the Rest of the World, sales decrease by 13.4% (-14.4% at constant exchange rates) to EUR 27,192 thousand, contributing to 12.4% of consolidated sales.

Sales by distribution channel

(Values in thousands of EUR)	Full Year 2010	%	Full Year 2009	%	Change Δ	%
Wholesale	134,968	61.6%	142,582	65.7%	-7,614	-5.3%
Retail	70,272	32.1%	59,690	27.5%	10,582	17.7%
Royalties	14,000	6.3%	14,767	6.8%	-767	-5.2%
Total	**219,240**	**100.0%**	**217,039**	**100.0%**	**2,201**	**1.0%**

The revenues generated by the Group during 2010 are analysed below:

- 61.6% from the Group's sales organisation, showrooms, agents and importers, franchise outlets, corners and shop-in-shops (wholesale channel), which contributes EUR 142,582 thousand in 2009 and EUR 134,968 thousand in 2010, down 5.3% (-6.1% at constant exchange rates).
- 32.1% from sales outlets managed directly by the Group (retail channel), which contributes EUR 59,690 thousand in 2009 and EUR 70,272 thousand in 2010, +17.7% (+13.8% at constant exchange rates).
- 6.3% from royalties deriving from licenses granted to third parties for the production and distribution of product lines sold under the Group's brand names. Royalties decrease from EUR 14,767 thousand in 2009 to EUR 14,000 thousand in 2010, down 5.2%.

Sales by own brands and under licensed brands

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2010	%	2009	%	Δ	%
Own brands	200,251	91.3%	194,976	89.8%	5,275	2.7%
Brands under license	18,989	8.7%	22,063	10.2%	-3,074	-13.9%
Total	**219,240**	**100.0%**	**217,039**	**100.0%**	**2,201**	**1.0%**

Revenues generated by own brands increase in absolute value of EUR 5,275 (+2.7% compared with the previous year), with an incidence on total revenues which increases from 89.8% in 2009 to 91.3% in 2010. Revenues generated by brands under license decrease by 13.9%.

Labour costs

Labour costs decreases from EUR 63,065 thousand in 2009 to EUR 61,008 thousand in 2010 with an incidence on revenues which changes from 29.1% in 2009 to 27.8% in 2010. The reduction of labour costs is due to the activation in 2010 of the Extraordinary Profit Redundancy Fund, to the activation in the same period of the Contract of Solidarity and to the sale of some companies operating in the Asian market following the termination of the joint venture with the company Bluebell. Such decrease has been partially compensated by the opening of new directly operated stores during the year 2010 and to the presence at full capacity of the subsidiary Aeffe Japan (operative from half 2009) for the entire year 2010.

The workforce increases from an average of 1,514 units in 2009 to 1,465 units in 2010.

Average number of employees by category	Full Year	Full Year	Change	
	2010	2009	Δ	%
Workers	421	448	-27	-6%
Office staff-supervisors	1,017	1,037	-20	-2%
Executive and senior managers	27	29	-2	-7%
Total	**1,465**	**1,514**	**-49**	**-3%**

Gross Operating Margin (EBITDA)

In 2010 consolidated EBITDA is positive for EUR 3,539 thousand (with an incidence of 1.6% of consolidated sales), showing a significant improvement compared to a negative EBITDA of EUR 12,956 thousand in 2009.

Profitability is positively influenced by the lower incidence of the operating costs thanks to the policy of costs' reduction and efficiency improvement implemented at Group level.

The strong improvement in EBITDA involves both divisions. EBITDA of the *prêt-à-porter* division amounts to EUR 6,506 thousand (representing 3.6% of sales), compared to a negative EBITDA of EUR 6,407 thousand in 2009, showing a strong recovery in profitability in the second, third and fourth quarter 2010 compared to the correspondent periods of 2009.

EBITDA of the footwear and leather goods division is negative for EUR 2,967 thousand, compared to a negative EBITDA of EUR 6,549 thousand in 2009.

Net operating result (EBIT)

Consolidated EBIT is negative for EUR 13,124 thousand compared to EUR 27,132 thousand negative of 2009.

Result before taxes

Thanks to the improvement in net operating result, in 2010 the Group shows a strong growth also in the result before taxes, posting a loss of EUR 14,606 thousand compared to a loss of EUR 30,836 thousand in 2009, with an improvement in absolute value of EUR 16,230 thousand.

Net result for the Group

Consolidated net result for the Group increases in absolute value of EUR 7,581 thousand from EUR -20,088 thousand in 2009 to EUR -12,507 thousand in 2010.

CONSOLIDATED BALANCE SHEET

(Values in units of EUR)	31 December 2010	31 December 2009
Trade receivables	27,487,606	26,868,686
Stock and inventories	73,086,479	69,482,860
Trade payables	-47,643,680	-42,133,025
Operating net working capital	**52,930,405**	**54,218,521**
Other short term receivables	26,973,677	25,345,033
Tax receivables	5,118,017	6,284,474
Other short term liabilities	-13,668,204	-14,646,542
Tax payables	-2,892,460	-3,376,900
Net working capital	**68,461,435**	**67,824,586**
Tangible fixed assets	75,619,540	76,586,538
Intangible fixed assets	154,173,121	157,008,475
Equity investments	28,840	27,840
Other fixed assets	2,988,617	2,812,254
Fixed assets	**232,810,118**	**236,435,107**
Post employment benefits	-9,204,059	-9,784,848
Provisions	-1,414,943	-1,247,299
Assets available for sale	793,885	9,257,006
Liabilities available for sale	-	-1,853,574
Long term not financial liabilities	-14,241,401	-14,241,401
Deferred tax assets	15,026,668	14,544,857
Deferred tax liabilities	-41,161,918	-42,773,359
NET CAPITAL INVESTED	**251,069,785**	**258,161,075**
Share capital	25,371,407	25,371,407
Other reserves	119,294,593	125,160,336
Profits / (Losses) carried-forward	-2,341,726	12,749,353
Profits / (Loss) for the period	-12,506,617	-20,088,143
Group interest in shareholders' equity	**129,817,657**	**143,192,953**
Minority interests in shareholders' equity	25,726,864	27,301,285
Total shareholders' equity	**155,544,521**	**170,494,238**
Cash	-4,512,265	-5,336,905
Long term financial liabilities	13,211,420	18,159,414
Short term financial liabilities	86,826,109	74,844,328
NET FINANCIAL POSITION	**95,525,264**	**87,666,837**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**251,069,785**	**258,161,075**

NET INVESTED CAPITAL

Net invested capital decreases by 2.7% compared with 31 December 2009.

Net working capital

Net working capital amounts to EUR 68,461 thousand (31.2% on sales) compared with EUR 67,825 thousand at 31 December 2009 (31.2% on sales).

Changes in the main items included in the net working capital are described below:

- the sum of trade receivables, inventories and trade payables decreases in all by 2.4% (EUR -1,288 thousand), such decrease is mainly related to the increase of trade receivable which has more than compensated the increase in inventories.
- the increase of EUR 1,629 thousand in other receivables is mainly referred to the increase of credits versus social security agency for the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity. Such effect has been only partially compensated by the inflection of credits for prepaid costs. These credits relate to the costs incurred to design and make samples for the Spring/Summer 2011 and Autumn/Winter 2011 collections for which the corresponding revenues from sales have not been realised yet.
- tax receivables decrease of EUR 1,166 thousand. Such decrease is mainly due to the decrease of VAT receivables as a consequence of the supplying fall which are mostly made in Italy.
- the decrease of the other short term liabilities, totaling EUR 979 thousand, refers mainly to the drop in liabilities versus social security agency (about EUR 263 thousand) tied to the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity and to the decrease of liabilities versus customers (about EUR 393 thousand) for fewer advances.

Fixed assets

At 31 December 2010, fixed assets decrease by EUR 3,625 thousand compared to 31 December 2009.

Changes in the main items are described below:

- the decrease in tangible fixed assets of EUR 967 thousand is determined by the depreciation of the period (equal to EUR 6,006 thousand) only partially compensated by new investments. Investments are mainly related to leasehold improvements and to furniture and fittings for the opening of new shops ;
- the decrease in intangible fixed assets of EUR 2,835 thousand is mainly due to the following effects:
  - increase for the key money paid for a new boutique based in Milan for EUR 5,652 thousand;
  - decrease for the amortisation of the year equal to EUR 7,775 thousand.

NET FINANCIAL POSITION

The net financial position of the Group amounts to EUR 95,525 thousand as of 31 December 2010 compared with EUR 87,667 thousand as of 31 December 2009. The increase is mainly due to the economic result of the year and to the investments realized in the period for EUR 6,252 thousand.

SHAREHOLDERS' EQUITY

The shareholders' equity decreases by EUR 14,949 thousand from EUR 170,494 thousand as of 31 December 2009 to EUR 155,545 thousand as of 31 December 2010. The reasons of such decrease are illustrated in the explanatory notes. The number of shares is 107,362,504.

The following institutions hold more than 2% of the Aeffe's shares as of 31 December 2010:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.A.	24.410%
Henderson Global Investors Ltd.	2.980%
Mediobanca S.p.A.	2.060%
Tullio Badioli	5.001%
Other shareholders(*)	28.162%

(*) 5,5% of own shares held by Aeffe S.p.A.

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

Pursuant to the Consob Communication of 28 July 2006, the following table provides a reconciliation between the net result and equity of Aeffe S.p.A. for the year ended 31 December 2010 and the comparable items on a consolidated basis (portion attributable to owners of Aeffe S.p.A.):

(Values in thousand of EUR)	Shareholders' equity at 31 December 2010	Net profit /loss for the full year 2010
Taken from the corporate financial statements of the parent company	**136,503**	**-2,190**
Share of the consolidated subsidiaries's equity and profit /loss attributable to the Group, net of the carrying amount of equity interests	-15,797	-13,132
Effect of business combination reopening	37,318	-242
Reversal of the intercompany inventory margin	-2,548	-823
Transition to parent company accounting policies	564	462
Other adjustments	-495	1,670
Total consolidation adjustments	**19,042**	**-12,065**
Group interest in shareholders' equity	**129,818**	**-12,507**
Minority interest	**25,727**	**-1,748**
Total shareholders' equity	**155,545**	**-14,255**

4. 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. These costs were charged in full to the Income Statement.

5. GROUP'S OBJECTIVES AND POLICIES ON FINANCIAL RISKS

Regarding the Group's objectives and policies on financial risks refer to the information reported in the Notes.

6. 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 24 February 1998 as subsequently amended (the "**Consolidated Finance Law**"), Consob Regulation 11971 dated 14 May 1999, as most recently amended by Consob decision 15586 dated 12 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 and 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.

7. TREASURY SHARES

As of 31 December 2010, the Parent Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year no transactions on treasury shares have been carried out by the Parent Company.

As of 31 December 2010 the Parent Company does not hold shares of any controlling company either directly or indirectly.

8. 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 23 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 26 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. The last date for the exercise of these options is 31 December 2015; subsequent to this date, it will be no longer possible to exercise any unexercised options.

The following table shows the number of options vested in the year 2010 on the achievement of the objectives set in the Regulation of the Stock Option Plans reserved to the directors of Aeffe S.p.A.

Name and Surname	Options vested in 2010
Massimo Ferretti	198,244
Alberta Ferretti	198,244
Simone Badioli	188,804
Marcello Tassinari	188,804
Altri dipendenti della società	66,081
Totale	**840,177**

At the date of this report, no further options are granted to the directors or to other employees of the Company.

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 26 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 30 November 2010;

b) 2/3rds from 30 June 2011;

c) the remainder from 15 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.

9. 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)

Surname and Name	Shares held	N. of shares held at 31/12/09	N. of shares bought in 2010	N. of shares sold in 2010	Change in n. of shares held by incoming/(outgoing) members	N. of shares held at 31/12/10
Ferretti Alberta	Aeffe S.p.A	40,000	-	-	-	40,000
Ferretti Massimo	Aeffe S.p.A	63,000	-	-	-	63,000
Badioli Simone	Aeffe S.p.A	26,565	-	-	-	26,565
Del Bianco Romano	Aeffe S.p.A	55,556	-	-	-	55,556

10. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Note 37 of the Consolidated Financial Statements.

11. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

With regard to the activities performed by our Group, that do not involve particular levels of risk for the employees, we have no serious accidents to report, or the emergence of any pathologies linked to professional diseases. Our Group has not been charged with any actions of mobbing.

As regards the environment, once again, the business of our Group does not have any particular impact on the environment, other than energy consumption, significantly reduced thanks to the installation of a renewable energy system (photovoltaic), and in opposition a further contraction in CO_2 emission. We can therefore report that, during the year, the Group was not declared guilty of causing any damage to the environment, and did not receive any sanctions or penalties for environmental crimes or damage.

12. SIGNIFICANT EVENTS OF THE PERIOD

After the call option was exercised, on 31 March 2010 the joint venture with the company Bluebell was terminated as far as the Asian market is concerned, and Moschino SpA became, for all practical purposes, the only shareholder of Moschino Far East Ltd, and consequently of the companies it controls. Of these, Moschino Korea and Moschino Japan are directly managed by Moschino SpA through a local structure, already implemented and that has already started to follow all of the activities since 1 January 2010. The companies operating in the other territories of the Asian market have instead been sold to Bluebell, which works as distributor for these areas.

On 12 June 2010 the company Aeffe S.p.A. has increased, through a capital increase, its shareholding in the company Velmar S.p.A., of which already held the 72%, gaining the 100% of share capital and becoming the sole shareholder.

13. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 16 February 2011, Aeffe S.p.A. has acquired from York S.r.l. the remaining 28% shareholding of Pollini S.p.A., becoming the sole shareholder. The acquisition price amounts to EUR 1.2 million, already fully paid. The acquisition permits Aeffe, which already held, with 72% of the capital, the company's control, to ensure the full operational efficiency of the Aeffe Group structure, as well as to acquire flexibility in assessing and catching any opportunities for partnership and for strategic operations, especially in the emerging markets where the brand Pollini has great development potential.

14. OUTLOOK

The rationalisation of the business processes, the 12% increase in the sales for the Spring/Summer 2011 collections, the good data we are collecting on the orders backlog for Autumn/Winter 2011/2012 collections along with the positive trend recorded in the retail channel in the first months of 2011 represent for the Group a solid basis for the evolution of the business for the current year both in term of revenues growth and a more than proportional increase in profitability.

Financial statements

CONSOLIDATED BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2010	31 December 2009	Change
NON-CURRENT ASSETS				
Intangible fixed assets				
Key money		46,779,471	46,883,310	-103,839
Trademarks		106,429,503	109,923,023	-3,493,520
Other intangible fixed assets		964,147	202,142	762,005
Total intangible fixed assets	(1)	154,173,121	157,008,475	-2,835,354
Tangible fixed assets				
Lands		17,710,420	17,599,237	111,183
Buildings		32,623,344	32,751,230	-127,886
Leasehold improvements		14,593,956	15,229,172	-635,216
Plant and machinary		6,335,774	7,269,169	-933,395
Equipment		338,648	400,379	-61,731
Other tangible fixed assets		4,017,398	3,337,351	680,047
Total tangible fixed assets	(2)	75,619,540	76,586,538	-966,998
Other fixed assets				
Equity investments	(3)	28,840	27,840	1,000
Other fixed assets	(4)	2,988,617	2,812,254	176,363
Deferred tax assets	(5)	15,026,668	14,544,857	481,811
Total other fixed assets		18,044,125	17,384,951	659,174
TOTAL NON-CURRENT ASSETS		**247,836,786**	**250,979,964**	**-3,143,178**
CURRENT ASSETS				
Stocks and inventories	(6)	73,086,479	69,482,860	3,603,619
Trade receivables	(7)	27,487,606	26,868,686	618,920
Tax receivables	(8)	5,118,017	6,284,474	-1,166,457
Cash	(9)	4,512,265	5,336,905	-824,640
Other receivables	(10)	26,973,677	25,345,033	1,628,644
TOTAL CURRENT ASSETS		**137,178,044**	**133,317,958**	**3,860,086**
Assets available for sale	(11)	793,885	9,257,006	-8,463,121
TOTAL ASSETS		**385,808,715**	**393,554,928**	**-7,746,213**

(*) 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 I, and are further described in Note 37.

CONSOLIDATED BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2010	31 December 2009	Change
SHAREHOLDERS' EQUITY	**(12)**			
Group interest				
Share capital		25,371,407	25,371,407	0
Share premium reserve		71,240,251	71,240,251	0
Translation reserve		-2,384,986	-1,690,675	-694,311
Other reserves		31,078,596	36,250,028	-5,171,432
Fair Value reserve		7,901,240	7,901,240	0
IAS reserve		11,459,492	11,459,492	0
Profits / (losses) carried-forward		-2,341,726	12,749,353	-15,091,079
Net profit / (loss) for the Group		-12,506,617	-20,088,143	7,581,526
Group interest in shareholders' equity		129,817,657	143,192,953	-13,375,296
Minority interest				
Minority interests in share capital and reserves		27,475,653	30,990,377	-3,514,724
Net profit / (loss) for the minority interests		-1,748,789	-3,689,092	1,940,303
Minority interests in shareholders' equity		25,726,864	27,301,285	-1,574,421
TOTAL SHAREHOLDERS' EQUITY		**155,544,521**	**170,494,238**	**-14,949,717**
NON-CURRENT LIABILITIES				
Provisions	(13)	1,414,943	1,247,299	167,644
Deferred tax liabilities	(5)	41,161,918	42,773,359	-1,611,441
Post employment benefits	(14)	9,204,059	9,784,848	-580,789
Long term financial liabilities	(15)	13,211,420	18,159,414	-4,947,994
Long term not financial liabilities	(16)	14,241,401	14,241,401	-0
TOTAL NON-CURRENT LIABILITIES		**79,233,741**	**86,206,321**	**-6,972,580**
CURRENT LIABILITIES				
Trade payables	(17)	47,643,680	42,133,025	5,510,655
Tax payables	(18)	2,892,460	3,376,900	-484,440
Short term financial liabilities	(19)	86,826,109	74,844,328	11,981,781
Other liabilities	(20)	13,668,204	14,646,542	-978,338
TOTAL CURRENT LIABILITIES		**151,030,453**	**135,000,795**	**16,029,658**
Liabilities available for sale	(11)	0	1,853,574	-1,853,574
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**385,808,715**	**393,554,928**	**-7,746,213**

(*) 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 Note 37.

CONSOLIDATED INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full Year 2010	Full Year 2009
REVENUES FROM SALES AND SERVICES	**(21)**	**219,239,971**	**217,038,684**
Other revenues and income	(22)	5,853,981	5,856,492
TOTAL REVENUES		**225,093,952**	**222,895,176**
Changes in inventory		2,129,664	-4,444,459
Costs of raw materials, cons. and goods for resale	(23)	-65,366,354	-65,159,013
Costs of services	(24)	-70,528,666	-79,476,770
Costs for use of third parties assets	(25)	-22,505,692	-19,232,337
Labour costs	(26)	-61,007,720	-63,065,494
Other operating expenses	(27)	-4,276,521	-4,473,299
Amortisation, write-downs and provisions	(28)	-16,662,765	-14,175,306
Financial Income / (expenses)	(29)	-1,481,640	-3,704,966
PROFIT / LOSS BEFORE TAXES		**-14,605,742**	**-30,836,468**
Income Taxes	(30)	350,336	7,059,233
NET PROFIT / LOSS		**-14,255,406**	**-23,777,235**
(Profit) / loss attributable to minority shareholders		1,748,789	3,689,092
NET PROFIT / LOSS FOR THE GROUP		**-12,506,617**	**-20,088,143**

(*) 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 III and are further described in Note 37.

COMPREHENSIVE INCOME STATEMENT

(Values in units of EUR)	Notes	Full Year 2010	Full Year 2009
Profit/(loss) for the period (A)		**-14,255,406**	**-23,777,235**
Gains/(losses) on cash flow hedges		-	340,504
Gains/(losses) on exchange differences on translating foreign operations		-694,309	-421,349
Income tax relating to components of other comprehensive income / (loss)		-	-
Total Other comprehensive income / (loss), net of tax (B)		**-694,309**	**-80,845**
Total Comprehensive income / (loss) (A) + (B)		**-14,949,715**	**-23,858,080**
Total Comprehensive income / (loss) attributable to:		**-14,949,715**	**-23,858,080**
Owners of the parent		-13,200,926	-20,271,139
Non-controlling interests		-1,748,789	-3,586,941

CONSOLIDATED CASH FLOW STATEMENT (*)

(Values in thousands of EUR)	Notes	Full Year 2010	Full Year 2009
OPENING BALANCE		**5,337**	**7,706**
Profit before taxes		-14,606	-30,836
Amortisation / write-downs		16,662	13,636
Accrual (+)/availment (-) of long term provisions and post employment benefits		-413	-1,054
Paid income taxes		-2,227	-1,783
Financial income (-) and financial charges (+)		1,482	3,705
Change in operating assets and liabilities		-152	5,708
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(31)**	**746**	**-10,624**
Increase (-)/ decrease (+) in intangible fixed assets		-4,940	1,142
Increase (-)/ decrease (+) in tangible fixed assets		-5,039	-4,999
Investments and write-downs (-)/ Disinvestments and revaluations (+)		3,727	-362
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(32)**	**-6,252**	**-4,219**
Other variations in reserves and profits carried-forward of shareholders' equity		-694	-1,030
Dividends paid		0	-710
Proceeds (+)/ repayments (-) of financial payments		7,033	18,494
Increase (-)/ decrease (+) in long term financial receivables		-176	-575
Financial income (+) and financial charges (-)		-1,482	-3,705
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(33)**	**4,681**	**12,474**
CLOSING BALANCE		**4,512**	**5,337**

(*) 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 IV and are further described in Note 37.

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Net profit / loss for the Group	Translation reserve	Cash flow hedge reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 31 December 2008	**25,767**	**71,796**	**31,795**	**7,901**	**11,459**	**10,236**	**7,676**	**- 1,269**	**- 340**	**165,021**	**30,990**	**196,011**
Changes in equity for 2009												
Allocation of 2008 profit/(loss)	-	-	4,453	-	-	3,223	- 7,676	-	-	-	-	-
Dividends paid	-	-	-	-	-	- 710	-		-	- 710	-	- 710
Treasury stock (buyback)/sale	- 396	- 556	-	-	-	-	-	-	-	- 952	-	- 952
Total comprehensive income/(loss) of 2009	-	-	-	-	-	-	- 20,088	- 422	340	- 20,170	- 3,689	- 23,859
Other changes	-	-	4	-	-	-	-	-	-	4	-	4
BALANCES AT 31 December 2009	**25,371**	**71,240**	**36,252**	**7,901**	**11,459**	**12,749**	**- 20,088**	**- 1,691**	**-**	**143,193**	**27,301**	**170,494**

(Values in thousands of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits/(losses) carried-forward	Net profit / loss for the Group	Translation reserve	Cash flow hedge reserve	Group interest in shareholders' equity	Minority interest in shareholders' equity	Total shareholders' equity
BALANCES AT 31 December 2009	**25,371**	**71,240**	**36,252**	**7,901**	**11,459**	**12,749**	**- 20,088**	**- 1,691**	**-**	**143,193**	**27,301**	**170,494**
Changes in equity for 2010												
Allocation of 2009 profit/(loss)	-	-	- 5,172	-	-	- 14,916	20,088	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-
Treasury stock (buyback)/sale	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) of 2010	-	-	-	-	-	-	- 12,507	- 694	-	- 13,201	- 1,749	- 14,950
Other changes	-	-	-	-	-	- 175	-	-	-	- 175	175	-
BALANCES AT 31 December 2010	**25,371**	**71,240**	**31,080**	**7,901**	**11,459**	**- 2,342**	**- 12,507**	**- 2,385**	**-**	**129,817**	**25,727**	**155,544**

Report of the Board of Statutory Auditors on the consolidated financial statements as of 31 December 2010 of AEFFE S.p.A.

issued pursuant to art. 41 of Decree 127/1991

Dear Shareholders,

Pursuant to the regulatory requirements contained in art. 41 of Decree 127/1991, we hereby report on the monitoring activities carried out by the Board of Statutory Auditors during 2010. These activities covered both ordinary and non-recurring operations, as well as relations with related parties and group companies, taking due account of the Principles of Conduct for Boards of Statutory Auditors approved by the Italian Accounting Profession. The work we performed is documented in the minutes of the seven meetings held by the Board of Statutory Auditors during 2010.

Our work was focused on checking compliance with the law, the memorandum of association and the statute, as well as compliance with the principles of proper administration. In this regard, we attended the meetings of the Board of Directors and the only meeting of the Parent Company's stockholders held during 2010; we also held periodic meetings with the representatives of Mazars S.p.A., the auditing firm engaged to audit and perform accounting checks on the financial statements of group companies and on the consolidated financial statements.

Pursuant to current regulations, during the year we obtained information from the Directors of the Parent Company on the general results of operations and likely future developments, as well as on the most significant economic and financial transactions, considering their nature or scale, carried out by the Parent Company and its subsidiaries; in relation to this last-mentioned activity, we can reasonably assert that such transactions complied with the law and the statute, were not obviously imprudent, did not involve potential conflicts of interest or conflict with resolutions adopted at the stockholders' meeting, and did not jeopardize the net assets of the group.

During 2010, the AEFFE group continued the process of restructuring both the Parent Company and its subsidiaries that began in the prior year, with a view to reducing and rationalizing their operating costs and expenses.

The significant events that took place during the year are detailed in the relevant paragraph of the report on operations attached to the consolidated financial statements. They complied with the law and the statute, were not obviously imprudent or risky, did not involve potential conflicts of interest or conflict with resolutions adopted at the stockholders' meeting, and did not jeopardize the net assets of the group.

During the year we obtained information about and monitored the adequacy of the Parent Company's organizational structure, partly by obtaining information from functional managers, and we assessed and monitored the adequacy of the administrative and accounting system, as well as its reliability in terms of fairly presenting the results of operations, by obtaining information from the managers concerned and also from the auditing firm. With regard to these activities, we have no observations worthy of being brought to your attention.

Based on an analysis of the internal information system, we can confirm that it envisages an appropriate flow of administrative and accounting information from subsidiaries, in order to comply with the disclosure requirements established in art. 114.2 of Decree 58/98 on information provided to the public.

The consolidated financial statements as of 31 December 2010 were prepared in the form and with the content required by international financial reporting standards (IAS/IFRS). Since we were not responsible for the detailed verification of the content of these statements, we monitored their overall preparation, their compliance with the law regarding their form and content, and their consistency with the facts and information known to us. We have no particular observations to make in this regard. The explanatory notes to the financial statements and the content of the report on operations appear to be complete and suitable for providing readers with the required information.

We have checked compliance with the laws on the preparation of the report on operations and, in this regard, we note that the Board of Directors of the Parent Company has described in full the aspects required by art. 2428 of the Italian Civil Code: its assessment of the results of operations, both overall and in the sectors in which the Group operates; the costs; the revenues; the capital investment; the corporate events that took place during the year; the outlook for the near future.

With regard to the periodic checks carried out at the Parent Company, we did not identify any omissions or shortcomings worthy of drawing to your attention. Accordingly, we can confirm that the consolidated financial statements are formally correct.

Having reached the final stage of its audit work on the consolidated financial statements, Mazars S.p.A. has indicated to us that its auditors' report is expected to be released without any exceptions or emphasis of matter.

In conclusion, considering the results of the work performed by the auditing firm and our expression of a favorable opinion on the resolution proposed by the Board of Directors, we confirm that these consolidated financial statements contain all the related information required under current regulations.

San Giovanni in Marignano, 22 March 2011

For the Board of Statutory Auditors

Mr. Fernando CIOTTI	**Chairman**
Mr. Romano DEL BIANCO	**Statutory auditor**
Mr. Bruno PICCIONI	**Statutory auditor**

Auditors’ Report in accordance with Articles 14 and 16 of Legislative Decree no. 39 dated January 27, 2010

To the Shareholders of Aeffe S.p.A.

1. We have audited the consolidated financial statements of Aeffe S.p.A. and its subsidiaries (the “Aeffe Group”) as of December 31, 2010, which comprise the balance sheet statement, the income statement, the comprehensive income statement, the cash flow statement, the statement of changes in shareholders’ equity and the related explanatory notes. The Directors of Aeffe S.p.A. are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior period, the amounts of which are presented for comparative purpose reference should be made to our report dated April 14, 2010.

3. In our opinion, the consolidated financial statements of the Aeffe Group as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations and cash flows of Aeffe Group for the period then ended.

4. The Directors of Aeffe S.p.A. are responsible for the preparation of the report on operations and the report on corporate and governance and shareholding structure, published in section “Investor Relation” of the internet site of Aeffe S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree n. 58/98 presented in the report on corporate governance and share-

holding structure, with the financial statements, as required by law. For this purpose, with have performed the procedures required under Auditing Standards no. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree n. 58/98 presented in the report on corporate governance and shareholding structure are consistent with the consolidated financial statements of Aeffe S.p.A. as of December 31, 2010.

Mazars S.p.A.

signed by Simone Del Bianco
Simone Del Bianco
Partner

Milan, Italy, March 30, 2011

This report has been translated from the original which was issued in accordance with Italian legislation.

EXPLANATORY NOTES

GENERAL INFORMATION

Aeffe Group operates worldwide in the luxury goods sector and is active in the design, production and distribution of products of high quality and stylistic uniqueness.

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 "Cacharel".

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 the company Fratelli Ferretti Holding S.r.l., of which in the attachment VII are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

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 euro, 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 are 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 31 December 2010 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 31 December 2010 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, in case it was present, 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.

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

In accordance with Article 126 of Consob Regulation 11971 of 14 May 1999, as subsequently amended, a complete list of Group companies and significant investments at 31 December 2010 is provided in the following table.

Company	Location	Currency	Share capital	Direct interest	Indirect interest
Companies included in the scope of consolidation					
Italian companies					
Aeffe Retail	S.G. in Marignano (RN) Italy	EUR	8,585,150	100%	
Clan Cafè	S.G. in Marignano (RN) Italy	EUR	100,000		62,9% (iv)
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)
Velmar	S.G. in Marignano (RN) Italy	EUR	120,000	100%	
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%	
Fashoff UK	London (GB)	GBP	1,550,000		70,0% (ii)
Moschino Far East	Hong Kong (HK)	USD	1,000,000		70,0% (ii)
Moschino Japan	Tokyo (J)	JPY	120,000,000		70,0% (iii)
Moschino Korea	Seoul (ROK)	KRW	50,000,000		70,0% (iii)
Moschino France	Paris (FR)	EUR	50,000		70,0% (ii)
Moschino Retail	Berlin (D)	EUR	180,000		70,0% (ii)
Ozbek (london)	London (GB)	GBP	300,000	92%	
Aeffe Japan	Tokyo (J)	JPY	3,600,000	100%	
Bloody Mary	New York (USA)	USD	100,000		70,0% (ii)

Notes (details of in direct shareholdings):

(i) 99,9% owned by Pollini SpA;

(ii) 100% owned by Moschino SpA;

(iii) 100% owned by Moschino Far East;

(iv) 62,893% owned by Aeffe Retail.

During the year the following operations have been completed:

a) Moschino Spa has acquired the remaining 49.9% of Moschino Far East; company which controls the 100% of Moschino Japan and Moschino Korea;

b) Fashion Retail Company has been excluded by the scope of consolidation because it has been liquidated;

c) Ferretti Studio has been incorporated in Aeffe Spa;

d) Aeffe Spa has increased its shareholding in Velmar Spa achieving the 100%.

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 EUR, 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 EUR zone are translated into EUR based on the following procedures:

(i) 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;

(ii) 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;

(iii) 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 31 December 2010	Average exchange rate 2010	Actual exchange rate 31 December 2009	Average exchange rate 2009
United States Dollars	1.3362	1.3268	1.4406	1.3948
United Kingdom Pounds	0.8608	0.8582	0.8881	0.8909
Japanese Yen	108.6500	116.4552	133.1600	130.3370
South Korean Won	1499.0600	1532.5125	1679.4000	1778.3700

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.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On 8 October 2009, the IASB issued an amendment to IAS 32 – *Classification of Rights Issues* in order to address the accounting for rights issued (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from 1 January 2011 retrospectively. The adoption of the amendment will not be relevant for the Group.

On 4 November 2009, the IASB issued a revised version of IAS 24 – *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The adoption of the amendment will not be relevant for the Group.

On 12 November 2009, the IASB issued a new standard IFRS 9 – *Financial instruments* on the classification and measurement of financial assets, having an effective date for mandatory adoption of 1 January 2013. The new standard represents the completion of the first part of a project to replace IAS 39. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used. The new standard had not yet been endorsed by the European Union at the date of these financial statements.

On 26 November 2009, the IASB issued a minor amendment to IFRIC 14 – *Prepayments of a Minimum Funding Requirement*. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to treat benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of 1 January 2011. The adoption of the amendment will not be relevant for the Group.

On 26 November 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The amendment has an effective date for mandatory adoption of 1 January 2011. The adoption of the amendment will not be relevant for the Group.

On 6 May 2010 the IASB issued a set of amendments to IFRSs ("*Improvement to IFRSs*") that are applicable from 1 January 2011; set out below are those that will lead to changes in terminology or editorial changes having a limited accounting effect and those that affect standards or interpretations that are not applicable to the Group.

- IFRS 3 (2008) – *Business combinations*: this amendment clarifies that the components of non-controlling interests that do not entitle their holders to a proportionate share of the entity's net assets must be measured at fair value or as required by the applicable accounting standards. For example, therefore, stock options granted to employees must be measured in accordance with the requirements of IFRS 2 in the case of a business combination, while the equity portion of a convertible debt instrument must be measure in accordance with IAS 32. In addition, the Board goes into further detail on the question of share-based payment plans that are replaced as part of a business combination by adding specific guidance to clarify the accounting treatment.

- IFRS 7 – *Financial instruments: disclosures*: this amendment emphasis the interaction between the qualitative and quantitative disclosures required by the standard concerning the nature and extent of risks arising from financial instruments. This should assist users of financial statements to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial statements. In addition, the disclosure requirement concerning financial assets that are past due or impaired but whose terms have been renegotiated, and that relating to the fair value of collateral, have been eliminated.
- IAS 1 – *Presentation of financial statements:* the amendment requires the reconciliation in the changes of each component of equity to be presented in the notes or in the primary statements.
- IAS 34 – *Interim financial reporting*: by using a series of examples certain clarifications are provided concerning the additional disclosures that must be presented in interim financial reports.

The adoption of the Improvement will not be relevant for the Group.

On 7 October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfers of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

On 20 December 2010, the IASB issued amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The first amendment replaces references to a fixed date of "1 January 2004" with the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are effective from 1 July 2011. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

On 20 December 2010, the IASB issued amendments to IAS 12 – *Income Taxes* that require an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of the amendments, SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* no longer applies. These amendments are effective from 1 January 2012. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2010 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company 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, 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 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.

At 31 December 2010, the company has not recorded values related to goodwill in the financial statements.

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 have been treated, up to the financial statements 2008, as intangible fixed assets with an "infinite" useful life and as such have not been amortised. "Infinite" useful life, according to IAS 38, does not mean an endless useful life, but a useful life with no fixed end.

The Group, up to the financial statements 2008, based on the valuations of independent experts, has considered the period linked with the lease term as not relevant. This included 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.

Following the change of the key money market, the Group deemed it proper to introduce a change of estimate on their useful life, switching from an indefinite useful life to a finite useful life.

A reversed trend has been noted starting in 2009. Although not generalised, it has led several of the lessors of the market to ask that the contract be terminated as the expiration date draws near. Even if the most recent transactions carried out by the Group are reassuring with regard to the entire recoverability of the original value of the key money, by virtue of the new market definition, the directors prudentially deemed it correct to change the estimate of useful life. Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

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 31 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 intellectua property	33%
Brands	2.5%

Research costs are charged to the income statement as incurred.

At 31 December 2010, the company has not recorded intangible fixed assets with an "infinite" useful life in the financial statements.

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 and 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

Key money, brands 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.

The comparison between the value of the Group shareholders' equity per share and the share list value at year-end and during the period until the date these draft financial statements were drawn up shows a book value higher than the market value. The directors believe that this evidence is basically attributable to the particular situation of the financial markets happened in the aftermath of the actual difficult situation of the world markets. Therefore, the market value is not considered representative of the Group value, this is confirmed by the remarkable recovery of the share’s value realized in the latest months of 2010 and in the first of 2011.

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 the higher between their fair value, net of disposal costs, and 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 accruals 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 1 January 2005, the IFRS transition date, have been recognised.

Actuarial gains and losses arising subsequent to 1 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 capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The Group has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

Revenue

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 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.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the consolidated financial statement, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Group.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the company applied the method described above in the paragraph entitled "Impairment of value of assets".

Key money

The recoverable value of key money was calculated using the higher between the current value and the value determinable by use.

<u>Current value</u>: this value was calculated by estimating both the cost of establishing the network of boutiques, subject to the impairment test at current values, and as the current market value in case of transfer to others of the rental contract for each boutique (considered as "cash generating units").

The estimates used to calculate the values as indicated above are illustrated below:

- annual value of the rental contracts from the total spent in 2010;
- annual hypothetical increase in rents for about 2%;
- possible renewal on expiration of each contract for a period equal to that foreseen by the contract in existence as of 31 December 2010;
- terminal value after first renewal.

The discount rates used are as follows:
- Risk-free rate for established contracts, 3%;
- Hypothetical renewal rate after the first expiration, 5%;
- Terminal value rate, 20%.

<u>Value calculable on the basis of use</u>: the evaluation derives from the cash flow analyses of the characteristic activity of each boutique ("cash generating unit"). The cash flows of the "cash generating units" attributable to each key money were derived for the year 2011 from a budget simulation that, depending on the boutique, foresees increases of turnover around a range that goes from +15% in the most optimistic cases to -8% in the most pessimistic. These estimates are not an indication of the performance of the retail business for 2011 but were used to make a prudential calculation for the test purpose only. For the years 2012 and 2013 and to calculate the terminal value we considered generally a turnover growth rate of 5%. As a discount rate we used the average cost of capital (WACC) which is 6.3%.

Brands

To calculate the recoverable value of the brands entered in the financial statement, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of these intangible assets, for a period equal to 40 years. To calculate the values on this basis it has been used for the year 2011 the budget approved by the Group management. For the remaining periods it has been used an increase in turnover with a CAGR variable from 2.2% to 2.5%. As royalty rates we used the averages for the sector and as discount rate we used the average cost of capital (WACC) which is 6.3%.

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:
- The inflation rate foreseen is 2.00%;
- The discount rate used is 4.35%;
- * The expected rates of retribution increases (inclusive of inflation) are divided as follows: (i) Management 1.50%; (ii) Office staff/department heads 0.50%; (iii) laborers 0.50%
- The annual rate in increase of the severance indemnity fund foreseen is 3.00%;
- The expected turn-over of employees is 6% for Aeffe S.p.A, 10% for Aeffe Retail S.p.A, 8% for Moschino S.p.A. and Pollini Retail and 5% for N.S.T. S.r.l, Pollini S.p.A and Velmar S.p.A.

* The estimated rates of salary increase were used only for the companies with 50 or fewer employees.

- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:
- The voluntary turnover rate foreseen is 0.00%;
- The corporate turnover rate foreseen is 5.00% for all the Group's companies;
- The discount rate used is 4.20%.

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:

(i) Prêt-a-porter Division;

(ii) Footwear and leather goods Division.

In accordance with IFRS 8, segment information can be found in the section entitled "Comments on the income statement and segment information".

Management of financial risk

The financial risks to which the Group is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the currency risk, rate risk, price risk);
- credit risk;

The Group uses derivative financial instruments for the sole purpose of covering certain non-functional currency exposures.

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury and, except in a few cases (Pollini Group) it is managed by the individual companies that, however, are coordinated by the treasury on the basis of the guidelines established by the Managing Director of the Group and approved by the Chief Executive Officer.

The main goal of these guidelines consists of:

(i) Liquidity risk

The Group manages the liquidity risk with a view to guarantee, at the consolidated level, the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

The credit lines, though negotiated at the Group level, are granted to the individual companies.

As of the date of this financial statement, the companies in the Group with the main short and medium/long-term loans from banks are the parent company, Pollini, Moschino and Velmar.

(ii) Exchange risk:

The Group operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using for the main companies of the Group exposed to the exchange risk, the opening of loans in foreign currency.

(iii) Rate risk:

The interest rate risk to which the companies in the Group are exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Group to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards. As of 31 December 2010 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 190 thousand annually (EUR 220 thousand as of 31 December 2009).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2010 there are no instruments that hedge interest-rate risk.

(iv) Price risk

The Group makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Group deals only with known and reliable clients. It is a policy of the Group that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits "exceeding 90 days", where necessary, legal steps are taken.

As regards foreign receivables, the Group proceeds as follows:

a) Part of the foreign credits are guaranteed by primary credit insurance companies;
b) The residual uninsured part of the receivable is managed:
    a. Most of it by request of letter of credit and 30% advances within two weeks of the order confirmation;
    b. The residual receivables not covered by insurance, by letter of credit or by advances, are specifically authorized and managed as settled by the Italian receivable procedure.

The unexpired receivables, amounting to a total of EUR 17,454 thousand as of 31 December 2010, represent 63% of the receivables entered in the financial statements. This percentage remains substantially stable compared to the same period of the previous year.

This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the company an income from the relationship.

As of the reference date of the financial statement, the maximum credit risk exposure is equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Trade receivables	27,488	26,869	619	2.3%
Other current receivables	26,974	25,345	1,629	6.4%
Other fixed assets	2,989	2,812	177	6.3%
Total	**57,451**	**55,026**	**2,425**	**4.4%**

See note 4 for the comment and breakdown of the item "other fixed assets" note 7 "trade receivables" and note 10 for "other current receivables".

The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.

As of 31 December 2010, overdue but not written-down trade receivables amount to EUR 10,034 thousand (EUR 9,417 thousand in 2009). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
By 30 days	2,116	1,592	524	32.9%
31 - 60 days	838	1,472	-634	-43.1%
61 - 90 days	1,323	622	701	112.7%
Exceeding 90 days	5,757	5,731	26	0.5%
Total	**10,034**	**9,417**	**617**	**6.6%**

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**	**Key money**	**Other**	**Total**
Net book value as of 01.01.09	**113,867**	**54,963**	**345**	**169,175**
Increases	33	412	155	600
- increases externally acquired	*33*	*412*	*155*	*600*
- increases from business aggregations	-	-	-	-
Disposals	-462	*-1,091*	-189	*-1,742*
Translation differences and other variations	-	-4,573	-	-4,573
Amortisation	-3,515	-2,828	*-109*	-6,452
Net book value as of 31.12.09	**109,923**	**46,883**	**202**	**157,008**
Increases	-	6,876	762	7,638
- increases externally acquired	-	*6,876*	*762*	*7,638*
- increases from business aggregations	-	-	-	-
Disposals	-	-2,494	*-11*	-2,505
Translation differences and other variations	-	-364	171	-193
Amortisation	-3,493	-4,122	*-160*	-7,775
Net book value as of 31.12.10	**106,430**	**46,779**	**964**	**154,173**

The intangible fixed assets highlight the following variations:

- Increases, equivalent to EUR 7,638 thousand, are mainly due to key money paid for a new boutique based in Milan (equivalent to EUR 5,652 thousand) and for a new software used by the subsidiary Aeffe Japan (equivalent to EUR 509 thousand).
- Disposals, equivalent to EUR 2,505 thousand, are due for EUR 2,494 thousand to the write-off of the key money related to two boutiques based in Rome and Florence and to the sale of the key money related to one boutique based in Ravenna.
- Translation differences and other variations are mainly related to the key money related to the two boutiques based in Rome and Florence reclassified in the assets available for sale.
- Amortisation of the period is EUR 7,775 thousand.

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"). A breakdown of brands is given below:

(Values in thousands of EUR)	Brand residual life	31 December 2010	31 December 2009
Alberta Ferretti	32	4,029	4,155
Moschino	34	59,187	61,114
Pollini	30	43,214	44,654
Total		**106,430**	**109,923**

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

Key money

Key money 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.

The Group, until financial year 2008, even on the stock of valuations drawn up by independent experts, pointed out the scarce significance of the deadline attributable to the term of the leases. Indeed, to this regard the safeguards given to the lessee by the market routine and by specific legal provisions, which are combined with a strategy of progressive further expansion of the network carried forward by the companies of the Group that usually renews the leases before their natural expiration and regardless of the intention to continue using the locations as Group boutiques, in view of the value attributable to the commercial positions concerned.

Following the change of the key money market, the Group deemed it proper to introduce a change of estimate on their useful life, switching from an indefinite useful life to a finite useful life.

A reversed trend has been noted starting in 2009. Although not generalised, it has led several of the lessors of the market to ask that the contract be terminated as the expiration date draws near. Even if the most recent transactions carried out by the Group are reassuring with regard to the entire recoverability of the original value of the key money, by virtue of the new market definition, the directors prudentially deemed it correct to change the estimate of useful life. Based on the experience of the renewals obtained from the lessors in past financial years, the directors deemed it fitting to estimate a useful life corresponding to the residual term of the contract, and generally plan a renewal for another 6 years, considering a final end value equal to the amounts due by way of indemnity for taking over the lease if provided for by the national regulations.

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 01.01.09	**17,635**	**33,797**	**15,983**	**6,923**	**482**	**3,645**	**78,465**
Increases	14	27	2,954	1,709	114	890	5,708
Disposals	-	-	-137	-36	-1	-116	-290
Translation differences and other variations	-50	-249	-126	39	-40	-48	-474
Depreciation	-	-824	-3,445	-1,365	-154	-1,034	-6,822
Net book value as of 31.12.09	**17,599**	**32,751**	**15,229**	**7,270**	**401**	**3,337**	**76,587**
Increases	-	161	1,832	372	96	1,732	4,193
Disposals	-	-	-100	-57	-9	-45	-211
Translation differences and other variations	111	552	358	-8	1	43	1,057
Depreciation	-	-841	-2,725	-1,240	-150	-1,050	-6,006
Net book value as of 31.12.10	**17,710**	**32,623**	**14,594**	**6,337**	**339**	**4,017**	**75,620**

Tangible fixed assets have changed as follows:

- Increases for new investments of EUR 4,193 thousand. These mainly refer to new investments in 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 211 thousand.
- Decrease for differences arising on translation and other variation of EUR 1,057 thousand which mainly relates to the translation differences of the subsidiary Aeffe USA.
- Depreciation of EUR 6,006 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 shareholdings measured at the cost. The value at 31 December 2010 is almost unchanged compared with the value at 31 December 2009.

4. *Other fixed assets*

This item mainly includes receivables for security deposits relating to commercial leases.

5. *Deferred tax assets and liabilities*

The table below illustrates the breakdown of this item at 31 December 2010 and at 31 December 2009:

(Values in thousands of EUR)	Receivables		Liabilities	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Tangible fixed assets	-	-	-351	-382
Intangible fixed assets	3	3	-203	-208
Provisions	1,344	1,467	-	-
Costs deductible in future periods	1,007	1,367	-2	-3
Income taxable in future periods	707	405	-970	-1,016
Tax losses carried forward	10,004	9,328	-	-
Other	-	-	-60	-63
Tax assets (liabilities) from transition to IAS	1,962	1,975	-39,576	-41,101
Total	**15,027**	**14,545**	**-41,162**	**-42,773**

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	-382	-29	60	-	-351
Intangible fixed assets	-205	-	5	-	-200
Provisions	1,467	7	-128	-2	1,344
Costs deductible in future periods	1,364	1	-360	-	1,005
Income taxable in future periods	-611	-	352	-4	-263
Tax losses carried forward	9,328	91	1,739	-1,154	10,004
Other	-63	-5	8	-	-60
Tax assets (liabilities) from transition to IAS	-39,126	-1	1,470	43	-37,614
Total	**-28,228**	**64**	**3,146**	**-1,117**	**-26,135**

The negative variation of EUR 1,117 thousand in the column "Other" refers mainly to the compensation of the tax payable for IRES of the period matured in some of the Group's subsidiaries with the receivable for deferred tax generated in Aeffe Spa as a consequence of the adhesion of the subsidiaries to the fiscal consolidation.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

6. *Stocks and inventories*

This item comprises:

(Values in thousands of EUR)	31 December	31 December	Change	
	2010	2009	Δ	%
Raw, ancillary and consumable materials	15,942	16,258	-316	-1.9%
Work in progress	6,407	8,092	-1,685	-20.8%
Finished products and goods for resale	50,568	44,514	6,054	13.6%
Advance payments	169	619	-450	-72.7%
Total	**73,086**	**69,483**	**3,603**	**5.2%**

Inventories of raw materials and work in progress mainly relate to the production of the Spring/Summer 2011 collections, while finished products mainly concern the Autumn/Winter 2010 and the Spring/Summer 2011 collections and the Autumn/Winter 2011 sample collections.

The increase in inventories compared with the previous period is related to the opening on new directly operated stores.

7. *Trade receivables*

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Trade receivables	28,932	28,258	674	2.4%
(Allowance for doubtful account)	-1,444	-1,389	-55	4.0%
Total	**27,488**	**26,869**	**619**	**2.3%**

Trade receivables amount to EUR 27,488 thousand at 31 December 2010, up 2.3% since 31 December 2009. The increase is substantially in line with sales variation.

Management considers that the fair value of amounts due from customers approximates their book value.

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.

8. *Tax receivables*

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
VAT	1.749	2.985	-1.236	-41,4%
Corporate income tax (IRES)	2.102	2.112	-10	-0,5%
Local business tax (IRAP)	198	477	-279	-58,5%
Amounts due to tax authority for withheld taxes	903	627	276	44,0%
Other tax receivables	166	83	83	100,0%
Total	**5.118**	**6.284**	**-1.166**	**-18,6%**

As of 31 December 2010, the Group's tax receivables amount to EUR 5,118 thousand principally in relation to VAT recoverable (EUR 1,749 thousand) and to receivable for IRES (EUR 2,102 thousand) .

9. *Cash*

This item includes:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Bank and post office deposits	3,713	4,161	-448	-10.8%
Cheques	37	291	-254	-87.3%
Cash in hand	762	885	-123	-13.9%
Total	**4,512**	**5,337**	**-825**	**-15.5%**

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 represents the nominal value of the cash held on the balance sheet date.

The decrease in cash and cash equivalents, recorded at 31 December 2010 compared with the amount recorded at 31 December 2009, is EUR 825 thousand. About the reason of this variation see the Cash Flow Statement.

10. *Other receivables*

This caption comprises:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Credits for prepaid costs	18,907	19,520	-613	-3.1%
Advances for royalties and commissions	1,335	1,170	165	14.1%
Advances to suppliers	340	169	171	101.2%
Accrued income and prepaid expenses	1,268	1,496	-228	-15.2%
Other	5,124	2,990	2,134	71.4%
Total	**26,974**	**25,345**	**1,629**	**6.4%**

The increase of EUR 1,629 thousand in other receivables is mainly referred to the increase of EUR 2,134 thousand of the entry "Other" due almost exclusively to credits versus social security agency for the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity, and to the inflection of EUR 613 thousand of credits for prepaid costs. These credits relate to the costs incurred to design and make samples for the Spring/Summer 2011 and Autumn/Winter 2011 collections for which the corresponding revenues from sales have not been realised yet.

11. Assets and liabilities available for sale

The change in the captions assets and liabilities available for sale mainly concerns the sale of the boutique Pollini based in Paris, the goodwill of a boutique based in Milan and some activities of Moschino Far East Ltd. After the call option was exercised, on 31 March 2010 the joint venture with the company Bluebell was terminated as far as the Asian market is concerned, and Moschino SpA became, for all practical purposes, the only shareholder of Moschino Far East Ltd, and consequently of the companies it controls. Of these, Moschino Korea and Moschino Japan are directly managed by Moschino SpA through a local structure, already implemented and that has already started to follow all of the activities since 1 January 2010. The companies operating in the other territories of the Asian market have instead been sold to Bluebell, which works as distributor for these areas.

Between the sales described above, the only one that has generated an effect in the income statement during the period is the sale of the boutique based in Milan. Such sale has generated an extraordinary income of EUR 165 thousand classified in the entry "Other revenues and income" of the income statement.

This item is illustrated in details in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009
Key money	357	4,573
Tangible fixed assets	-	56
Other fixed assets	437	1,687
Deferred tax assets	-	378
Stocks and inventories	-	1,497
Trade receivables	-	754
Tax receivables	-	27
Other receivables	-	285
Total	**794**	**9,257**
Post employment benefits	-	17
Trade payables	-	1,193
Tax payables	-	30
Other liabilities	-	614
Total	**0**	**1,854**

12. Shareholders' equity

Described below are main categories of shareholders' equity at 31 December 2010, while the corresponding variations are described in the prospect of shareholders' equity.

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change
Share capital	25,371	25,371	-
Share premium reserve	71,240	71,240	-
Translation reserve	-2,385	-1,691	-694
Other reserves	31,080	36,252	-5,172
Fair value reserve	7,901	7,901	-
IAS reserve	11,459	11,459	-
Profits / (losses) carried-forward	-2,342	12,749	-15,091
Net profit / (loss) for the Group	-12,507	-20,088	7,581
Minority interests	25,727	27,301	-1,574
Total	**155,544**	**170,494**	**-14,950**

Share capital

Share capital as of 31 December 2010, totally subscribed and paid, (gross of treasury shares) totals EUR 26,841 thousand, and is represented by 107,362,504 shares, par value EUR 0.25 each. At 31 December 2010 the Parent Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares is not changed during the period.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2009.

Translation reserve

The decrease of EUR 694 thousand related to such reserve is due to the conversion of companies' financial statements in other currency than EUR.

Other reserves

During the period these reserves have been used to cover the prior-year loss.

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.

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 is allocated on a pro rata basis to minority interests.

Profits/(losses) carried-forward

The caption profits/(losses) carried forward records a negative variation as a consequence of the consolidated net loss at 31 December 2009.

Minority interests

The decrease in capital and reserves is mainly due to the portion of loss for the period ended at 31 December 2010 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

13. Provisions

Provisions are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2009	Increases	Decreases	31 December 2010
Pensions and similar obligations	997	45	-24	1,018
Other	251	156	-10	397
Total	**1,248**	**201**	**-34**	**1,415**

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 “Potential liabilities”.

14. 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.

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.

Starting from 1 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 approve pension plans or decide to retain them with the employer (which must pay the related severance contributions into a treasury account managed by INPS).

Changes in the provision are illustrated in the following statement:

(Values in thousands of EUR)	31 December 2009	Increases	Decreases	31 December 2010
Post employment benefits	9,785	556	-1,137	9,204
Total	**9,785**	**556**	**-1,137**	**9,204**

Increases include financial expenses for EUR 347 thousand.

15. Long-term financial liabilities

The following table contains details of long-term borrowings:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Loans from financial institutions	10,035	13,295	-3,260	-24.5%
Amounts due to other creditors	3,176	4,865	-1,689	-34.7%
Total	**13,211**	**18,160**	**-4,949**	**-27.3%**

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 as of 31 December 2010, including the current portion and the long term portion:

(Values in thousands of EUR)	Total amount	Current portion	Long term portion
Bank borrowings	13,284	3,249	10,035
Total	**13,284**	**3,249**	**10,035**

There are no amounts due beyond five years, except for a loan of EUR 858 thousand expiring in 2018 .

The following table contains details of amounts due to other creditors:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Financial leases	3,140	4,596	-1,456	-31.7%
Due to other creditors	36	55	-19	-34.5%
Long-term debt for Moschino Far East put/call	-	214	-214	-100.0%
Total	**3,176**	**4,865**	**-1,689**	**-34.7%**

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.

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 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 provided 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 was based on a specific earn-out formula, the value of which depended - among other factors - on the profit performance of Moschino Far East. The option has been exercised during the year 2010, at a price of 0, and the debt has been released in the income statement.

16. Long-term not financial liabilities

This caption, in the amount of EUR 14,241 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 by Aeffe and Sinv in Moschino.

CURRENT LIABILITIES

17. Trade payables

Tax payables are analysed in comparison with the related balances as of 31 December 2009:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Trade payables	47,644	42,133	5,511	13.1%
Total	**47,644**	**42,133**	**5,511**	**13.1%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

18. Tax payables

Tax payables are analysed in comparison with the related balances as of 31 December 2009 in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Local business tax (IRAP)	136	2	134	6700.0%
Corporate income tax (IRES)	0	135	-135	-100.0%
Amounts due to tax authority for withheld taxes	2,324	2,482	-158	-6.4%
VAT due to tax authority	256	140	116	82.9%
Other	176	618	-442	-71.5%
Total	**2,892**	**3,377**	**-485**	**-14.4%**

The change occurred in the year is related to the item "Other" and it is mainly due to the payable recorded in the year 2008 related to the substitute tax owed to the release of the fiscal misalignment on the Moschino brand. Such payable has been definitely paid during the year 2010, causing the drop in object.

19. Short term financial liabilities

A breakdown of this item is given below:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Due to banks	85,371	67,616	17,755	26.3%
Due to other creditors	1,455	7,228	-5,773	-79.9%
Total	**86,826**	**74,844**	**11,982**	**16.0%**

Current bank debts include 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 31 December 2010, amounts due to other creditors mainly include financial payables recorded in the consolidated financial statements in application of the financial accounting method for leasing operations.

At 31 December 2009 liabilities due to other creditors included a payable due to shareholders for a loan granted by Bluebell Far East (which was, at such date, shareholder of a 49,9% interest in Moschino Far East) to Moschino Far East on 18 December 2002, under the terms of the joint venture agreement with Moschino. The payment, happened during the year 2010, is the main reason of the variation.

20. Other liabilities

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

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Due to total security organization	3,400	3,663	-263	-7.2%
Due to employees	4,546	4,581	-35	-0.8%
Trade debtors - credit balances	1,509	1,902	-393	-20.7%
Accrued expenses and deferred income	2,620	2,753	-133	-4.8%
Other	1,593	1,748	-155	-8.9%
Total	**13,668**	**14,647**	**-979**	**-6.7%**

The decrease of the other short term liabilities, totaling EUR 979 thousand, refers mainly to the drop in liabilities versus social security agency (about EUR 263 thousand) tied to the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity and to the decrease of liabilities versus customers (about EUR 393 thousand) for fewer advances.

SEGMENT INFORMATION REGARDING PROFIT OR LOSS, ASSETS AND LIABILITIES

In order to apply the IFRS 8 (applicable by 1 January 2009) the Group has considered to delineate as operative sectors the same used by IAS 14 Segment reporting: *Prêt-à porter* Division and footwear and leather goods Division. Such decision has been taken because they represent business activities from which the entity may earn revenues and incur expenses, whose operating result are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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", "Love Moschino" and "Pollini") and brands licensed from other companies (such as "Jean Paul Gaultier", "Blugirl" and "Cacharel"). 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 under third-party licensed brands such as "Blugirl" and "Get Lost".

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* line, "Moschino" branded perfumes and "Moschino" branded sunglasses.

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" products such as umbrellas, foulards and ties.

The following table indicates the main economic data for the full year 2010 and 2009 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 2010	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**180,767**	**50,292**	**-11,819**	**219,240**
Intercompany revenues	-3,569	-8,250	11,819	0
Revenues with third parties	**177,198**	**42,042**	-	**219,240**
Gross operating margin (EBITDA)	**6,506**	**-2,967**	-	**3,539**
Amortisation	-10,433	-3,349	-	-13,782
Other non monetary items:				
Write-downs	-500	-2,381	-	-2,881
Net operating profit / loss (EBIT)	**-4,427**	**-8,697**	-	**-13,124**
Financial income	2,624	50	-234	2,440
Financial expenses	-3,374	-781	234	-3,921
Profit / loss before taxes	**-5,177**	**-9,428**	**-**	**-14,605**
Income taxes	-2,103	2,453	-	350
Net profit / loss	**-7,280**	**-6,975**	**-**	**-14,255**

(Values in thousands of EUR) 2009	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR REVENUES	**178,179**	**50,315**	**-11,455**	**217,039**
Intercompany revenues	**-2,439**	**-9,016**	11,455	0
Revenues with third parties	**175,740**	**41,299**	-	**217,039**
Gross operating margin (EBITDA)	**-6,407**	**-6,549**	-	**-12,956**
Amortisation	-9,921	-3,353	-	-13,274
Other non monetary items:				
Write-downs	-862	-40	-	-902
Net operating profit / loss (EBIT)	**-17,190**	**-9,942**	-	**-27,132**
Financial income	551	99	-354	296
Financial expenses	-3,334	-1,020	354	-4,000
Profit / loss before taxes	**-19,973**	**-10,863**	**-**	**-30,836**
Income taxes	4,232	2,827	-	7,059
Net profit / loss	**-15,741**	**-8,036**	**-**	**-23,777**

The following tables indicate the main patrimonial and financial data at 31 December 2010 and 2009 of the *Prêt-à porter* and Footwear and leather goods Divisions:

(Values in thousands of EUR) 31 December 2010	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*297,278*	*106,806*	*-38,420*	365,664
of which non-current assets (*)				
Intangible fixed assets	*98,942*	*55,231*	-	*154,173*
Tangible fixed assets	*72,043*	*3,577*	-	*75,620*
Other non-current assets	*6,916*	*1,137*	*-5,036*	*3,017*
OTHER ASSETS	*18,378*	*1,767*	-	20,145
CONSOLIDATED ASSETS	**315,656**	**108,573**	**-38,420**	**385,809**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2010	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	*168,850*	*55,780*	*-38,420*	186,210
OTHER LIABILITIES	26,048	18,006	-	44,054
CONSOLIDATED LIABILITIES	**194,898**	**73,786**	**-38,420**	**230,264**

(Values in thousands of EUR) 31 December 2009	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR ASSETS	*298,075*	*108,116*	*-33,465*	372,726
of which non-current assets (*)				
Intangible fixed assets	*96,310*	*60,698*	*-*	*157,008*
Tangible fixed assets	*73,698*	*2,889*	*-*	*76,587*
Other non-current assets	*6,735*	*105*	*-4,000*	*2,840*
OTHER ASSETS	*19,098*	*1,731*	*-*	20,829
CONSOLIDATED ASSETS	**317,173**	**109,847**	**-33,465**	**393,555**

(*) Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts

(Values in thousands of EUR) 31 December 2009	Prêt-à porter Division	Footwear and leather goods Division	Elimination of intercompany transactions	Total
SECTOR LIABILITIES	*161,877*	*48,499*	*-33,465*	176,911
OTHER LIABILITIES	26,563	19,587	-	46,150
CONSOLIDATED LIABILITIES	**188,440**	**68,086**	**-33,465**	**223,061**

Segment information by geographical area

The following table indicates the revenues for the full year 2010 and 2009 divided by geographical area:

(Values in thousands of EUR)	Full Year 2010	%	Full Year 2009	%	Change Δ	%
Italy	93,123	42.5%	89,692	41.3%	3,431	3.8%
Europe (Italy and Russia excluded)	46,726	21.3%	48,493	22.3%	-1,767	-3.6%
Russia	13,473	6.1%	14,394	6.6%	-921	-6.4%
United States	19,443	8.9%	17,832	8.3%	1,611	9.0%
Japan	19,283	8.8%	15,226	7.0%	4,057	26.6%
Rest of the World	27,192	12.4%	31,402	14.5%	-4,210	-13.4%
Total	**219,240**	**100.0%**	**217,039**	**100.0%**	**2,201**	**1.0%**

COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

21. *Revenues from sales and services*

In 2010, revenues from sales and services amount to EUR 219,240 thousand compared to EUR 217,039 thousand in 2009, with a 1.0% increase at current exchange rates (-0.6% at constant exchange rates).

Revenues of the *prêt-à-porter* division amount to EUR 180,767 thousand, up by 1.5% at current exchange rates compared to 2009 (down by 0.5% at constant exchange rates), while revenues of the footwear and leather goods division are in line with 2009 and amount to EUR 50,292 thousand.

22. *Other revenues and income*

This item comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	Change %
Extraordinary income	1,411	1,017	394	38.7%
Other income	4,443	4,839	-396	-8.2%
Total	**5,854**	**5,856**	**-2**	**0.0%**

In 2010, the caption extraordinary income, composed by recovery of receivables from bankrupt customers, time expiry of receivables and payables that arose in prior years, increases by 394 thousand compared to 2009 for the prescription of some debts related to previous years.

The caption other income, which amounts to EUR 4,443 thousand in 2010, mainly refers to exchange gains on commercial transaction, rental income, sales of raw materials and packaging.

23. *Costs of raw materials*

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	Change %
Raw, ancillary and consumable materials and goods for resale	65,366	65,159	207	0.3%
Total	**65,366**	**65,159**	**207**	**0.3%**

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 to the variation in volumes sold.

24. *Costs of services*

This item comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Subcontracted work	23,175	25,435	-2,260	-8.9%
Consultancy fees	13,727	15,833	-2,106	-13.3%
Advertising	10,992	13,749	-2,757	-20.1%
Commission	4,161	4,621	-460	-10.0%
Transport	3,781	3,869	-88	-2.3%
Utilities	2,284	2,523	-239	-9.5%
Directors' and auditors' fees	2,768	2,910	-142	-4.9%
Insurance	773	803	-30	-3.7%
Bank charges	1,163	1,099	64	5.8%
Travelling expenses	2,248	2,133	115	5.4%
Other services	5,457	6,502	-1,045	-16.1%
Total	**70,529**	**79,477**	**-8,948**	**-11.3%**

Costs of services decrease from EUR 79,477 thousand in the year 2009 to EUR 70,529 thousand in the year 2010, down 11.3%. The decrease is due to:

- the reduction of subcontracted work, which has to be examined jointly with the cost of raw materials because together form the cost of goods sold. In terms of incidence on turnover, this cost component declines from 43.8% of 2009 to 39.4% of 2010. The decrease of such incidence is mainly attributable to the major importance of the turnover of the retail channel (which benefits of a better profitability compared to the wholesale channel) on the Group's whole turnover and to the optimization of sample costs consequent to the cost containment policy undertaken by the Group.
- the reduction of costs for "Consultancy fees" mainly due to the reduction in the year 2010 of the fees paid to the company Bluebell for administrative and commercial consultancies related to the companies in Joint Venture (terminated on 31 March 2010) in the Asian market.
- the reduction of costs for "Advertising" consequent to the cost reduction policy enacted by the management in the year 2010. We clarify that the expenses of the Group for advertising and public relations in total (classified by nature in different entries of the income statement) keep an incidence of about 8% on turnover, in line compared to previous years.
- the reduction of costs for "Commissions" consequent partially to the sales slowdown related to the wholesale channel and partially to a major use of own sales channels.
- the reduction of costs for "Other services" consequent to the cost reduction policy enacted by the management.

25. Costs for use of third parties assets

This item comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Rental expenses	19,614	16,114	3,500	21.7%
Royalties	2,090	2,146	-56	-2.6%
Hire charges and similar	802	972	-170	-17.5%
Total	**22,506**	**19,232**	**3,274**	**17.0%**

The costs for use of third parties assets increases by EUR 3,274 thousand from EUR 19,232 thousand in 2009 to EUR 22,506 thousand in 2010, mainly due to the opening of the subsidiary Aeffe Japan, which, since 2010, manages directly both retail and wholesale channel for the brand "Alberta Ferretti" in Japan.

26. *Labour costs*

Labour costs decreases from EUR 63,065 thousand in 2009 to EUR 61,008 thousand in 2010 with an incidence on revenues which changes from 29.1% in 2009 to 27.8% in 2010. The reduction of labour costs is due to the activation in 2010 of the Extraordinary Profit Redundancy Fund, to the activation in the same period of the Contract of Solidarity and to the sale of some companies operating in the Asian market following the termination of the joint venture with the company Bluebell. Such decrease is partially compensated by the opening of new directly operated stores during the year 2010 and to the presence at full capacity of the subsidiary Aeffe Japan (operative from half 2009) for the entire year 2010.

This item comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Labour costs	61,008	63,065	-2,057	-3.3%
Total	**61,008**	**63,065**	**-2,057**	**-3.3%**

In 2010 the average number of employees of the Group is:

Average number of employees by category	Full Year 2010	Full Year 2009	Change Δ	%
Workers	421	448	-27	-6%
Office staff-supervisors	1,017	1,037	-20	-2%
Executive and senior managers	27	29	-2	-7%
Total	**1,465**	**1,514**	**-49**	**-3%**

27. *Other operating expenses*

This item includes:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Taxes	612	591	21	3.6%
Gifts	286	166	120	72.3%
Contingent liabilities	1,032	1,447	-415	-28.7%
Write-down of current receivables	373	409	-36	-8.8%
Foreign exchange losses	1,317	1,316	1	0.1%
Other operating expenses	657	544	113	20.8%
Total	**4,277**	**4,473**	**-196**	**-4.4%**

The caption other operating expenses amounts to EUR 4,277 thousand and is substantially in line with the value of the previous year.

28. *Amortisation, write-downs and provisons*

This item includes:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Amortisation of intangible fixed assets	7,775	6,452	1,323	20.5%
Depreciation of tangible fixed assets	6,006	6,822	-816	-12.0%
Write-downs and provisions	2,882	901	1,981	219.9%
Total	**16,663**	**14,175**	**2,488**	**17.6%**

The increase in the amortisation of intangible fixed assets is generated by the increase in investments made by the subsidiary Moschino Korea and fully amortised during the year.

The caption write-downs and provisions is related, for EUR 2,316 thousand, to the write-down of the key money related to two boutiques based in Rome and Florence.

29. Financial income/ expenses

This item include:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Interest income	50	63	-13	-20.6%
Foreign exchange gains	2,326	205	2,121	1034.6%
Financial discounts	62	20	42	210.0%
Other income	1	7	-6	-85.7%
Financial income	**2,439**	**295**	**2,144**	**726.8%**
Bank interest expenses	2,439	2,386	53	2.2%
Other interest expenses	187	262	-75	-28.6%
Lease interest	262	328	-66	-20.1%
Foreign exchange losses	444	234	210	89.7%
Other expenses	589	790	-201	-25.4%
Financial expenses	**3,921**	**4,000**	**-79**	**-2.0%**
Total	**1,482**	**3,705**	**-2,223**	**-60.0%**

The decrease in financial income/expenses amounts to EUR 2,223 thousand. Such effect is substantially linked to:

- the positive exchange differences generated by loans in foreign currency (in particular those active in Japanese yen);
- the reduction of the average interest rate of the year 2010 compared to the one of 2009, that has compensated the increase in the net financial indebtedness.

30. Income taxes

This item includes:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Current income taxes	2,796	2,694	102	3.8%
Deferred income (expenses) taxes	-3,146	-9,753	6,607	-67.7%
Total income taxes	**-350**	**-7,059**	**6,709**	**-95.0%**

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 2010 and 2009 is illustrated in the following table:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Profit / loss before taxes	-14,606	-30,836
Theoretical tax rate	27.5%	27.5%
Theoretical income taxes (IRES)	**-4,017**	**-8,480**
Fiscal effect	1,362	-74
Effect of foreign tax rates	1,358	657
Total income taxes excluding IRAP (current and deferred)	**-1,297**	**-7,897**
IRAP (current and deferred)	**947**	**838**
Total income taxes (current and deferred)	**-350**	**-7,059**

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 2010 is EUR 825 thousand.

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
OPENING BALANCE (A)	**5,337**	**7,706**
Cash flow (absorbed)/ generated by operating activity (B)	746	-10,624
Cash flow (absorbed)/ generated by investing activity (C)	-6,252	-4,219
Cash flow (absorbed)/ generated by financing activity (D)	4,681	12,474
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**-825**	**-2,369**
CLOSING BALANCE (F)=(A)+(E)	**4,512**	**5,337**

31. *Cash flow (absorbed)/ generated by operating activity*

The cash flow generated by operating activity during 2010 amounts to EUR 746 thousand.

The cash flow from operating activity is analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Profit before taxes	-14,606	-30,836
Amortisation / write-downs	16,662	13,636
Accrual (+)/availment (-) of long term provisions and post employment benefits	-413	-1,054
Paid income taxes	-2,227	-1,783
Financial income (-) and financial charges (+)	1,482	3,705
Change in operating assets and liabilities	-152	5,708
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**746**	**-10,624**

32. *Cash flow (absorbed)/ generated by investing activity*

The cash flow absorbed by investing activity during 2010 amounts to EUR 6,252 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Increase (-)/ decrease (+) in intangible fixed assets	-4,940	1,142
Increase (-)/ decrease (+) in tangible fixed assets	-5,039	-4,999
Investments ans write-downs (-)/ Disinvestments and revaluations (+)	3,727	-362
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**-6,252**	**-4,219**

33. *Cash flow (absorbed)/ generated by financing activity*

The cash flow generated by financing activity during 2010 amounts to EUR 4,681 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Other variations in reserves and profits carried-forward of shareholders' equity	-694	-1,030
Dividends paid	0	-710
Proceeds (+)/ repayments (-) of financial payments	7,033	18,494
Increase (-)/ decrease (+) in long term financial receivables	-176	-575
Financial income (+) and financial charges (-)	-1,482	-3,705
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**4,681**	**12,474**

OTHER INFORMATION

34. Stock options plan

Regarding the information on stock options plan see Report on operations.

For the details relating to the stock options granted to directors, general managers and executive with strategic responsibilities see attachment VI.

35. 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 31 December 2010 is analysed below:

(Values in thousands of EUR)	31 December 2010	31 December 2009
A - Cash in hand	799	1,176
B - Other available funds	3,713	4,161
C - Securities held for trading	-	-
D - Cash and cash equivalents (A) + (B) + (C)	*4,512*	*5,337*
E - Short term financial receivables	-	-
F - Current bank loans	-82,122	-62,801
G - Current portion of long-term bank borrowings	-3,249	-4,815
H - Current portion of loans from other financial istitutions	-1,455	-7,228
I - Current financial indebtedness (F) + (G) + (H)	*-86,826*	*-74,844*
J - Net current financial indebtedness (I) + (E) + (D)	*-82,314*	*-69,507*
K - Non current bank loans	-10,035	-13,295
L - Issued obbligations	-	-
M - Other non current loans	-3,176	-4,865
N - Non current financial indebtedness (K) + (L) + (M)	*-13,211*	*-18,160*
O - Net financial indebtedness (J) + (N)	***-95,525***	***-87,667***

The net financial position of the Group amounts to EUR 95,525 thousand as of 31 December 2010 compared with EUR 87,667 thousand as of 31 December 2009. The increase is mainly due to the economic result of the year and to the investments realized in the period for EUR 6,252 thousand.

36. Earnings per share

Basic earnings per share:

(Values in thousands of EUR)	31 December 2010	31 December 2009
Consolidated earnings for the period for shareholders of the parent company	-12,507	-20,088
Medium number of shares for the period	101,740	101,740
Basic earnings per share	**-0.123**	**-0.197**

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

37. 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)	Full Year 2010	Full Year 2009	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.a.			
Contract for the sale of artistic assets and design	300	300	Cost
Ferrim with Aeffe S.p.a.			
Property rental	1,206	1,409	Cost
Ferrim with Moschino S.p.a.			
Property rental	979	971	Cost
Commercial	211	-	Revenue
Commercial	244	-	Payable
Commercial	110	-	Receivable
Commerciale Valconca with Aeffe S.p.a.			
Commercial	523	181	Revenue
Cost of services	104	108	Cost
Commercial	873	662	Receivable
Commercial	92	105	Payable
Gir + A&f with Aeffe S.p.a.			
Commercial	289	294	Other revenues
Commercial	169	167	Receivable
Aeffe France with Solide Real Estate France			
Property rental	272	279	Cost
Commercial	100	71	Payable
Commercial	6	122	Other receivable
Moschino France with Solide Real Estate France			
Property rental	333	340	Cost
Commercial	518	342	Payable

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 31 December 2010 and 31 December 2009.

(Values in thousands of EUR)	Balance Full Year	Value rel. party 2010	%	Balance Full Year	Value rel. party 2009	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	219,240	734	0.3%	217,039	181	0.1%
Other revenues	5,854	289	4.9%	5,856	294	5.0%
Costs of services	70,529	404	0.6%	79,477	408	0.5%
Costs for use of third party assets	22,506	2,790	12.4%	19,232	2,999	15.6%
Incidence of related party transactions on the balance sheet						
Trade receivables	27,488	1,152	4.2%	26,869	829	3.1%
Other receivables	26,974	6	0.0%	25,345	122	0.5%
Trade payables	47,644	954	2.0%	42,133	518	1.2%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activities	746	-1,942	n.a.	-10,624	-2,682	25.2%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	-95,525	-1,942	2.0%	-87,667	-2,682	3.1%

38. *Atypical and/or unusual transactions*

Pursuant to Consob communication DEM/6064293 dated 28th July 2006, it is confirmed that in 2010 the Group did not enter into any atypical and/or unusual transactions, as defined in that communication.

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

In the year 2010 no non-recurring events or transactions have been realised.

40. *Guarantees and commitments*

As of 31 December 2010, the Group has given performance guarantees to third parties totaling EUR 4,920 thousand (EUR 8,757 thousand as of 31 December 2009) and has received guarantees totaling EUR 235 thousand (EUR 85 thousand as of 31 December 2009).

41. *Contingent liabilities*

Fiscal disputes

The Group's tax disputes refer to the following companies:

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 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 concern 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 Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. For this tax dispute the company is waiting for the date for discussion of the dispute before the Bologna Regional Tax Commission to be set.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies.

On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted.

Aeffe Retail S.p.A.: the company has been subjected to an inspection covering its direct taxes, VAT and Irap for the 2007 tax year by officials from the Rimini Provincial Tax Department. Following this inspection, on 15 December 2010 the company was notified of the Inspection Minutes which disallow the deduction of costs totaling Euro 309 thousand (resulting in additional IRES of Euro 102 thousand, IRAP of Euro 13 thousand and VAT of Euro 62 thousand).

Pollini Retail S.r.l.: the case regarding the dispute in connection with non-recognition of VAT credit which arose in 2001, equal to approximately EUR 505 thousand, was discussed before the Regional Tax Commission of Bologna on 12 December 2008; on 12 February 2009 the injunction of the regional tax commission of Bologna ordering the Rimini office to provide the information necessary for assessing the amount due of VAT credit accrued by the company during FY 2001 was filed; with sentence no. 106/01/09, filed on 19 November 2009, the Regional Tax Commission of Bologna upheld the first level sentence. The company has appealed against said sentence with recourse to the Court of Cassation.

The tax dispute introduced with the appeal against the silent refusal of the Rimini Office to the application presented by the company, aimed at recognising the 2001 VAT credit that was the subject matter of the case specified in the foregoing paragraph, was discussed on 26 February 2010 before the Rimini Provincial Tax Commissioners. They have not yet registered the sentence.

Pollini S.p.A.: in connection with the tax dispute regarding recovery of VAT for FY 2002 due to non-invoicing of taxable transactions concerning the company (also in its capacity of merging company of the former *Pollini Industriale S.r.l.*), please be reminded that:

- in 2008 the Cesena Tax Office appealed against the order handed down by the Forlì Provincial Tax Commissioners, which fully upheld the company's appeal, and the appellee company appeared before the Regional Tax Commission of Bologna within the prescribed time;
- in January 2009 the company appealed against the order of the Forlì Provincial Tax Commissioners, which had rejected the defence's arguments on that specific point.

The cases, together, were discussed on 25 January 2010 by the Regional Tax Commission of Bologna. With sentences no. 27/13/10 and no. 23/13/10, filed on 17 February 2010, it confirmed the legitimacy of the notices of assessment issued to the company.

Because the Office has served the ruling n. 23/13/10 on 23 September 2010, on 22 November 2010 it has been presented recourse to the Court of Cassation.

Moschino S.p.A.: the company has been subjected to an inspection covering its direct taxes, VAT and Irap for the 2007 tax year by officials from the Milan Provincial Tax Department II. Following this inspection, on 23 December 2010 the company was notified of the Inspection Minutes which raise matters relevant for the purposes of IRES (with additional taxation of Euro 674 thousand), IRAP (with additional taxation of Euro 67 thousand) and VAT (with additional taxation of Euro 203 thousand). The company has taken the opportunity to present observations refuting the conclusions of the inspectors, as allowed by art. 12.7 of Law 212/2000 (Taxpayers Statute).

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

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 2010 for the audit and audit related services provided by the Audit Firm.

(Values in thousand of EUR)	Service provider	2010 fees
Audit	MAZARS	213
Audit	WARD DIVECHA	15
Total		**228**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I	Consolidated Assets Balance Sheet with related parties
ATTACHMENT II	Consolidated Liabilities Balance Sheet with related parties
ATTACHMENT III	Consolidated Income Statement with related parties
ATTACHMENT IV	Consolidated Cash Flow Statement with related parties
ATTACHMENT V	Remuneration paid to directors, statutory auditors, general managers and executives with strategic responsibilities
ATTACHMENT VI	Stock options granted to directors, statutory, general managers and executives with strategic responsibilities
ATTACHMENT VII	Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2009.

ATTACHMENT I

Consolidated Assets Balance Sheet with related parties

Pursuant to Consob Resolution n. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2010	of which Related parties	31 December 2009	of which Related parties
NON-CURRENT ASSETS					
Intangible fixed assets					
Key money		46,779,471		46,883,310	
Trademarks		106,429,503		109,923,023	
Other intangible fixed assets		964,147		202,142	
Total intangible fixed assets	(1)	154,173,121		157,008,475	
Tangible fixed assets					
Lands		17,710,420		17,599,237	
Buildings		32,623,344		32,751,230	
Leasehold improvements		14,593,956		15,229,172	
Plant and machinary		6,335,774		7,269,169	
Equipment		338,648		400,379	
Other tangible fixed assets		4,017,398		3,337,351	
Total tangible fixed assets	(2)	75,619,540		76,586,538	
Other fixed assets					
Equity investments	(3)	28,840		27,840	
Other fixed assets	(4)	2,988,617		2,812,254	
Deferred tax assets	(5)	15,026,668		14,544,857	
Total other fixed assets		18,044,125		17,384,951	
TOTAL NON-CURRENT ASSETS		**247,836,786**		**250,979,964**	
CURRENT ASSETS					
Stocks and inventories	(6)	73,086,479		69,482,860	
Trade receivables	(7)	27,487,606	1,152,134	26,868,686	829,271
Tax receivables	(8)	5,118,017		6,284,474	
Cash	(9)	4,512,265		5,336,905	
Other receivables	(10)	26,973,677	5,980	25,345,033	121,529
TOTAL CURRENT ASSETS		**137,178,044**		**133,317,958**	
Assets available for sale	(11)	793,885		9,257,006	
TOTAL ASSETS		**385,808,715**		**393,554,928**	

ATTACHMENT II

Consolidated Liabilities Balance Sheet with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	31 December 2010	of which Related parties	31 December 2009	of which Related parties
SHAREHOLDERS' EQUITY	**(12)**				
Group interest					
Share capital		25,371,407		25,371,407	
Share premium reserve		71,240,251		71,240,251	
Translation reserve		-2,384,986		-1,690,675	
Other reserves		31,078,596		36,250,028	
Fair Value reserve		7,901,240		7,901,240	
IAS reserve		11,459,492		11,459,492	
Profits / (losses) carried-forward		-2,341,726		12,749,353	
Net profit / (loss) for the Group		-12,506,617		-20,088,143	
Group interest in shareholders' equity		129,817,657		143,192,953	
Minority interest					
Minority interests in share capital and reserves		27,475,653		30,990,377	
Net profit / (loss) for the minority interests		-1,748,789		-3,689,092	
Minority interests in shareholders' equity		25,726,864		27,301,285	
TOTAL SHAREHOLDERS' EQUITY		**155,544,521**		**170,494,238**	
NON-CURRENT LIABILITIES					
Provisions	(13)	1,414,943		1,247,299	
Deferred tax liabilities	(5)	41,161,918		42,773,359	
Post employment benefits	(14)	9,204,059		9,784,848	
Long term financial liabilities	(15)	13,211,420		18,159,414	
Long term not financial liabilities	(16)	14,241,401		14,241,401	
TOTAL NON-CURRENT LIABILITIES		**79,233,741**		**86,206,321**	
CURRENT LIABILITIES					
Trade payables	(17)	47,643,680	954,041	42,133,025	518,060
Tax payables	(18)	2,892,460		3,376,900	
Short term financial liabilities	(19)	86,826,109		74,844,328	
Other liabilities	(20)	13,668,204		14,646,542	
TOTAL CURRENT LIABILITIES		**151,030,453**		**135,000,795**	
Liabilities available for sale	(11)	-		1,853,574	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**385,808,715**		**393,554,928**	

ATTACHMENT III

Consolidated Income Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in units of EUR)	Notes	Full Year 2010	of which Related parties	Full Year 2009	of which Related parties
REVENUES FROM SALES AND SERVICES	**(21)**	**219,239,971**	**734,243**	**217,038,684**	**181,250**
Other revenues and income	(22)	5,853,981	288,544	5,856,492	294,162
TOTAL REVENUES		**225,093,952**		**222,895,176**	
Changes in inventory		2,129,664		-4,444,459	
Costs of raw materials, cons. and goods for resale	(23)	-65,366,354		-65,159,013	
Costs of services	(24)	-70,528,666	-403,524	-79,476,770	-408,174
Costs for use of third parties assets	(25)	-22,505,692	-2,790,254	-19,232,337	-2,999,329
Labour costs	(26)	-61,007,720		-63,065,494	
Other operating expenses	(27)	-4,276,521		-4,473,299	
Amortisation, write-downs and provisions	(28)	-16,662,765		-14,175,306	
Financial Income / (expenses)	(29)	-1,481,640		-3,704,966	
PROFIT / LOSS BEFORE TAXES		**-14,605,742**		**-30,836,468**	
Income Taxes	(30)	350,336		7,059,233	
NET PROFIT / LOSS		**-14,255,406**		**-23,777,235**	
(Profit) / loss attributable to minority shareholders		1,748,789		3,689,092	
NET PROFIT / LOSS FOR THE GROUP		**-12,506,617**		**-20,088,143**	

ATTACHMENT IV

Consolidated Cash Flow Statement with related parties

Pursuant to Consob Resolution N. 15519 of 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2010	of which Related parties	Full Year 2009	of which Related parties
OPENING BALANCE		**5,337**		**7,706**	
Profit before taxes		-14,606	-2,171	-30,836	-2,932
Amortisation / write-downs		16,662		13,636	
Accrual (+)/availment (-) of long term provisions and post employment benefits		-413		-1,054	
Paid income taxes		-2,227		-1,783	
Financial income (-) and financial charges (+)		1,482		3,705	
Change in operating assets and liabilities		-152	229	5,708	250
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(31)**	**746**		**-10,624**	
Increase (-)/ decrease (+) in intangible fixed assets		-4,940		1,142	
Increase (-)/ decrease (+) in tangible fixed assets		-5,039		-4,999	
Investments and write-downs (-)/ Disinvestments and revaluations (+)		3,727		-362	
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(32)**	**-6,252**		**-4,219**	
Other variations in reserves and profits carried-forward of shareholders' equity		-694		-1,030	
Dividends paid		0		-710	
Proceeds (+)/ repayments (-) of financial payments		7,033		18,494	
Increase (-)/ decrease (+) in long term financial receivables		-176		-575	
Financial income (+) and financial charges (-)		-1,482		-3,705	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(33)**	**4,681**		**12,474**	
CLOSING BALANCE		**4,512**		**5,337**	

ATTACHMENT V

Remuneration paid to directors, statutory auditors, general managers and executives with strategic responsibilities (art.78 regolamento Consob n. 11971/99)

Name	Office held in 2010	Period in office	Expiration *	Compensa-tion for office held	Non-cash benefits	Bonuses and other incentives	Other fees	Total
DIRECTORS								
Massimo Ferretti	Chairman	01/01-31/12/2010	2011	604			251	855
Alberta Ferretti	Deputy Chairman and Executive Director	01/01-31/12/2010	2011	483			77	560
Simone Badioli	Chief Executive Officer and Executive Director	01/01-31/12/2010	2011	254			98	352
Marcello Tassinari	Managing Director and Executive Director	01/01-31/12/2010	2011	331 **			87	418
Umberto Paolucci	Independent, non-executive Director	01/01-31/12/2010	2011	60				60
Roberto Lugano	Independent, non-executive Director	01/01-31/12/2010	2011	27			3	30
Pierfrancesco Giustiniani	Independent, non-executive Director	01/01-31/12/2010	2011	30				30
STATUTORY AUDITORS								
Romano Del Bianco	Statutory auditor	01/01-31/12/2010	2011	10			9	19
Bruno Piccioni	Statutory auditors	01/01-31/12/2010	2011	10			8	18
Fernando Ciotti	President of the Board of Statutory Auditors	01/01-31/12/2010	2011	13			22	35
EXECUTIVE WITH STRATEGIC RESPONSABILITIES								
Antonella Tomasetti	Chief Executive Officer of Pollini and Pollini Retail					62	320	382
Alessandro Varisco	Managing Director of Moschino						373	373
Matsumi Mitsuyasu	Chief Executive Officer of Aeffe Japan				40		293	333
Michelle Stein	Chairman of Aeffe Usa						340	340
Total				**1,822**	**40**	**62**	**1,880**	**3,804**
							(1)	**(2)**

(*) year in which the shareholders' meeting is held to approve the financial statements and at which the mandate expires

(**) includes 30 thousand as director's emoluments and the balance as executive of the Parent Company

(1) includes remuneration for work as employee and on behalf of subsidiary companies and fees for Inspection committee

(2) excludes employer's social security contributions

ATTACHMENT VI

Stock options granted to directors, general managers and executives with strategic responsibilities

Name and Surname	Appointments held in 2010	Options held at 31/12/09			Options granted in 2010			Options exercised in 2010			Expired options	Options held at the end of 2010		
(A)	(B)	N. of options (1)	Average exercise price (2)	Average expiry (3)	N. of options (4)	Average exercise price (5)	Average expiry (6)	N. of options (7)	Average exercise price (8)	Average expiry (9)	N. of options (10)	N. of options (11) = 1+4-7-10	Average exercise price (12)	Average expiry (13)
Massimo Ferretti	Chairman	396,488	4.1	2015							198,244	198,244	4.1	2015
Alberta Ferretti	Deputy Chairman and Executive Director	396,488	4.1	2015							198,244	198,244	4.1	2015
Simone Badioli	Chif Executive Officer and Executive Director	377,608	4.1	2015							188,804	188,804	4.1	2015
Marcello Tassinari	Managing Director and Executive Director	377,608	4.1	2015							188,804	188,804	4.1	2015
Other employees of the Group		132,162	4.1	2015							66,081	66,081	4.1	2015
Total		**1,680,354**									**840,177**	**840,177**		

ATTACHMENT VII

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2009

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2009	STATUTORY FINANCIAL STATEMENTS 2008
BALANCE SHEET		
ASSETS		
Intangible fixed assets	296,269	9,091
Equity investments	80,785,928	70,638,590
Non current assets	**81,082,197**	**70,647,681**
Trade receivables	273,510	544,646
Tax receivables	7,217,792	7,000,000
Cash	417,540	450,573
Other receivables	102,444	-
Current assets	**8,011,286**	**7,995,219**
Total assets	**89,093,483**	**78,642,900**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	67,783,322	67,783,322
Other reserves	31,125	-
Profits / (losses) carried-forward	-	-15,912
Net profit / loss	253,725	47,037
Shareholders' equity	**68,168,172**	**67,914,447**
Long term financial liabilities	10,500,000	10,500,000
Non-current liabilities	**10,500,000**	**10,500,000**
Trade payables	10,425,311	228,453
Current liabilities	**10,425,311**	**228,453**
Total shareholders' equity and liabilities	**89,093,483**	**78,642,900**

INCOME STATEMENT		
Revenues from sales and services	**-**	**-**
Other revenues and income	-	500,000
Total revenues	**-**	**500,000**
Operating expenses	-92,870	-592,856
Amortisation and write-downs	-18,201	-2,932
Provisions	-1,490	-1,338
Financial income / (expenses)	43,808	-102,873
Income / (expenses) from affiliates	280,980	802,800
Financial assets adjustments	-	-600,000
Extraordinary income /(expenses)	37,864	-
Profit / (loss) before taxes	**250,091**	**2,801**
Income taxes	3,634	44,236
Net profit / (loss)	**253,725**	**47,037**

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

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A. 's financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- The adequacy with respect to the Company structure and
- The effective application

of the administrative and accounting procedures applied in the preparation of the consolidated financial statements at 31 December 2010.

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.

9 March 2011

President of the board of directors

Massimo Ferretti

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

Marcello Tassinari

STATUTORY FINANCIAL STATEMENTS AT 31 DECEMBER 2010

Report on operations

1. ECONOMIC BACKGROUND

Shareholders,

We find it necessary to focus on the main macroeconomic variables in the sphere of which our Company has found itself operating.

INTERNATIONAL MACROECONOMIC SITUATION

As announced at the end of 2009, 2010 was the year of recovery. A recovery experienced at two speeds, however. Growth continues to flag in the advanced economies, with unemployment and repeated signs of financial stress on the margins of the Euro area as ongoing risk factors. Activities in the emerging economies, on the other hand, are expanding, despite the emergence of inflationary pressures and the first signs of overheating. The developing countries have also returned to growth at a sustained pace.

World growth is expected to have been about 5% in 2010, compared with the 0.6% contraction in global GDP experienced in 2009.

As mentioned, the emerging countries were the locomotive of world growth, with China and India expanding at expected rates of 10.5% and 9.7% respectively in 2010. Such expansion is increasingly attributable to domestic demand, which has become one of the primary drivers of growth. Brazil is the surprise entry at third place in this classification of countries with the fastest growth. GDP there is thought to have risen by 7.5% due, above all, to its exports of raw materials, but also to robust domestic demand. By contrast, the growth rate in Russia was about 3.7%, partly because the crisis there was very strong (GDP contracted by 7.9% in 2009), resulting in a slower recovery.

Turning to the advanced economies, the fastest growth was achieved by Japan, with an expected 4.3% rise in GDP during 2010, due to policies that stimulated domestic demand and new fiscal measures. The economy of the United States expanded by 2.8%, here too due to the stimulation of domestic demand. Lastly, the Euro area economies achieved the slowest growth overall, about 1.8%, with clear differences between the various countries (Germany + 3.6%, France +1.6%, Italy +1%, Spain -0.2%). Once again, fiscal policies and the stimulation of domestic demand underpinned growth, which however was affected by the financial tensions experienced on the periphery of the area (Greece, Portugal, Ireland).

Expectations for 2011 remain positive, with world GDP forecast to rise by 4.5% due to the performance of the emerging countries, likely to contribute lively growth of around 6.5% overall, and of certain developing areas.

The situation is a little different in the advanced economies, where growth might falter due to possible financial tensions in the Euro area, the absence of efficient fiscal policies over the medium term, the weakness of the real estate market and the rise in raw material prices, caused by ever higher demand from the emerging economies. Political action to reduce the vulnerability of systems and strengthen growth in the coming years will be decisive.

With regard to the Italian economy, a modest upturn in growth is expected for 2010, with a rise in GDP of 1% following the 5% drop experienced in 2009. Italy, too, is faced with uncertainties about the recovery. These are linked to the scale of demand, the unemployment rate and the tensions in Europe's financial markets, where Italy has occasionally been the target of speculation. GDP is again forecast to rise by about 1% in 2011. This is less than that expected from the bigger players in the world economy, consistent - it must be said - with the situation in the years prior to the crisis.

MACROECONOMIC BACKGROUND TO THE CLOTHING SECTOR

Finally, with particular reference to fashion and the so-called "luxury goods" sector, the estimates for 2010 presented by Bain & Company at the Altagamma conference indicate an 8% rise in global sales, compared with a worldwide contraction of 8% in 2009. This inversion of the trend was due to the radical restructuring undertaken by the sector, and by the larger firms in particular, in response to the consequences of the economic crisis. The recovery was led by the mono-brand retail and on-line stores, rather than by the wholesale, multi-brand channel. Further growth is expected in 2011, albeit at a more modest rate of between 3% and 5%. The real challenge will be to approach the new decade with strategies capable of delivering results in line with those achieved over the past ten years.

2. TREND OF THE COMPANY MANAGEMENT

INCOME STATEMENT

(Values in units of EUR)	Full year 2010	% on revenues	Full year 2009	% on revenues	Change 2010/09	%
REVENUES FROM SALES AND SERVICES	**115.918.073**	**100,0%**	**116.452.178**	**100,0%**	**- 534.105**	**-0,5%**
Other revenues and income	5.060.659	4,4%	5.363.592	4,6%	-302.933	-5,6%
TOTAL REVENUES	**120.978.732**	**104,4%**	**121.815.770**	**104,6%**	**- 837.038**	**-0,7%**
Changes in inventory	-1.833.195	-1,6%	-1.341.674	-1,2%	-491.521	36,6%
Costs of raw materials, cons. and goods for resale	-37.470.337	-32,3%	-37.392.388	-32,1%	-77.949	0,2%
Costs of services	-42.482.589	-36,6%	-40.796.390	-35,0%	-1.686.199	4,1%
Costs for use of third parties assets	-11.045.884	-9,5%	-14.719.352	-12,6%	3.673.468	-25,0%
Labour costs	-23.132.976	-20,0%	-25.333.734	-21,8%	2.200.758	-8,7%
Other operating expenses	-2.171.782	-1,9%	-1.497.775	-1,3%	-674.007	45,0%
Total Operating Costs	-118.136.763	-101,9%	-121.081.313	-104,0%	2.944.550	-2,4%
GROSS OPERATING MARGIN (EBITDA)	**2.841.969**	**2,5%**	**734.457**	**0,6%**	**2.107.512**	**286,9%**
Amortisation of intangible fixed assets	-154.031	-0,1%	-154.977	-0,1%	946	-0,6%
Depreciation of tangible fixed assets	-2.416.627	-2,1%	-2.522.461	-2,2%	105.834	-4,2%
Revaluations (write-downs)	-200.000	-0,2%	-1.849.755	-34,5%	1.649.755	-89,2%
Total Amortisation and write-downs	-2.770.658	-2,4%	-4.527.193	-3,9%	1.756.535	-38,8%
NET OPERATING PROFIT / LOSS (EBIT)	**71.311**	**0,1%**	**-3.792.736**	**-3,3%**	**3.864.047**	**-101,9%**
Financial income	687.429	0,6%	526.263	0,5%	161.166	30,6%
Financial expenses	-2.857.180	-2,5%	-2.755.493	-2,4%	-101.687	3,7%
Total Financial Income / (expenses)	-2.169.751	-1,9%	-2.229.230	-1,9%	59.479	-2,7%
PROFIT / LOSS BEFORE TAXES	**-2.098.440**	**-1,8%**	**-6.021.966**	**-5,2%**	**3.923.526**	**-65,2%**
Current income taxes	-414.206	-0,4%	-335.341	-0,3%	-78.865	23,5%
Deferred income / (expenses) taxes	322.419	0,3%	1.185.875	1,0%	-863.456	-72,8%
Total Income Taxes	-91.787	-0,1%	850.534	0,7%	-942.321	-110,8%
NET PROFIT / LOSS	**-2.190.227**	**-1,9%**	**-5.171.432**	**-4,4%**	**2.981.205**	**-57,6%**

Revenues from sales and services

Revenues decrease by 0.5%, from EUR 116,452 thousand in 2009 to EUR 115,918 thousand in 2010.

Analysing brand performance in greater detail:

- Alberta Ferretti and Philosophy - revenues from sales and services decrease by 9.9%;
- Moschino and Cheap & Chic - revenues from sales and services increase by 9.39%;
- Jean Paul Gaultier - revenues from sales and services decrease by 13.84%.
- Other minority brands - revenues from sales and services reported a general decrease;

In line with historical trends, 30% of revenues are earned in Italy and 70% come from foreign markets.

Labour costs

Labour costs decrease from EUR 25,334 thousand in 2009 to EUR 23,133 thousand in 2010.

At 21 December 2009 the Company has subscribed an agreement with Trade Unions, by the Minister of Labour and Social Policy, in order to activate the Extraordinary Profit Redundancy Fund and the Contract of Solidarity, whose benefits have been realized in the year 2010.

Gross Operating Margin (EBITDA)

EBITDA increases from 0.6% in 2009 to 2.5% in 2010, representing an increase in absolute terms of EUR 2,108 thousand.

Such increase is the consequence of the savings on fixed costs policy enacted by the management.

The major actions undertaken, from which a savings on fixed costs have been generated, concern the following areas:

- Research and development costs: reduced prototype costs; greater attention paid to the market's requirements and consequent reduction of the number of pieces per collection; reduction of the days of sales campaign and consequent cost savings for models and casual labour;
- elimination of the minor product lines;
- check up of all production process and of the supply chain;
- rationalisation of the retail channel to reduce costs and obtain turnover synergies through aggregations and displacements.

It is important to clarify that all of these actions were implemented in order to attain greater efficiencies and that when demand increases, the Company will absolutely be able to meet the heavier requirements.

Net operating profit (EBIT)

Net operating profit increases from -3.3% in 2009 to 0.1% in 2010. Such variation includes also the write-down of the equity investment in the subsidiary Ferretti Studio S.r.l., merged for incorporation, for EUR 1,650 thousand. Such write-down, recorded in the year 2009, has been made in order to obtain the alignment of the book value of the equity investment with its estimated recoverable amount.

Profit / loss before taxes

Profit / loss before taxes increases from EUR -6,022 thousand in 2009 to EUR - 2,098 thousand in 2010.

Net profit / loss

Net Profit / loss increases from EUR -5,171 thousand in 2009 to EUR -2,190 thousand in 2010.

BALANCE SHEET

(Values in units of EUR)	31 December 2010	31 December 2009
Trade receivables	69,056,407	53,184,047
Stock and inventories	23,359,095	25,244,358
Trade payables	-68,854,572	-60,866,158
Operating net working capital	**23,560,930**	**17,562,247**
Other short term receivables	14,289,535	12,574,501
Tax receivables	4,255,102	5,316,900
Other short term liabilities	-5,746,750	-5,884,180
Tax payables	-1,392,063	-1,350,866
Net working capital	**34,966,754**	**28,218,602**
Tangible fixed assets	49,087,028	50,947,576
Intangible fixed assets	4,190,589	4,206,027
Equity investments	95,570,635	88,196,925
Other fixed assets	42,331,582	45,126,209
Fixed assets	**191,179,834**	**188,476,737**
Post employment benefits	-5,217,927	-5,344,823
Provisions	-661,800	-2,305,121
Long term not financial liabilities	-3,292,540	
Deferred tax assets	7,038,552	5,787,345
Deferred tax liabilities	-7,775,163	-7,767,601
NET CAPITAL INVESTED	**216,237,710**	**207,065,139**
Share capital	25,371,407	25,371,407
Other reserves	111,146,453	116,371,424
Profits/(Losses) carried-forward	2,174,878	2,154,670
Profits/(Loss) for the period	-2,190,227	-5,171,432
Shareholders' equity	**136,502,511**	**138,726,069**
Cash	-852,067	-454,910
Long term financial liabilities	13,175,551	17,889,992
Short term financial liabilities	67,411,715	50,903,988
NET FINANCIAL POSITION	**79,735,199**	**68,339,070**
SHAREHOLDERS' EQUITY AND NET FINANCIAL INDEBTEDNESS	**216,237,710**	**207,065,139**

NET CAPITAL INVESTED

Net capital invested increases by 4.4% since 31 December 2009.

Net working capital

Net working capital amounts to EUR 23,561 thousand at 31 December 2010 compared with EUR 17,562 thousand at 31 December 2009. Changes in the main items included in the net working capital are described below:

- the sum of trade receivables and trade payables increases by EUR 7,884 thousand due to the merge for incorporation of the subsidiary Ferretti Studio S.r.l. happened during the year 2010 and to the increase of payables and receivables with the subsidiaries; inventories decrease by EUR 1,885 thousand due to policies of stock clearance for finished products related to non-current seasons ;

- the increase of EUR 1,715 thousand in other receivables. Such increase is mainly due to the suspension of advertising and stylism costs related to the activity carried out by the subsidiary Ferretti Studio S.r.l. merged for incorporation during the year 2010; further to the credits versus social security agency for the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity;
- the tax receivables decrease is mainly due to the decrease of VAT receivables as a consequence of the fall in supplying made in Italy .

Fixed assets

Fixed assets increase by EUR 2,703 thousand since 31 December 2009. The changes in the main items are described below:

- tangible fixed assets decrease of EUR 1,860 thousand as a consequence of the investments for EUR 643 thousand for setting up new corners and shop in shops , depreciation for EUR 2,417 thousand and disposals for EUR 86 thousand;
- intangible fixed assets decrease of EUR 15 thousand due to investments in software for EUR 139 thousand and amortisation for EUR 154 thousand;
- equity investments increase of EUR 7,374 thousand mainly due to the operation of covering operating losses of the subsidiary Velmar S.p.A. and Aeffe Retail S.p.A. through renunciation of receivables and capital contribution;
- other non-current activities decrease of EUR 2,795 thousand due to the renunciation of receivables versus Aeffe Retail S.p.A.. Such variation has been compensated by the subscription of new loans to our subsidiary Aeffe Japan.

NET FINANCIAL POSITION

The Company's net financial position improves from EUR 68,339 thousand as of 31 December 2009 to EUR 79,735 thousand as of 31 December 2010. The increase is mainly due to the loss of the year and to the following events:

- investments in intangible and tangible fixed assets during the year;
- loans and payment extension to the subsidiaries, in line with the management strategy of the group financial needs;
- cover of operating losses of the subsidiary Velmar S.p.A. through a capital contribution of EUR 1,831 thousand. Following such operation the Company holds the 100% of the share capital, becoming the sole shareholder.

SHAREHOLDERS' EQUITY

Total shareholders' equity decreases by EUR 2,224 thousand. The reasons for this decrease are detailed in the Explanatory Notes.

3. 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 19,030 thousand, have been charged to the 2010 Income Statement.

4. INFORMATION PURSUANT TO POINT 6-BIS OF ART. 2428.3 OF THE ITALIAN CIVIL CODE

Pursuant to point 6-bis of art. 2428.3 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 the opening of loans in foreign currency.

Regarding the Company's objectives and policies on financial risks refer to the information reported in the Notes.

5. 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 09 March 2011 and is available in the Governance section of the Company's website: www.aeffe.com

The following parties hold each more than 2% of the Company's shares as of 31 December 2010:

Main shareholders	%
Fratelli Ferretti Holding S.r.l.	37.387%
I.M. Fashion S.A.	24.410%
Henderson Global Investors Ltd.	2.980%
Mediobanca S.p.A.	2.060%
Tullio Badioli	5.001%
Other shareholders(*)	28.162%

(*) 5.5% of own shares held by Aeffe S.p.A.

6. TREASURY SHARES

As of 31 December 2010, the Company holds 5,876,878 treasury shares, par value EUR 0.25 each, totalling 5.5% of its share capital. During the year no transactions on treasury shares have been carried out by the Company.

As of 31 December 2010 the Company does not hold shares of any controlling company either directly or indirectly.

7. 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. of shares held at 31/12/09	N. of shares bought in 2010	Change in n, of shares held by incoming/(outgoing) membersN. of shares sold in 2010	N. of shares held at 31/12/10
Alberta Ferretti	40.000	-	-	40.000
Massimo Ferretti	63.000	-	-	63.000
Simone Badioli	26.565	-	-	26.565
Romano Del Bianco	55.556	-	-	55.556

8. TRANSACTIONS BETWEEN GROUP COMPANIES AND WITH RELATED PARTIES

During the period, there were no transactions with related parties, including intragroup transactions, which qualified as unusual or atypical. Any related party transactions formed part of the normal business activities of companies in the Group. Such transactions are concluded at standard market terms for the nature of goods and/or services offered.

Information on transactions with related parties, including specific disclosures required by the Consob Communication of 28 July 2006, is provided in Notes 36 and 37 of the Financial Statements at 31 December 2010.

9. INFORMATION RELATIVE TO PERSONNEL AND THE ENVIRONMENT

With regard to the activities performed by our Company, that do not involve particular levels of risk for the employees, we have no serious accidents to report, or the emergence of any pathologies linked to professional diseases. Our Company has not been charged with any actions of mobbing.

As regards the environment, once again, the business of our Company does not have any particular impact on the environment, other than energy consumption, significantly reduced thanks to the installation of a renewable energy system (photovoltaic). We can therefore report that, during the year, the Company was not declared guilty of causing any damage to the environment, and did not receive any sanctions or penalties for environmental crimes or damage.

10. SIGNIFICANT EVENTS OF THE PERIOD

On 31 May 2010 the merge for incorporation of the subsidiary Ferretti Studio S.r.l. has been completed.

On 12 June 2010 the Company has increased, through a capital increase, its shareholding in the company Velmar S.p.A., of which already held the 72%, gaining the 100% of share capital and becoming the sole shareholder.

On 15 December 2010 the Company has subscribed an agreement with Trade Unions in order to activate the Extraordinary Profit Redundancy Fund for the first six months of the year 2011, for about 50 employees, and

the Contract of Solidarity, for all the employees, which set the reduction of one working hour a day for the entire year 2011.

Such instrument has been considered necessary by the parties in order to face the difficult moment of the international market that has lead us with responsibility to find mechanisms to rationalize and preserve the company's equity.

11. SIGNIFICANT EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

On 16 February 2011, Aeffe S.p.A. has acquired from York S.r.l. the remaining 28% shareholding of Pollini S.p.A., becoming the sole shareholder. The acquisition price amounts to EUR 1.2 million, already fully paid. The acquisition permits Aeffe, which already held, with 72% of the capital, the company's control, to ensure the full operational efficiency of the Aeffe Group structure, as well as to acquire flexibility in assessing and catching any opportunities for partnership and for strategic operations, especially in the emerging markets where the brand Pollini has great development potential.

12. OUTLOOK

The rationalisation of the business processes along with the positive trend recorded in the wholesale and retail channel in the first months of 2011 represent for the Company a solid basis for the evolution of the business for the current year both in term of revenues growth and a more than proportional increase in profitability.

13. 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 and freely available for inspection.

14. PROPOSALS TO APPROVE THE FINANCIAL STATEMENTS AND ALLOCATE THE RESULT FOR THE YEAR 2010

Shareholders,

In presenting the financial statements as of 31 December 2010 for your approval, we propose to cover the loss of the year of EUR 2,190,227 by the use of the Extraordinary Reserve.

09 March 2011

For the Board of Directors

Chairman Massimo Ferretti

Financial Statements

BALANCE SHEET ASSETS (*)

(Values in units of EUR)	Notes	31 December 2010	31 December 2009	Change 2010/09
NON-CURRENT ASSETS				
Intangible fixed assets				
Trademarks		4.029.003	4.154.764	-125.761
Other intangible fixed assets		161.586	51.263	110.323
Total intangible fixed assets	(1)	4.190.589	4.206.027	-15.438
Tangible fixed assets				
Lands		15.803.400	15.803.400	0
Buildings		24.740.373	25.114.564	-374.191
Leasehold improvements		3.135.972	3.689.941	-553.969
Plant and machinary		4.739.367	5.479.457	-740.090
Equipment		81.668	127.934	-46.266
Other tangible fixed assets		586.248	732.280	-146.032
Total tangible fixed assets	(2)	49.087.028	50.947.576	-1.860.548
Other fixed assets				
Equity investments	(3)	95.570.635	88.196.925	7.373.710
Other fixed assets	(4)	42.331.582	45.126.209	-2.794.627
Deferred tax assets	(5)	7.038.552	5.787.345	1.251.207
Total other fixed assets		144.940.769	139.110.479	5.830.290
TOTAL NON-CURRENT ASSETS		**198.218.386**	**194.264.082**	**3.954.304**
CURRENT ASSETS				
Stocks and inventories	(6)	23.359.095	25.244.358	-1.885.263
Trade receivables	(7)	69.056.407	53.184.047	15.872.360
Tax receivables	(8)	4.255.102	5.316.900	-1.061.798
Cash	(9)	852.067	454.910	397.157
Other receivables	(10)	14.289.535	12.574.501	1.715.034
TOTAL CURRENT ASSETS		**111.812.206**	**96.774.716**	**15.037.490**
TOTAL ASSETS		**310.030.592**	**291.038.798**	**18.991.794**

(*) Pursuant to Consob Resolution no. 15519 dated 27 July 2006, the effects of transactions with related parties on the balance sheet of Aeffe S.p.A. are shown in Attachment IV and described in Notes 36 and 37.

BALANCE SHEET LIABILITIES (*)

(Values in units of EUR)	Notes	31 December 2010	31 December 2009	Change 2010/09
SHAREHOLDERS' EQUITY				
Share capital		25.371.407	25.371.407	0
Share premium reserve		71.240.250	71.240.250	0
Other reserves		31.078.595	36.250.028	-5.171.433
Fair Value reserve		7.742.006	7.742.006	0
IAS reserve		1.085.602	1.139.140	-53.538
Profits / (Losses) carried-forward		2.174.878	2.154.670	20.208
Net profit / loss		-2.190.227	-5.171.432	2.981.205
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**136.502.511**	**138.726.069**	**-2.223.558**
NON-CURRENT LIABILITIES				
Provisions	(12)	661.800	2.305.121	-1.643.321
Deferred tax liabilities	(5)	7.775.163	7.767.601	7.562
Post employment benefits	(13)	5.217.927	5.344.823	-126.896
Long term financial liabilities	(14)	13.175.551	17.889.992	-4.714.441
Long term not financial liabilities	(15)	3.292.540		3.292.540
TOTAL NON-CURRENT LIABILITIES		**30.122.981**	**33.307.537**	**-3.184.556**
CURRENT LIABILITIES				
Trade payables	(16)	68.854.572	60.866.158	7.988.414
Tax payables	(17)	1.392.063	1.350.866	41.197
Short term financial liabilities	(18)	67.411.715	50.903.988	16.507.727
Other liabilities	(19)	5.746.750	5.884.180	-137.430
TOTAL CURRENT LIABILITIES		**143.405.100**	**119.005.192**	**24.399.908**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**310.030.592**	**291.038.798**	**18.991.794**

(*) Pursuant to Consob Resolution no. 15519 dated 27 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 Note 36 and 37.

INCOME STATEMENT (*)

(Values in units of EUR)	Notes	Full year 2010	Full year 2009
REVENUES FROM SALES AND SERVICES	**(20)**	**115,918,073**	**116,452,178**
Other revenues and income	(21)	5,060,659	5,363,592
TOTAL REVENUES		**120,978,732**	**121,815,770**
Changes in inventory		-1,833,195	-1,341,674
Costs of raw materials, cons. and goods for resale	(22)	-37,470,337	-37,392,388
Costs of services	(23)	-42,482,589	-40,796,390
Costs for use of third parties assets	(24)	-11,045,884	-14,719,352
Labour costs	(25)	-23,132,976	-25,333,734
Other operating expenses	(26)	-2,171,782	-1,497,775
Amortisation and write-downs	(27)	-2,770,658	-4,527,193
Financial Income / (expenses)	(28)	-2,169,751	-2,229,230
PROFIT / LOSS BEFORE TAXES		**-2,098,440**	**-6,021,966**
Income Taxes	(29)	-91,787	850,534
NET PROFIT / LOSS		**-2,190,227**	**-5,171,432**

(*) Pursuant to Consob Resolution no. 15519 dated 27 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 VI and described in Notes 36 and 37.

CASH FLOW STATEMENT (*)

	Notes	Full Year 2010	Full Year 2009
OPENING BALANCE		**454**	**673**
Profit before taxes		-2.098	-6.022
Amortisation		2.771	4.527
Accrual (+)/availment (-) of long term provisions and post employment benefits		-1.770	634
Paid income taxes		-373	-447
Financial income (-) and financial charges (+)		2.170	2.229
Change in operating assets and liabilities		-4.418	-9.723
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**-3.719**	**-8.802**
Increase (-)/ decrease (+) in intangible fixed assets		-139	-61
Increase (-)/ decrease (+) in tangible fixed assets		-556	-1.708
Investments (-)/ Disinvestments (+)		-7.574	-3.863
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**-8.268**	**-5.633**
Other variations in reserves and profits carried-forward of shareholders' equity		-33	-949
Dividends paid			-710
Proceeds (+)/repayments (-) of financial payments		11.793	16.047
Increase (-)/ decrease (+) in long term financial receivables		2.795	2.057
Financial income (+) and financial charges (-)		-2.170	-2.229
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**12.385**	**14.216**
CLOSING BALANCE		**851**	**454**

(*) Pursuant to Consob Resolution no. 15519 dated 27 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 VII and described in Note 37.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Values in units of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 31 December 2008	**25,767**	**71,796**	**31,795**	**7,742**	**1,139**	**2,155**	**5,162**	**145,556**
Allocation of 2008 profit / loss			4,452				-4,452	-
Dividends paid							-710	-710
Treasury stock (buyback)/sale	-396	-556						-952
Total income/(loss) of 2009							-5,171	-5,171
Other movements			3					3
BALANCES AT 31 December 2009	**25,371**	**71,240**	**36,250**	**7,742**	**1,139**	**2,155**	**-5,171**	**138,726**

(Values in units of EUR)	Share capital	Share premium reserve	Other reserves	Fair Value reserve	IAS reserve	Profits / (Losses) carried-forward	Net profit / loss	Total shareholders' equity
BALANCES AT 31 December 2009	**25,371**	**71,240**	**36,250**	**7,742**	**1,139**	**2,155**	**- 5,171**	**138,726**
Allocation of 2009 profit/(loss)			- 5,171				5,171	-
Total income/(loss) of 2010							- 2,190	- 2,190
Other movements (incorporation of Ferretti Studio)					- 53	20		- 33
BALANCES AT 31 December 2010	**25,371**	**71,240**	**31,079**	**7,742**	**1,086**	**2,175**	**- 2,190**	**136,503**

Report of the Board of Statutory Auditors to the shareholders' meeting of AEFFE S.p.A. on the 2010 financial statements, issued pursuant to article 153 of Italian Legislative Decree 58/98 and art. 2429, paragraph 3 of the Italian Civil Code.

Dear Shareholders,

During the year ended 31 December 2010, the Board of Statutory Auditors of AEFFE S.p.A. carried out the monitoring activities required by law, taking account of the principles of conduct established last year by the Italian Accounting Profession and the Co.N.So.B. communications concerning the audit of companies and the activities of Boards of Statutory Auditors.

The financial statements have been prepared in accordance with international accounting standards (I.A.S./I.F.R.S.), in compliance with art. 2 of Decree 38 dated 28 February 2005.

During the year, the Board of Statutory Auditors obtained the information needed for the performance of its functions: both by interviews conducted within the organization, and by attending every meeting held by the Board of Directors.

The requirement to keep the Board of Statutory Auditors informed, envisaged by art. 150.1 of Decree 58/1998 and art. 19.2 of the Statute, was met by consultations held with the Company's Chief Executive Officer. These consultations, intended to ensure a constant and systematic flow of information to the Board of Statutory Auditors and to the Directors - particularly the "non-executive" Directors, enabled the Board of Statutory Auditors to obtain information about: the activities carried out; the principal economic, financial and capital transactions; intra-group and related-party transactions; any atypical or unusual transactions, and all other activities and transactions deemed worthy of the attention of the recipients of the Report.

1. Based on the information received and specific analyses performed by the Board of Statutory Auditors, the principal economic, financial and capital transactions carried out by the Company, including those arranged via directly or indirectly-held companies, were essentially those indicated below:

absorption of Ferretti Studio S.r.l. on 31 May 2010;

acquisition of the residual capital stock of Velmar S.p.A., to become the sole stockholder;

activation of special government-assisted lay-offs covering 50 employees for the first six months of 2011 and adoption of a solidarity contract for the reduction of working hours covering the whole of 2011;

identification of areas where operating costs may be reduced, ahead of the further consolidation of revenues in line with that achieved in the prior year, while waiting for a broader recovery of consumption in the market segment addressed;

polarization of investment with a view to sustaining the growth of the retail segment, which - in truth - did not disappoint expectations;

at year-end, the Company held 5,876,878 treasury shares, nominal value EUR 0.25 each, representing 5.473% of capital stock. No purchases were made during the year covered by this Report.

The Board of Statutory Auditors has verified that the above transactions complied with the law, the Statute and the principles of proper administration, checking that they were not obviously imprudent or risky, subject to potential conflicts of interest, in contrast with resolutions adopted by the stockholders, or likely to jeopardize the net assets of the Company.

2. The Supervisory Body, established pursuant to Decree 231 dated 8 June 2001, has continued with its activities, during which it did not identify any anomalies or censurable matters, as confirmed by the periodic reports made to the other corporate bodies. During 2010, the Supervisory Body also carried out a far-reaching and radical review and update of its own model, making improvements to a series of internal procedures.

3. With regard to Co.N.So.B. Communication 1025564 dated 6 April 2001, the Board of Statutory Auditors confirms that, during 2010 and subsequent to year end, it did not identify any atypical and/or unusual transactions carried out with third parties and/or with related parties.

4. The following is noted with regard to related-party transactions:

during 2010, in compliance with Co.N.So.B. Regulation 17221 dated 12 March 2010, as modified by Decision 17389 dated 23 June 2010, the Board of Directors approved the application of a new procedure governing related-party transactions that came into force on 1 January 2011. This procedure makes modest, partial exceptions to certain procedural requirements concerning the regulated transactions.

Application of the principles contained in the "Code of Conduct for related-party transactions" establishes the processes that the Directors must follow to ensure *inter alia* an improved and more certain application of the instructions contained in the Code, not least so that the adequacy of the instructions given to subsidiaries can be assessed for the purpose of making the required disclosures. Since the Company is classified as a "smaller company" - with balance sheet assets and revenues reported in the latest approved financial statements that were below the established thresholds – it benefits from the relevant simplified procedures. Without prejudice to the transparency rules, such companies may apply the regulations governing less significant transactions to their more significant transactions.

The Company carries out economic, financial and capital transactions with Group companies. These are appropriately described in the explanatory notes attached to the Report on Operations and are highlighted in the various captions of the financial statements. These transactions appear to be carried out on arms-length terms;

with regard to the intercompany and related-party transactions indicated above, the Board of Statutory Auditors believes that the amounts are reasonable and that such transactions were carried out in the interests of the Company.

5. The Board of Statutory Auditors believes that the information about intercompany and related-party transactions provided by the Directors in the explanatory notes to the financial statements of AEFFE S.p.A. is adequate.

6. Mazars S.p.A., the auditing firm, has subjected the accounting records to the checks required under current regulations. During the meeting held on 19 January 2011, and confirmed today, the auditing firm stated that it did not expect to include any exceptions and/or emphasis of matter in its auditors' report on the financial statements, issued pursuant to art. 156.1 of Decree 58 dated 24 February 1998 and art. 2409 *ter* of the Italian Civil Code.

7. During the year, on 8 April 2010, the Board of Statutory Auditors received one complaint, pursuant to art. 2408 of the Italian Civil Code, about failure to comply with the provisions of art. 84.2 of the Issuers' Regulation. After a brief investigation, the Board of Statutory Auditors was able to determine that the Board of Directors had immediately corrected the weakness complained about by the stockholder, by publishing a new notice calling the stockholders' meeting that included the information not presented in the previous notice.

It was not possible to provide full information about the above in the previous report on the financial statements as of 31 December 2009, since it had already been issued when the complaint arrived. Accordingly, the Chairman of the Board of Statutory Auditors presented appropriate details in a short report that was adopted at the stockholders' meeting held on 29 April 2010 to approve the financial statements.

8. The Board of Statutory Auditors did not receive any other reports, statements and/or complaints during 2010.

9. Mazars S.p.A. was not engaged to perform any work additional to the accounting checks and legal audit of the financial statements, and no issues have emerged with regard to the independence of that firm. The Board of Statutory Auditors has received a specific declaration in this regard from the auditing firm pursuant to the provisions of art. 17.9.a) of Decree 39/2010.

10. Based on a declaration from the Directors, confirmed by the auditing firm, no parties linked to the latter by an ongoing relationship have been engaged to perform work.

11. The Board of Statutory Auditors did not release any opinions during 2010.

12. During 2010, the Board of Directors of the Company held six meetings, the Audit Committee held four and the Compensation Committee held one. The Board of Statutory Auditors met seven times during the year; in addition, it attended: (*i*) the stockholders' meeting held to approve the financial statements as of 31 December 2009; (*ii*) all the meetings of the Board of Directors; (*iii*) all the meetings of the Audit Committee held in 2010 which, under the regulations, must be attended by the Chairman of the Board of Statutory Auditors or by an Auditor designated by him.

13. The Board of Statutory Auditors has, to the extent of its responsibilities, obtained information about and monitored compliance with the principles of proper administration via: direct observation; collection of information from the managers of business functions; meetings with the internal audit manager; meetings with the Audit Committee; meetings with the representatives of the auditing firm: Mazars S.p.A. (art. 150.3 of Decree 58/1998); exchange of information with the corresponding bodies established by subsidiaries (art. 151.2 of Decree 58/1998). The above meetings did not reveal any significant information or data that should be presented in this report.

In particular, with regard to the decision-making processes adopted by the Board of Directors, the Board of Statutory Auditors has checked, by direct participation at board meetings and otherwise, that the operational decisions taken by the Directors complied with the law and the Statute, and has checked that the related resolutions were supported by analyses and opinions - prepared internally or, when necessary, by external professionals - concerning, in particular, the economic and financial fairness of the transactions and, consequently, their consistency with the interests of the Company.

14. The Board of Statutory Auditors has, to the extent of its responsibilities, obtained information about and monitored the adequacy and functioning of the Company's organizational structure.

The Board of Statutory Auditors has monitored the Company's system of internal controls, assessing its adequacy via: (*i*) periodic meetings with the internal audit manager; (*ii*) participation at the meetings of the Audit Committee; (*iii*) consultation of documentation relating to the controls adopted.

The Board of Statutory Auditors did not call any meetings of the stockholders or the Board of Directors.

15. The Board of Statutory Auditors has assessed and monitored the adequacy of the administrative and accounting system, and its reliability in terms of presenting fairly the results of operations, by obtaining information from the managers of the competent business functions, examining corporate documentation, and noting the results of the work performed by the auditing firm.

16. The Board of Statutory Auditors has monitored the adequacy of the instructions given by the Company to its subsidiaries pursuant to art. 114.2 of Decree 58 dated 24 February 1998.

17. The Board of Statutory Auditors has checked, by direct verification and information obtained from Mazars S.p.A., the auditing firm, that the preparation and format of the financial statements and the report on operations comply with the related laws and regulations. The monitoring activities performed and the information obtained from the auditing firm did not reveal any omissions, censurable facts, irregularities or other significant facts that should be reported to the control bodies or mentioned in this report. In addition, the Board of Statutory Auditors has examined the accounting policies adopted for the preparation of the financial statements, which comply with the regulatory requirements.

The Board of Statutory Auditors confirms, pursuant to art. 2423.4 of the Italian Civil Code, that the Directors did not make any exceptions to the law when preparing the financial statements.

18. The Company has adopted the principles and recommendations contained in the Code of Self-Regulation prepared, at the request of Borsa Italiana, by the Committee for the Corporate Governance of Listed Companies. The Board of Directors of the Company (comprising 7 members) includes 3 non-executive

directors, 2 of whom the Board of Directors has qualified as independent; the Board of Directors has established a Compensation Committee, comprising independent and non-executive directors, and an Audit Committee, also comprising independent and non-executive directors.

19. In 2008, the Company established the role of *"Lead Independent Director"* (being the Chairman of the Compensation Committee) - a point of reference and coordination for the requests and contributions of the independent directors - to guarantee to the greatest extent the independence of their judgment in relation to the activities of management. Among other powers, the Lead Independent Director may call meetings reserved solely for the independent directors to discuss matters relating to operations or the functioning of the Board of Directors.

20. The Board of Statutory Auditors has checked the proper application of the verification criteria and procedures adopted by the Board of Directors to assess the independence of its members, with reference to the requirements envisaged in the Code of Self-Regulation prepared, at the request of Borsa Italiana, by the Committee for the Corporate Governance of Listed Companies.

Further information about the corporate governance of the Company is available in the specific report on the subject.

In conclusion, the Board of Statutory Auditors expresses a positive opinion on the system of corporate governance adopted by the Company.

21. The monitoring and control activities carried out by the Board of Statutory Auditors - described above - did not identify any significant facts to be reported to the supervisory and control bodies, or worthy of mention in this report.

22. The Board of Statutory Auditors, having noted the contents of the financial statements as of 31 December 2010, has no objections to express in relation to the resolution proposed by the Board of Directors.

San Giovanni in Marignano, 22 March 2011

The Board of Statutory Auditors

Mr. Fernando CIOTTI	**President**
Mr. Romano DEL BIANCO	**Statutory auditor**
Mr. Bruno PICCIONI	**Statutory auditor**

List of directorships and audit appointments held by the members of the Board of Statutory Auditors as of 22 March 2011, date of issue of that Board's Report to the Stockholders' Meeting

Attachment pursuant to art. 144 *quinquesdecies* of the Issuers' Regulation, prepared in accordance with the instructions contained in Attachment 5-bis, Template 4 of the above Regulation

Name	Appointment held	Expiry of mandate (approval of financial statements at)
	Mr. Fernando CIOTTI	
Aeffe S.p.A.	President of the board of Statutory Auditors	31/12/2010
Pollini Retail S.r.l.	President of the board of Statutory Auditors	31/12/2010
Velmar S.p.A.	President of the board of Statutory Auditors	31/12/2012
Aeffe Retail S.r.l.	Statutory Auditor	31/12/2011
Air Bee S.p.A. in liquid.	Statutory Auditor	31/12/2010
R.E. Service S.r.l.	Sole Director	Resignation/Termination
	Mr. Romano DEL BIANCO	
Aeffe S.p.A.	Statutory Auditor	31/12/2010
Aeffe Retal S.r.l.	President of the board of Statutory Auditors	31/12/2011
Velmar S.p.A.	Statutory Auditor	31/12/2012
Banca Popolare Valconca Soc. Coop.	President of the board of Statutory Auditors	31/12/2011
Adriatica Veicoli Industriali S.r.l.	Statutory Auditor	31/12/2012
	Mr. Bruno PICCIONI	
AEFFE S.p.A.	Statutory Auditor	31/12/2010
Moschino S.p.A.	Statutory Auditor	31/12/2011
Universal Pack S.r.l.	Statutory Auditor	31/12/2011
Edilceramiche S.r.l.	Statutory Auditor	31/12/2012
Edilsantamonica S.p.A.	Statutory Auditor	31/12/2012
Auto In S.r.l.	Statutory Auditor	31/12/2010
C.I.V. Cooperativa Valconca	Statutory Auditor	31/12/2010
ACT Group S.p.A.	President of the board of Statutory Auditors	31/12/2010
Holding Industriale Compositi S.r.l.	President of the board of Statutory Auditors	31/12/2011

Auditors' Report in accordance with Articles 14 and 16 of Legislative Decree no. 39 dated January 27, 2010

To the Shareholders of Aeffe S.p.A.

1. We have audited the financial statements of Aeffe S.p.A. as of December 31, 2010, which comprise the balance sheet statement, the income statement, the cash flow statement, the statement of changes in shareholders' equity and the related explanatory notes. The Directors of Aeffe S.p.A. are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior period, the amounts of which are presented for comparative purpose, reference should be made to our report dated April 14, 2010.

3. In our opinion, the financial statements of Aeffe S.p.A. as of December 31, 2010 comply with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n. 38/2005; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations and cash flows of Aeffe S.p.A. for the period then ended.

4. The Directors of Aeffe S.p.A. are responsible for the preparation of the report on operations and the report on corporate and governance and shareholding structure, published in section "Investor Relation" of the internet site of Aeffe S.p.A., in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree n. 58/98 presented in the report on corporate governance and shareholding structure, with the financial statements, as required by law. For this purpose,

with have performed the procedures required under Auditing Standards no. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations and the information provided in compliance with paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) of article 123-bis of Legislative Decree n. 58/98 presented in the report on corporate governance and shareholding structure are consistent with the financial statements of Aeffe S.p.A. as of December 31, 2010.

Mazars S.p.A.

signed by Simone Del Bianco
Simone Del Bianco
Partner

Milan, Italy, March 30, 2011

This report has been translated from the original which was issued in accordance with Italian legislation.

EXPLANATORY NOTES

GENERAL INFORMATION

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 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.

The Company has the following branch offices and local units:

1) Office and showroom in Donizetti street n.48 – Milan (MI)
2) Storage in Olmi street – San Giovanni in Marignano (RN)
3) Office and showroom in Donizetti street n.47 – Milan (MI)
4) Storage in Dell'Artigianato street n.4 – Tavoleto (PU).

These financial statements have been prepared in EUR, 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 31 December 2010. 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 EUR.

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 an historical cost basis.

The financial statements have been audited by Mazars S.p.A..

The Company is controlled by the company Fratelli Ferretti Holding S.r.l., of which in the attachment VIII are reported the data of the latest approved statutory financial statements. The company Fratelli Ferretti Holding also draws up the consolidated financial statement in accordance with the international accounting standards.

DECLARATION OF CONFORMITY AND BASIS OF PRESENTATION

Pursuant to art. 3 of Decree 38/2005 dated 28 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 27 July 2006 and communication DEM/6064293 dated 28 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).

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.

ACCOUNTING PRINCIPLES, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT YET EARLY ADOPTED BY THE GROUP

On 8 October 2009, the IASB issued an amendment to IAS 32 – *Classification of Rights Issues* in order to address the accounting for rights issued (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The amendment is applicable from 1 January 2011 retrospectively. The adoption of the amendment will not be relevant for the Company.

On 4 November 2009, the IASB issued a revised version of IAS 24 – *Related Party Disclosures* that simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The adoption of the amendment will not be relevant for the Company.

On 12 November 2009, the IASB issued a new standard IFRS 9 – *Financial instruments* on the classification and measurement of financial assets, having an effective date for mandatory adoption of 1 January 2013. The new standard represents the completion of the first part of a project to replace IAS 39. The new standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used. The new standard had not yet been endorsed by the European Union at the date of these financial statements.

On 26 November 2009, the IASB issued a minor amendment to IFRIC 14 – *Prepayments of a Minimum Funding Requirement*. The amendment applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to treat benefit of such an early payment as an asset. The amendment has an effective date for mandatory adoption of 1 January 2011. The adoption of the amendment will not be relevant for the Company.

On 26 November 2009, the IFRIC issued the interpretation IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments* that provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The interpretation clarifies that when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially, then the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability and are measured at their fair value. The difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the profit or loss for the period. The amendment has an effective date for mandatory adoption of 1 January 2011. The adoption of the amendment will not be relevant for the Company.

On 6 May 2010 the IASB issued a set of amendments to IFRSs ("*Improvement to IFRSs*") that are applicable from 1 January 2011; set out below are those that will lead to changes in terminology or editorial changes having a limited accounting effect and those that affect standards or interpretations that are not applicable to the Company.

- IFRS 3 (2008) – *Business combinations*: this amendment clarifies that the components of non-controlling interests that do not entitle their holders to a proportionate share of the entity's net assets must be measured at fair value or as required by the applicable accounting standards. For example, therefore, stock options granted to employees must be measured in accordance with the requirements of IFRS 2 in the case of a business combination, while the equity portion of a convertible debt instrument must be measure in accordance with IAS 32. In addition, the Board goes into further detail on the question of share-based payment plans that are replaced as part of a business combination by adding specific guidance to clarify the accounting treatment.
- IFRS 7 – *Financial instruments: disclosures*: this amendment emphasis the interaction between the qualitative and quantitative disclosures required by the standard concerning the nature and extent of risks arising from financial instruments. This should assist users of financial statements to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial statements. In addition, the disclosure requirement concerning financial assets that are past due or impaired but whose terms have been renegotiated, and that relating to the fair value of collateral, have been eliminated.
- IAS 1 – *Presentation of financial statements:* the amendment requires the reconciliation in the changes of each component of equity to be presented in the notes or in the primary statements.
- IAS 34 – *Interim financial reporting*: by using a series of examples certain clarifications are provided concerning the additional disclosures that must be presented in interim financial reports.

The adoption of the Improvement will not be relevant for the Company.

On 7 October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfers of financial assets, including an understanding of the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of a transfer transaction is undertaken at the end of a reporting period. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

On 20 December 2010, the IASB issued amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The first amendment replaces references to a fixed date of "1 January 2004" with the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. These amendments are effective from 1 July 2011. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

On 20 December 2010, the IASB issued amendments to IAS 12 – *Income Taxes* that require an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of the amendments, SIC-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* no longer applies. These amendments are effective from 1 January 2012. The amendments had not yet been endorsed by the European Union at the date of these financial statements.

ACCOUNTING POLICIES

The accounting policies and valuation criteria adopted for the preparation of the financial statements as of 31 December 2010 are presented below:

Intangible fixed assets

Intangible fixed assets are identifiable non-monetary assets, without physical substance, that are controlled by the company 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.

Intangible fixed assets contain those with a finite useful life that are 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 brands, 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).

Regarding the only brand owned by the Company, the Alberta Ferretti brand, the exclusivity of the business, its historical profitability and its future income allow to consider its value recoverable, even in presence of difficult market conditions.

In order to calculate the recoverable value of this brand, we estimated the current value, discounting the hypothetical value of the royalties deriving from the transfer in use to others of this intangible asset, for a period equal to 40 years. To calculate the values on this basis is has been used for the year 2011 the budget approved by the Company management. For the remaining periods it has been used an increase in turnover with a CAGR of 2.5%. As royalty rates we used the average for the sector and as discount rate we used the average cost of capital (WACC) which is 6.3%.

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	0%
Brands	2.5%

Research costs are charged to the income statement as incurred.

At 31 December 2010, the Company has not recorded intangible fixed assets with an “infinite” useful life in the intangible fixed assets.

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%
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

At 31 December 2010, the Company has not recorded intangible fixed assets with an "infinite" useful life in the intangible fixed assets.

Intangible fixed assets, equity investments, 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 in order to determine if such activities may have been subject to a loss of value. If such evidence exists the activity's carrying amount is reduced to the related recoverable value.

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 the higher between their fair value, net of disposal costs and 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, 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.

It is signalled that the situation caused by the international economic and financial crisis, even if in recover, has induced the Company to estimate the recoverable amount of some equity investments in subsidiaries of particular importance in order to verify the consistency of the book value.

For the companies Aeffe Retail S.p.A., Pollini S.p.A., Velmar S.p.A. and Aeffe France S.a.r.l. the recoverable amount has been determined using the method called Discounted Cash Flow (DCF). From such analyses no impairment losses have been emerged.

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 market or estimated 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 realization.

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 an accruals basis.

The Company'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 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 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 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.

Treasury shares

Treasury shares are presented as a deduction from capital for the part of their nominal value, and from a specific reserve for the part in excess to their nominal value.

Contributions to the capital account and for overheads

Any public contributions are reported when there is a reasonable certainty that the company will meet all the conditions foreseen to receive the contributions and actually receives them. The company has opted to present any contributions to the capital account in the financial statement as items in adjustment of the book value of the property to which they refer, and any contributions to overhead as a direct deduction from the relative cost.

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:

(i) retail sales – on delivery of the goods;

(ii) wholesale sales – on shipment of the goods;

(*iii)* royalties and commissions – on an accruals basis.

Costs

Costs and expenses are recorded on an accruals 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:

(*i)* 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;

(ii) income recorded in the current and prior years that will become taxable in future years;

(iii) deferred tax assets are recorded in the financial statements;

(iv) 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;

(*v)* 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 are 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 are calculated by dividing the profit or loss attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding.

Main estimates used by the Management

Hereafter we report the main estimates and assumptions used by the Management to draft the financial statements, whose variations, not foreseeable at the moment, could affect the economic and equity situation of the Company.

- Estimates used to evaluate value impairment of assets other than financial assets

For the purposes of ascertaining any impairment of value of assets other than current assets entered in the financial statement, the Company applied the method described above in the paragraph entitled "Impairment of value of assets".

In particular, regarding the impairment tests related to equity investments, the main estimations used are the following:

Equity investment in Pollini S.p.A.: the evaluation emerges from the cash flow analysis of the entire Pollini Group. The cash flows have been gathered, for the year 2011, by the budget approved the Management. It has been also estimated cash flow projections for the year 2012, 2013, 2014 and 2015 at a growth rate in decrease compared to the one used in the budget 2011. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2015. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC), specifically calculated for the Pollini Group, equal to 8.55%.

Equity investment in Aeffe Retail S.p.A., Velmar S.p.A. and Aeffe France S.a.r.l.: the evaluation emerges from the cash flow analysis of each single company. The cash flows have been gathered, for the year 2011, by the budget approved the Management. It has been also estimated cash flow projections for the year 2012, 2013, 2014 and 2015 at a growth rate stable or in decrease compared to the one used in the budget 2011. The terminal value has been determined using the formula of perpetual annuity and assuming, prudentially, a growth rate G equal to 0. The cash flow useful to determine the terminal value has been gathered by the latest year of the cash flow projections, that is 2015. The rate used for the cash flow discounting back is the weighted average cost of capital (WACC) of the Group equal to 6.3%.

- These estimates used for actuarial calculation serve to calculate the benefit plans in the sphere of future benefits of the working relationship:
  - The inflation rate foreseen is 2.0%;
  - The discount rate used is 4.35%;
  - The expected rates of retribution increases (inclusive of inflation) are divided as follows: (i) Management 1.50%; (ii) Office staff/department heads 0.50%; (iii) laborers 0.50%
  - The annual rate in increase of the severance indemnity fund foreseen is 3.0%;
  - The expected turn-over of employees is 6% for Aeffe S.p.A.

- Estimates used in the actuarial calculations to determine the supplementary clientele severance indemnity fund:
  - The voluntary turnover rate foreseen is 0.00%;
  - The corporate turnover rate foreseen is 5.00%;
  - The discount rate used is 4.20%;

OTHER INFORMATION

Management of financial risk

The financial risks to which the Company is exposed in the performance of its business are as follows:

- risk of liquidity
- market risk (inclusive the exchange risk, rate risk, price risk);
- credit risk;

The Company uses derivative financial instruments for the sole purpose of covering certain non-functional currency exposures.

Liquidity and market risk

Management of the financial needs and relative risks (mainly rate and exchange risks) is handled at the level of the central treasury.

The main goal of these guidelines consists of:

***(v)* Liquidity risk**

The Company manages the liquidity risk with a view to guarantee the presence of a liability structure in balance with the asset composition of the financial statement, in order to maintain an elevated solid equity.

(vi) **Exchange risk:**

The Company operates internationally and is therefore exposed to the exchange risk. The exchange risk arises when assets and liabilities are reported in a currency other than that in which the Company operates.

The mode of management of this risk consists of minimizing the risk connected with exchange rates by using operating coverage, also through buy/sell contracts of foreign currency at term, specifically used to cover individual business transactions. Alternatively, the Company, if exposed to the exchange risk, covers itself by loans in foreign currency.

(vii) **Rate risk:**

The interest rate risk to which the Company is exposed originates mainly from the medium and long-term financial payables in existence, that are almost all at variable rates and expose the Company to the risk of variation in cash flows as the interest rates vary.

The average cost of indebtedness tends to be parametrized with the status of the EURIBOR rate at 3/6 months, plus a spread that depends mainly on the type of financial instrument used. In general, the margins applied are in line with the best market standards.

As of 31 December 2010 a hypothetical upward variation of 10% in the interest rate, all other variables being equal, would have produced a higher cost before taxes (and thus a corresponding reduction in the shareholders' equity) of about EUR 138 thousand annually (EUR 146 thousand as of 31 December 2009).

The *cash flow risk* on interest rates has never been managed in the past with recourse to derivative contracts - *interest rate swaps* - that would transform the variable rate into a fixed rate. As of 31 December 2010 there are no instruments that hedge interest-rate risk.

(viii) **Price risk**

The Company makes its purchases and sales worldwide and is therefore exposed to the normal risk of variations in price, typical of the sector.

Credit risk

With reference to receivables in Italy, the Company deals only with known and reliable clients. It is a policy of the Company that clients requesting extended payment terms are subject to procedures of audit of the class of merit. Moreover, the balance of receivables is monitored during the year to ensure that the doubtful positions are not significant.

The credit quality of unexpired financial assets and those that have not undergone value impairment can be valued with reference to the internal credit management procedure.

Customer monitoring activity consists mainly of a preliminary stage, in which we gather data and information about new clients, and a subsequent activation stage in which a credit is recognized and the development of the credit position is supervised.

The preliminary stage consists of collecting the administrative and fiscal data necessary to make a complete and correct assessment of the risks connected with the new client. Activation of the client is subject to the completeness of the data and approval, after any further clarification by the Customer Office.

Every new customer has a credit line: its concession is linked to further information (years in business, payment terms, and customer's reputation) all of which are essential to make an evaluation of the level of solvency. After gathering this information, the documentation on the potential customer is submitted for approval by the company organizations.

Management of overdue receivable is differentiated depending on the seniority of the client (overdue payment group).

For overdue payments up to 60 days, reminders are sent through the branch or directly by the Customer Office; clearly, if an overdue payment exceeds 15 days or the amount of the credit granted, all further supplied to the client are suspended. For overdue credits "exceeding 90 days", where necessary, legal steps are taken.

As regards foreign receivables, the Company proceeds as follows:

a) some of foreign receivables are guaranteed by primary credit insurance companies.
b) the residual uninsured part of receivables is managed:
    a. Most of them by request of letter of credit and 30% advances within two weeks of the order confirmation;
    b. The remaining uninsured receivables not covered by insurance nor by request of letter of credit or by advance, are specifically authorized and managed following the procedure for Italian receivables.

This procedure serves to define the rules and operating mechanisms that guarantee a flow of payments sufficient to ensure the solvency of the client and guarantee the Company an income from the relationship.
As of the reference date of the financial statement, the maximum credit risk exposure was equal to the value of each category of receivable indicated here below:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Trade receivables	69,056	53,184	15,872	29.8%
Other current receivables	14,290	12,574	1,716	13.6%
Total	**83,346**	**65,758**	**17,588**	**26.7%**

See note 7 for the comment and breakdown of the item "trade receivables" notes 10 for "other current receivables".
The fair value of the above categories has not been indicated, as the book value is a reasonable approximation.
As of 31 December 2010, overdue but not written-down trade receivables amount to EUR 50,769 thousand (EUR 37,248 thousand in 2009). The breakdown by due date is as follows:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
By 30 days	3,477	3,279	198	6.0%
31 - 60 days	2,222	2,936	-714	-24.3%
61 - 90 days	3,902	2,809	1,093	38.9%
Exceeding 90 days	41,168	28,224	12,944	45.9%
Total	**50,769**	**37,248**	**13,521**	**36.3%**

The increase in overdue receivables exceeding 90 days is substantially referable to positions versus companies totally owned by Aeffe S.p.A. in a logic of Group treasury.

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:

(i) 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);

(ii) 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;

(iii) 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 01.01.09	**4,250**	**51**	**4,301**
Increases externally acquired	30	30	60
Disposals			0
Other changes			0
Amortisation	-125	-30	-155
Net book value as of 01.01.10	**4,155**	**51**	**4,206**
Increases externally acquired		139	139
Disposals			0
Other changes			0
Amortisation	-126	-28	-154
Net book value as of 31.12.10	**4,029**	**162**	**4,191**

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 32 years.

Other

The caption "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 01.01.09	**15,804**	**25,628**	**4,341**	**4,876**	**162**	**950**	**51,761**
Increases		20	305	1,317	31	60	1,733
Disposals				-22		-3	-25
Depreciation		-534	-956	-692	-65	-275	-2,522
Net book value as of 01.01.10	**15,804**	**25,114**	**3,690**	**5,479**	**128**	**732**	**50,947**
Increases		162	357	19	10	95	643
Disposals			-74	-2		-10	-86
Depreciation		-536	-837	-757	-56	-231	-2,417
Net book value as of 31.12.10	**15,804**	**24,740**	**3,136**	**4,739**	**82**	**586**	**49,087**

Tangible fixed assets have changed as follows:

- Increases of EUR 643 thousand for new investments. These mainly comprise the setting up of new corners and shop in shops.
- Decreases of EUR 86 thousand. These relate to the replacement of specific plant and machinery and furniture .
- Depreciation of EUR 2,417 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.

Equity investments change mainly for the following operations:

- loss cover of the subsidiary Aeffe Retail S.p.A through renunciation of receivables for EUR 5,000 thousand;
- loss cover of the subsidiary Velmar S.p.A through renunciation of receivables for EUR 543 thousand and capital contribution for EUR 1,831 thousand. Following such operation the Company holds the 100% of share capital, becoming the sole shareholder.

4. Other fixed assets

This caption, which decreases by EUR 2,795 thousand, principally includes amounts due by subsidiaries.

The main variations are:

- subscription of new loans to the subsidiary Aeffe Japan for EUR 2,398 thousand;
- renunciation of receivables versus Aeffe Retail S.p.A for EUR 5,000 thousand following the operation of covering operating losses.

5. *Deferred tax assets and liabilities*

This caption is analysed below as of 31 December 2010 and 2009:

(Values in thousands of EUR)	Receivables		Liabilities	
	2010	2009	2010	2009
Tangible fixed assets			-21	-22
Intangible fixed assets			-159	-162
Provisions	252	257		
Costs deducible in future periods	515	-142		
Income taxable in future periods		1,017	-182	-253
Tax losses carried forward	5,840	4,247		
Other Tax assets (liabilities) from transiation to IAS	431	408	-7,413	-7,331
Total	**7,038**	**5,787**	**-7,775**	**-7,768**

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	-22	1		-21
Intangible fixed assets	-162	1	2	-159
Provisions	257	-5		252
Costs deducible in future periods	-142	657		515
Income taxable in future periods	764	-963	17	-182
Tax losses carried forward	4,247	731	862	5,840
Other Tax assets (liabilities) from transiation to IAS	-6,923	-100	41	-6,982
Total	**-1,981**	**322**	**922**	**-737**

Tax losses carried forward recorded in the income statement for an amount of EUR 731 thousand are related to tax losses of Aeffe Spa while the amount of 862 thousand is related to tax losses carried forward matured by some of the Group subsidiaries as a consequence of the adhesion of the subsidiaries to the fiscal consolidation.

Deferred tax assets have been determined estimating the future recoverability of such activities.

CURRENT ASSETS

6. *Stocks and inventories*

This caption comprises:

(Values in thousands of EUR)	31 December	31 December	Change	
	2010	2009	Δ	%
Raw, ancillary and consumable materials	5,457	5,075	382	7.5%
Work in progress	5,276	6,204	-928	-15.0%
Finished products and goods for resale	12,579	13,542	-963	-7.1%
Advance payments	47	423	-376	-88.9%
Total	**23,359**	**25,244**	**-1,885**	**-7.5%**

Inventories of raw materials and work in process essentially relate to production of the Spring/Summer 2011 collections.

Finished products mainly relate to the Autumn/Winter 2010 and to the Spring/Summer 2011 collections and to the Autumn/Winter 2011 samples collections.

The decrease in inventories since 31 December 2009 is mainly due to policies of stock clearance for finished products related to no current seasons.

7. *Trade receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Customers receivables	3,782	6,182	-2,400	-38.8%
Subsidiaries receivables	65,474	47,262	18,212	38.5%
(Allowance for doubtful receivables)	-200	-260	60	n.a.
Total	**69,056**	**53,184**	**15,872**	**29.8%**

The increase in trade receivables is mainly due to the increase of receivables with subsidiaries following a management of financial needs handled at the level of the central treasury while receivables versus third parties decrease thanks to a careful management of credit made during the year 2010.

The allowance for doubtful receivables was determined by reference to a detailed analysis of the available information and, in general, is based on historical trends.

In particular the allowance existing at 31 December 2009 has been used for the full amount to cover losses related to receivables arisen in previous years.

The adjustment of the receivables nominal value to the estimated realisable value has been obtained through the allocation of EUR 200 thousand to allowance for doubtful receivables.

8. *Tax receivables*

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
VAT	1.303	2.582	-1.279	-49,5%
Corporate income tax (IRES)	2.026	2.026	0	n.a.
Local business tax (IRAP)		67	-67	n.a.
Amounts due to tax authority for withheld taxes	786	470	316	67,2%
Other tax receivables	140	172	-32	-18,6%
Total	**4.255**	**5.317**	**-1.062**	**-20,0%**

The change in tax receivables is mainly due to the reduction of the Group VAT receivable as a consequence of the decrease in supplyings occurred in Italy.

9. Cash

This caption comprises:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Bank and post office deposits	807	422	385	91.2%
Cheques	21	16	5	31.3%
Cash in hand	24	17	7	41.2%
Total	**852**	**455**	**397**	**87.3%**

Bank and postal deposits represent the nominal value of the current account balances with banks, including the interest accrued at period end.

Cash and cash equivalents represent the nominal value of the cash held at period end.

As of 31 December 2010, cash and cash equivalents are EUR 397 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)	31 December 2010	31 December 2009	Change Δ	%
Credits for prepaid costs (costs of producing collections)	10,619	9,694	925	9.5%
Advances for royalties and commissions	1,284	1,162	122	10.5%
Advances to suppliers	882	901	-19	-2.1%
Accrued income and prepaid expenses	397	550	-153	-27.8%
Other	1,108	268	840	313.4%
Total	**14,290**	**12,575**	**1,715**	**13.6%**

The increase of EUR 1,715 thousand is mainly due to the following reasons:

- increase in credits for prepaid costs that, compared with the previous year, have recorded an increase of EUR 925 thousand related to advertising and stylism costs sustained by the subsidiary Ferretti Studio S.r.l. merged for incorporation on 31 May 2010. These credits relate to the costs incurred to design and make samples for the Spring/Summer 2011 and Autumn/Winter 2011 collections for which the corresponding revenues from sales have not been realised yet.
- the constitution, in the caption "Other", of credits versus social security agency for EUR 936 thousand following the activation in 2010 of the Extraordinary Profit Redundancy Fund and of the Contract of Solidarity.

Accrued income and prepaid expenses refer mainly to owed rent, insurance premium, maintenance and subscriptions fees.

11. SHAREHOLDERS' EQUITY

The main elements comprising shareholders' equity as of 31 December 2010 are described below.

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Share capital	25,371	25,371	0	n.a.
Legal reserve	2,718	2,718	0	n.a.
Share premium reserve	71,240	71,240	0	n.a.
Other reserves	28,361	33,532	-5,171	-15.4%
Fair value reserve	7,742	7,742	0	n.a.
IAS reserve	1,085	1,139	-54	-4.7%
Profits/(Losses) carried-forward	2,175	2,155	20	0.9%
Net profit / (loss)	-2,190	-5,171	2,981	n.a.
Total	**136,502**	**138,726**	**-2,224**	**-1.6%**

Share capital

Share capital as of 31 December 2010 (gross of treasury shares) is represented by 107,362,504 issued and fully-paid ordinary shares, par value EUR 0.25 each, totalling EUR 26,841 thousand. As of 31 December 2010 the Company holds 5,876,878 treasury shares, representing the 5.5% of its share capital.

There are no shares with restricted voting rights, without voting rights or with preferential rights. The number of outstanding shares (non considering treasury shares) is not changed during the period.

Legal reserve

The legal reserve amounts to EUR 2,718 thousand and it remains unchanged since 31 December 2009.

Share premium reserve

The share premium reserve amounts to EUR 71,240 thousand and it remains unchanged since 31 December 2009.

Other reserves

The caption records a negative variation as a consequence of the net loss of the previous year. We specify that reserves haven’t changed for income or expenses recognized directly in equity.

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.

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 variation of the year is due to the operation of merge for incorporation of the subsidiary Ferretti Studio S.r.l. finalized on 31 May 2010.

Profit/(Losses) carried-forward

The variation of the year is due to the operation of merge for incorporation of the subsidiary Ferretti Studio S.r.l. finalized on 31 May 2010.

Net Profit /loss

This caption highlights a loss of EUR 2,190 thousand. It states that there are no income or expenses recognized directly in equity.

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.

(Values in thousands of EUR)	Amount	Possible uses	Amount distributable	Uses in prior years		
				To cover losses	For capital increases	For distribution to shareholders
Share capital	25,371					
Legal reserve	2,718	B				
Share premium reserve:						
- including	68,884	A,B,C	68,884			
- including	2,356	B				
Other reserves:						
- inc. extraordinary reserve	28,361	A,B,C	28,361	5,171		710
IAS reserve (art.6 D.Lgs. 38/2005)	1,086	B				
Fair Value reserve (art. 6 D.Lgs. 38/2005)	7,742	A,B				
Profit/(losses) carried-forward	2,175	A,B,C				2,147
Total	**138,693**		**97,245**	**5,171**		**2,857**

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

<u>Restricted Reserves</u>

Pursuant to art. 109.4.b) of the Consolidated Income Tax Law approved by Decree 917 dated 22 December 1986, as modified by Decree 344 dated 12 December 2003, the restricted reserves as of 31 December 2010 comprise:

- restriction for IRES purposes totalling EUR 168,918 thousand;
- restriction for IRAP purposes totalling EUR 174,385 thousand.

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 various provisions are analysed below:

(Values in thousands of EUR)	31 December 2009	Increases	Decreases	31 December 2010
Pensions and similar obligations	690		-28	662
Write-down of subsidiaries equity investments	1615		-1615	0
Total	**2,305**	**0**	**-1,643**	**662**

The agents' termination indemnities reflect an estimate of the costs to be incurred on the termination of agency contracts, considering legal requirements and all other useful information, such as historical experience, the average duration of agency contracts and their rate of turnover. The amount stated represents the present value of the payments required to settle the obligation.

The decrease for the write-down of equity investment is related to the company Ferretti Studio merged for incorporation on 31 May 2010.

The section on "Contingent liabilities" describes the tax contingencies that are not covered by provisions since the Company is unlikely to incur charges in relation to them.

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.

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 approve pension plans or decide to retain them with the employer (which must pay the related severance contributions into a treasury account managed by INPS).

The main changes are described below

(Values in thousands of EUR)	31 December 2009	Increases	Decreases	31 December 2010
Post employment benefits	5,345	287	-414	5,218
Total	**5,345**	**287**	**-414**	**5,218**

The entry increases is related to the quota of financial expenses for EUR 194 thousand and to the operation of incorporation of the subsidiary Ferretti Studio S.r.l. finalized on 31 May 2010 for EUR 93 thousand.

14. Non-current financial liabilities

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

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Loans from financial institutions	10,035	13,294	-3,259	-24.5%
Amounts due to other creditors	3,140	4,596	-1,456	-31.7%
Total	**13,175**	**17,890**	**-4,715**	**-26.4%**

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 31 December 2010, including both the current and the non-current portion:

(Values in thousands of EUR)	Total amount	Current portion	Non-current portion
Bank borrowings	13,284	3,249	10,035
Total	**13,284**	**3,249**	**10,035**

There are no amounts due beyond five years, except for a loan of EUR 858 thousand expiring in 2018 .

The amounts due to other creditors are analysed in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Financial leases	3,140	4,596	-1,456	-31.7%
Total	**3,140**	**4,596**	**-1,456**	**-31.7%**

The decrease in the non-current amounts due to other creditors since 31 December 2009 reflects the reduction in the liability to leasing company.

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.

15. Non-current not financial liabilities

This caption refers to tax payable generated in Aeffe Spa, as a consequence of the adhesion of the subsidiaries to the fiscal consolidation, related to the fiscal losses of the years 2009 and 2010.

CURRENT LIABILITIES

16. Trade payables

This caption is analysed below on a comparative basis:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Trade payables	68.855	60.866	7.989	13,1%
Total	**68.855**	**60.866**	**7.989**	**13,1%**

Trade payables are due within 12 months and concern the debts for supplying goods and services.

The increase in trade payables is mainly due to the increase of payables with subsidiaries following a management of financial needs handled at the level of the central treasury while payables versus third parties increased for the operation of merge for incorporation of the subsidiary Ferretti Studio S.r.l. realized on 31 May 2010.

17. Tax payables

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

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Amounts due to tax authority for withheld taxes	1.313	1.351	-38	-2,8%
Local business tax (IRAP)	72	0	72	n.a.
Other	7	0	7	n.a.
Total	**1.392**	**1.351**	**41**	**3,0%**

18. Short-term financial liabilities

This caption is analysed in the following table:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Due to banks	65.957	49.518	16.439	33,2%
Due to other creditors	1.455	1.385	70	5,1%
Total	**67.412**	**50.903**	**16.509**	**32,4%**

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 31 December 2010, 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)	31 December 2010	31 December 2009	Change Δ	%
Current bank loans	62,708	41,602	21,106	50.7%
Current portion of long-term bank borrowings	3,249	7,916	-4,667	-59.0%
Current portion of leasing payables	1,455	1,385	70	5.1%
Total	**67,412**	**50,903**	**16,509**	**32.4%**

19. Other liabilities

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

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Due to total security organization	1,660	1,685	-25	-1.5%
Due to employees	1,861	1,920	-59	-3.1%
Trade debtors - credit balances	1,923	2,074	-151	-7.3%
Accrued expenses and deferred income	47	46	1	2.2%
Other	256	159	97	61.0%
Total	**5,747**	**5,884**	**-137**	**-2.3%**

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.

COMMENTS ON THE INCOME STATEMENT

20. Revenues from sales and services

Revenues decrease by 0.5%, from EUR 116,452 thousand in 2009 to EUR 115,918 thousand in 2010.

Analysing brand performance in greater detail:

- Alberta Ferretti and Philosophy - revenues from sales and services decrease by 9.9%;
- Moschino and Cheap & Chic - revenues from sales and services increase by 9.39%;
- Jean Paul Gaultier - revenues from sales and services decrease by 13.84%.
- Other minority brands - revenues from sales and services reported a general decrease;

In line with historical trends, 30% of revenues are earned in Italy and 70% come from foreign markets.

Revenues are analysed by geographical area below:

(Values in thousands of EUR)	Full Year		Full Year		Change	
	2010	%	2009	%	Δ	%
Italy	35,704	30.8%	35,170	30.2%	534	1.5%
Europe (Italy and Russia excluded)	31,625	27.3%	34,088	29.3%	-2,463	-7.2%
United States	10,155	8.8%	10,033	8.6%	122	1.2%
Russia	9,438	8.1%	9,814	8.4%	-376	-3.8%
Japan	8,697	7.5%	7,851	6.7%	846	10.8%
Resto del mondo	20,299	17.5%	19,496	16.7%	803	4.1%
Total	**115,918**	**100.0%**	**116,452**	**100.0%**	**-534**	**-0.5%**

21. Other revenues and income

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Rental income	2,724	2,708	16	0.6%
Extraordinary income	347	166	181	109.0%
Other income	1,990	2,490	-500	-20.1%
Total	**5,061**	**5,364**	**-303**	**-5.6%**

In 2010, the caption extraordinary income, mainly composed by recovery of receivables from bankrupt customers, increases by 181 thousand.

The caption other income, which amounts to EUR 1,990 thousand in 2010, mainly refers to exchange gains on commercial transaction and sales of raw materials and packaging.

22. Costs of raw materials

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Raw, ancillary and consumable materials and goods for resale	37,470	37,392	78	0.2%
Total	**37,470**	**37,392**	**78**	**0.2%**

This caption mainly reflects the purchase of raw materials, such as fabrics, yarns, hides and accessories, finished products acquired for resale and packaging.

23. Costs of services

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Subcontracted work	18,314	19,103	-789	-4.1%
Consultancy fees	7,549	6,739	810	12.0%
Advertising	3,666	1,841	1,825	99.1%
Commission	6,045	6,042	3	0.0%
Transport	1,567	1,606	-39	-2.4%
Utilities	608	704	-96	-13.6%
Directors' and auditors' fees	1,599	1,562	37	2.4%
Insurance	199	207	-8	-3.9%
Bank charges	281	234	47	20.1%
Travelling expenses	986	1,026	-40	-3.9%
Sundry industrial services	477	522	-45	-8.6%
Other services	1,192	1,210	-18	-1.5%
Total	**42,483**	**40,796**	**1,687**	**4.1%**

The remuneration of directors and statutory auditors is detailed in Attachment II.

Costs of services change from EUR 40,796 thousand of 2009 to EUR 42,483 thousand of 2010, showing an increase of 4.1%. The increase in this caption essentially reflects the major costs for advertising and consultancy sustained in the year 2010 due to the merge for incorporation of the subsidiary Ferretti Studio S.r.l. realized on 31 May 2010.

24. Costs of use of third parties assets

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Rental expenses	1,580	1,808	-228	-12.6%
Royalties	8,964	12,344	-3,380	-27.4%
Hire charges and similar	502	567	-65	-11.5%
Total	**11,046**	**14,719**	**-3,673**	**-25.0%**

The decrease of royalties is related to the lower commissions of stylism and adverting contribution which were usually paid to the subsidiary Ferretti Studio S.r.l. merged for incorporation on 31 May 2010.

25. Labour costs

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Labour costs	23,133	25,334	-2,201	-8.7%
Total	**23,133**	**25,334**	**-2,201**	**-8.7%**

Labour costs decrease from EUR 25,334 thousand in 2009 to EUR 23,133 thousand in 2010.

The reduction in labour costs is due to the reduction of the average number of employees compared to the previous year, the activation of the Extraordinary Profit Redundancy Fund and the activation in the same period of the Contract of Solidarity.

The applicable national payroll contract is the textile and clothing sector contract dated 9 July 2010.

The average number of employees as of 31 December 2010 is analysed below:

(Average number of employees by category)	31 December 2010	31 December 2009	Change Δ	%
Workers	179	189	-10	-5%
Office staff - supervisors	393	403	-10	-2%
Executive and senior managers	15	15	0	n.a.
Total	**587**	**607**	**-20**	**-3%**

26. Other operating expenses

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Taxes	236	211	25	11,8%
Gifts	257	130	127	97,7%
Contingent liabilities	173	136	37	27,2%
Other operating expenses	1.506	1.021	485	47,5%
Total	**2.172**	**1.498**	**674**	**45,0%**

The caption other operating expenses increases from EUR 1,498 thousand in 2009 to EUR 2,172 thousand in 2010.

The increase of EUR 674 thousand is mainly due to the raise of foreign exchange losses on commercial transactions compared with the previous year and to credit losses.

27. Amortisation and write-downs

This caption comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Amortisation of intangible fixed assets	154	155	-1	-0.6%
Depreciation of tangible fixed assets	2,417	2,522	-105	-4.2%
Write-downs	200	1,850	-1,650	-89.2%
Total	**2,771**	**4,527**	**-1,756**	**-38.8%**

The drop in the caption write-downs is related to the write-down of the equity investment held in the subsidiary Ferretti Studio S.r.l., recorded in 2009. On 31 May 2010 such company has been merged for incorporation in Aeffe S.p.A..

28. Financial income/ expenses

The caption "Financial income" comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
Interest income	331	507	-176	-34.7%
Financial discounts	54	19	35	184.2%
Other	302		302	n.a.
Total	**687**	**526**	**161**	**30.6%**

The increase in financial income amounts to EUR 161 thousand. Such effect is linked to:

- the reduction of the average interest rate of the year 2010 compared to the one of 2009;
- the exchange differences generated by loans in foreign currency in particular those active in Japanese yen.

The caption "Financial expenses" comprises:

(Values in thousands of EUR)	Full Year	Full Year	Change	
	2010	2009	Δ	%
interest expenses	2.148	2.234	-86	-3,8%
lease interest	262	328	-66	-20,1%
foreign exchange losses	313		313	n.a.
other expenses	134	193	-59	-30,6%
Totale	**2.857**	**2.755**	**102**	**3,7%**

The increase in financial expenses amounts to EUR 102 thousand. Such effect is linked to:

- the reduction of the average interest rate of the year 2010 compared to the one of 2009, that has compensated the increase in the net financial indebtedness.
- the exchange differences generated by financial backings in foreign currency through banking indebtedness, in particular on loans in Japanese yen.

Interest expenses are detailed as follow:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Interest expenses to subsidiaries	242	457	-215	-47.0%
Interest expenses to banks	1,771	1,587	184	11.6%
Interest expenses to others	135	190	-55	-28.9%
Totale	**2,148**	**2,234**	**-86**	**-3.8%**

29. Income taxes

This caption comprises:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009	Change Δ	%
Current income taxes	414	335	79	23.6%
Deferred income (expenses) taxes	-322	-1,186	864	n.a.
Total income taxes	**92**	**-851**	**943**	**-110.8%**

The changes in deferred income (expenses) taxes are analysed in the note on deferred tax assets and liabilities.

The effective tax rates for 2009 and 2010 are reconciled with the theoretical rate in the following table:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Profit before taxes	-2.098	-6.022
Theoretical tax rate	27,5%	27,5%
Theoretical income taxes (IRES)	**-577**	**-1.656**
Fiscal effect	255	470
Total income taxes excluding IRAP (current and deferred)	**-322**	**-1.186**
IRAP (current and deferred)	**414**	**335**
Total income taxes (current and deferred)	**92**	**-851**

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 in 2010 amounts to EUR 397 thousand.

(Values in thousands of EUR)	Full year 2010	Full year 2009
OPENING BALANCE (A)	**454**	**673**
Cash flow (absorbed)/generated by operating activity (B)	-3,719	-8,802
Cash flow (absorbed)/generated by investing activity (C)	-8,268	-5,633
Cash flow (absorbed)/generated by financing activity (D)	12,385	14,216
Increase (decrease) in cash flow (E)=(B)+(C)+(D)	**397**	**-219**
CLOSING BALANCE (F)=(A)+(E)	**851**	**454**

30. Net cash flow (absorbed)/generated by operating activity

The cash flow absorbed by operating activity during 2010 amounts to EUR 3,719 thousand.

The cash flow from operating activities is analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Profit before taxes	-2,098	-6,022
Amortisation	2,771	4,527
Accrual (+)/availment (-) of long term provisions and post employment benefits	-1,770	634
Paid income taxes	-373	-447
Financial income (-) and financial charges (+)	2,170	2,229
Change in operating assets and liabilities	-4,418	-9,723
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**-3,719**	**-8,802**

31. Net cash flow (absorbed)/generated by investing activity

The cash flow absorbed by investing activity during 2010 amounts to EUR 8,268 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Increase (-)/ decrease (+) in intangible fixed assets	-139	-61
Increase (-)/ decrease (+) in tangible fixed assets	-556	-1,708
Investments (-)/ Disinvestments (+)	-7,574	-3,863
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**-8,268**	**-5,633**

32. Net cash flow (absorbed)/generated by financing activity

The cash flow generated by financing activity during 2010 amounts to EUR 12,385 thousand.

The factors comprising this use of funds are analysed below:

(Values in thousands of EUR)	Full Year 2010	Full Year 2009
Other variations in reserves and profits carried-forward of shareholders' equity	-33	-949
Dividends paid	0	-710
Proceeds (+)/repayments (-) of financial payments	11,793	16,047
Increase (-)/ decrease (+) in long term financial receivables	2,795	2,057
Financial income (+) and financial charges (-)	-2,170	-2,229
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**12,385**	**14,216**

OTHER INFORMATION

33. Stock option plans

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 10 February 2005, the Company's net financial position as of 31 December 2010 is analysed below:

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change
A - Cash in hand	45	33	12
B - Other available funds	807	421	386
C - Securities held for trading			
D - Cash and cash equivalents (A) + (B) + (C)	*852*	*454*	*398*
E - Short term financial receivables			
F - Current bank loans	-62.708	-41.602	-21.106
G - Current portion of long-term bank borrowings	-3.249	-7.916	4.667
H - Current portion of loans from other financial istitutions	-1.455	-1.385	-70
I - Current financial indebtedness (F) + (G) + (H)	*-67.412*	*-50.903*	*-16.509*
J - Net current financial indebtedness (I) + (E) + (D)	*-66.560*	*-50.449*	*-16.111*
K - Non current bank loans	-10.035	-13.294	3.259
L - Issued obbligations			
M - Other non current loans	-3.140	-4.596	1.456
N - Non current financial indebtedness (K) + (L) + (M)	*-13.175*	*-17.890*	*4.715*
O - Net financial indebtedness (J) + (N)	***-79.735***	***-68.339***	***-11.396***

Short-term financial liabilities include advances from banks that mainly comprise the drawdown against short-term lines of credit arranged to finance working capital.

The other short-term financial liabilities principally include the financial payables recorded in the financial statements in accordance with finance lease accounting methodology.

35. Earnings per share

Basic earnings per share

(Values in thousands of EUR)	31 December 2010	31 December 2009
Earnings for the period	-2,190	-5,171
Medium number of shares for the period	101,740	101,740
Basic earnings per share	**-0.022**	**-0.051**

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 2010 and 2009 financial statements, as shown in the supplementary income statement and balance sheet prepared for this purpose, is summarised in the following tables:

COSTS AND REVENUES

(Values in thousands of EUR) Year 2010	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	9,874	37	3	3,203	7,293	- 242
Gruppo Pollini	998	2,344	5,569	11	46	231
Gruppo Aeffe Retail	7,447	311		501		67
Velmar S.p.A.	131	20	9	89		
Nuova Stireria Tavoleto S.r.l.	116	11	794	766		
Aeffe Usa Inc.	6,778	13		182		
Aeffe UK L.t.d.	791	9		287	14	
Aeffe France S.a.r.l.	442	5		906		
Aeffe Japan Inc.	3,267	18				24
Fashoff UK	562	6		774		
Total Group companies	**30,406**	**2,774**	**6,375**	**6,719**	**7,353**	**80**
Total income statement	115,918	5,061	37,470	42,483	11,046	- 2,170
Incidence % on income statement	**26.2%**	**54.8%**	**17.0%**	**15.8%**	**66.6%**	**-3.7%**

(Values in thousands of EUR) Year 2009	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	10,134	40	7	3,023	6,642	- 457
Gruppo Pollini	766	2,240	6,070	2	55	340
Gruppo Aeffe Retail	5,805	321		550		125
Ferretti Studio S.r.l.	175	12			4,006	
Velmar S.p.A.	147	29	111	54		
Nuova Stireria Tavoleto S.r.l.	116	11	630	894		
Aeffe Usa Inc.	7,150	13		125		
Aeffe Uk L.t.d.	729	27		491	13	
Aeffe France S.a.r.l.	705	10		454		
Aeffe Japan Inc.	660			400		
Fashoff UK	372	27		448		
Total Group companies	**26,759**	**2,730**	**6,818**	**6,441**	**10,716**	**8**
Total income statement	116,452	5,364	37,392	40,796	14,719	- 2,229
Incidence % on income statement	**23.0%**	**50.9%**	**18.2%**	**15.8%**	**72.8%**	**-0.4%**

RECEIVABLES AND PAYABLES

(Values in thousands of EUR) Year 2010	Other fixed assets	Trade receivables	Trade payables
Gruppo Moschino	32,772	11,926	33,211
Gruppo Pollini	4,000	24,206	2,770
Gruppo Aeffe Retail		13,017	3,366
Velmar S.p.A.		87	1,864
Nuova Stireria Tavoleto S.r.l.		434	1,920
Aeffe Usa Inc.		8,731	132
Aeffe UK L.t.d.	368	1,148	803
Aeffe France S.a.r.l.	2,575	1,846	835
Ozbek London L.t.d.			198
Aeffe Japan Inc.	2,586	4,077	1
Total Group companies	**42,301**	**65,472**	**45,100**
Total balance sheet	42,332	69,056	68,855
Incidence % on balance sheet	**99.9%**	**94.8%**	**65.5%**

(Values in thousands of EUR) Year 2009	Other fixed assets	Trade receivables	Trade payables
Gruppo Moschino	32,772	8,056	29,317
Gruppo Pollini	4,000	19,284	1,300
Gruppo Aeffe Retail	5,200	6,602	1,345
Ferretti Studio S.r.l.		1,609	755
Velmar S.p.A.		176	1,308
Nuova Stireria Tavoleto S.r.l.		365	1,621
Aeffe Usa Inc.		8,418	65
Aeffe UK L.t.d.	357	828	473
Aeffe France S.a.r.l.	2,575	1,249	362
Ozbek London L.t.d.			191
Aeffe Japan Inc.	188	645	
Narciso Rodriguez LLC		28	188
Total Group companies	**45,092**	**47,260**	**36,925**
Total balance sheet	45,126	53,184	60,866
Incidence % on balance sheet	**99.9%**	**88.9%**	**60.7%**

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)	31 December 2010	31 December 2009	Nature of the transactions
Shareholder Alberta Ferretti with Aeffe S.p.A.			
Contract for the sale of artistic assets and design	300	300	Cost
Ferrim with Aeffe S.p.A.			
Property rental	1,206	1,409	Cost
Commerciale Valconca with Aeffe S.p.A.			
Revenues	523	181	Revenue
Cost of services	104	108	Cost
Commercial	873	662	Receivable
Commercial	92	105	Payable
Gir + A&F with Aeffe S.p.A.			
Commercial	289	294	Other revenues
Commercial	169	167	Receivable

The following table indicates the data related on the incidence of related party transactions on the income statement, balance sheet and cash flow as of 31 December 2010 and 31 December 2009:

(Values in thousands of EUR)	Balance 2010	Value rel. party 2010	%	Balance 2009	Value rel. party 2009	%
Incidence of related party transactions on the income statement						
Revenues from sales and services	115.918	523	0,5%	116.452	181	0,2%
Other revenues	5.061	289	5,7%	5.364	294	5,5%
Costs of services	42.483	404	1,0%	40.796	408	1,0%
Costs for use of third party assets	11.046	1.206	10,9%	14.719	1.409	9,6%
Incidence of related party transactions on the balance sheet						
Trade receivables	69.056	1.042	1,5%	53.184	662	1,2%
Trade payables	68.855	92	0,1%	60.866	105	0,2%
Incidence of related party transactions on the cash flow						
Cash flow (absorbed) / generated by operating activity	-3.719	-1.191	32,0%	-8.802	-1.899	21,6%
Incidence of related party transactions on the indebtedness						
Net financial indebtedness	-79.735	-1.191	1,5%	-68.339	-1.510	2,2%

38. Atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 dated 28 July 2006, it is confirmed that the Company did not enter into any atypical and/or unusual transactions (as defined in such Communication) during 2010.

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

In the year 2010 no non-recurring events or transactions have been realised.

40. Guarantees and commitments

(Values in thousands of EUR)	31 December 2010	31 December 2009	Change Δ	%
Guarantees given				
- on behalf of Group companies	2,566	2,566	0	n.a.
- on behalf of third parties	966	846	120	14.2%
Total	**3,532**	**3,412**	**120**	**3.5%**

41. Contingent liabilities

Fiscal disputes

Aeffe S.p.A.: the Rimini Provincial Tax Commission with ruling no. 101/2/06 filed on 16 December 2006 cancelled notices of assessment 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 concern 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 Bologna Regional Tax Commission, as set during the hearing of 27 September 2010, has rejected the appeal, confirming the first level ruling.

The Rimini Provincial Tax Commission with ruling no. 37/02/08 of 28 January 2008, filed on 9 April 2008, cancelled notices of assessment no. 81203T300390/06 and no. 81203T300393/06 issued by the Rimini Tax Authorities in June 2006. The assessments concern tax years 2001 and 2002, and are connected with non-recognition of utilisation of the tax loss achieved during tax period 2000. The Rimini Tax Office has appealed against the sentence handed down by the Rimini Provincial Tax Commissioners with notification sent to the company on 29 May 2009. The appeal presented its counter analysis to the Regional Tax Commission of Bologna within the legally-prescribed time period. For this tax dispute the company is waiting for the date for discussion of the dispute before the Bologna Regional Tax Commission to be set.

On 1 October 2008 the Rimini Tax Office notified the company of inspection minutes in relation to direct taxes and IRAP for FY 2005. The audits also concerned VAT and were mainly focused on relations with group companies and costs for services. Specifically, the Tax Office raised issues on non-pertinent costs totaling EUR 130 thousand and non-pertinent advertising costs amounting to roughly EUR 580 thousand tied to the disbursement of contributions to subsidiary companies.

On 30 August 2010, the Major Taxpayers Office of the Emilia Romagna Regional Tax Department notified assessments TGB03B500172/2010 (IRAP), TGB08B500181/2010 (theoretical IRES) and TGB09B500185/2010 (actual IRES), containing the matters indicated above. The company challenged these assessments before the Bologna Provincial Tax Commissioners ahead of the legal deadline, trusting that the valid defensive reasoning will be accepted.

No provisions have been recorded in relation to the above disputes, since the defensive arguments put forward by the companies and its professional advisors are fully sustainable.

The directors, in receipt of the opinion of their fiscal consultants, do not deem it likely that any liabilities will derive from the above-mentioned.

42. Information pursuant to art. 149-duodecies of Consob's Issuers' Regulations

The following schedule, prepared pursuant to art. 149-duodecies of Consob's Issuers' Regulation, shows the fees incurred in 2010 for auditing services and non-auditing services provided by the appointed firm for auditors. No services were provided by members of the auditing firm's network.

(Values in thousands of EUR)	Service provider	2010 fees
Audit	MAZARS	72
Total		**72**

ATTACHMENTS TO THE EXPLANATORY NOTES

ATTACHMENT I

List of investments in subsidiary companies

requested by Consob Communication no. DEM/6064293 dated 28 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 subsidiaries companies:								
Italian companies								
Aeffe Retail S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/09			8,585,150	-2,914,892	8,827,172	100%	8,585,150	16,493,345
At 31/12/10			8,585,150	-5,054,527	8,772,646	100%	8,585,150	21,493,345
Ferretti Studio S.r.l.	**S.G. in Marignano (RN) Italy**							
At 31/12/09			10,400	-1,625,399	-1,614,999	100%	n.d. *	
Incorporated at 31th May 2010								
At 31/12/10			-	-	-	-	-	-
Moschino S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/09			20,000,000	1,685,418	36,075,627	70%	14,000,000	14,085,199
At 31/12/10			20,000,000	232,828	36,308,455	70%	14,000,000	14,085,199
Nuova Stireria Tavoleto S.r.l.	**Tavoleto (PU) Italy**							
At 31/12/98			10,400	98,191	1,204,381	100%	n.d. *	773,215
At 31/12/10			10,400	122,919	1,327,299	100%	n.d.	773,215
Pollini S.p.A.	**Gatteo (FC) Italy**							
At 31/12/09			6,000,000	-6,176,550	17,124,332	72%	4,320,000	40,745,452
At 31/12/10			6,000,000	-3,482,127	13,642,206	72%	4,320,000	40,745,452
Velmar S.p.A.	**S.G. in Marignano (RN) Italy**							
At 31/12/09			492,264	-2,501,865	-810,935	75%	71,550	774,685
At 31/12/10			120,000	-1,175,166	387,608	100%	60,000	3,148,395
Foreign companies								
Aeffe France S.a.r.l.	**Paris (FR)**							
At 31/12/09			1,550,000	-739,115	1,713,510	100%	n.d. *	4,118,720
At 31/12/10			1,550,000	-393,892	1,319,618	100%	n.d.	4,118,720
Aeffe UK L.t.d.	**London (GB)**							
At 31/12/09		GBP	310,000	-117,829	317,113	100%		
			349,060	-95,527	394,219	100%	n.d. *	478,400
At 31/12/10		GBP	310,000	3,456	320,569	100%	n.d.	
			360,151	4,015	372,408	100%	n.d.	478,400
Aeffe USA Inc.	**New York (USA)**							
At 31/12/09		USD	600,000	-2,599,176	10,898,128	100%		
			416,493	-1,804,232	7,564,992	100%		10,664,812
At 31/12/10		USD	600,000	-24,924	10,873,204	100%		
			449,034	-18,652	8,137,407	100%		10,664,812
Aeffe Japan Inc.	**Tokyo (Japan)**							
At 31/12/09		JPY	3,600,000	-4,383,076	-1,208,876	100%		
			27,035	-32,916	-9,078	100%	n.d. *	53,637
At 31/12/10		JPY	3,600,000	-125,993,194	-127,202,070	100%		
			33,133	-1,159,624	-1,170,750	100%	n.d. *	53,637
Total interests in subsidiaries:								**95,561,175**

* quota

List of investments in other companies

requested by Consob Communication no. DEM/6064293 dated 28 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 31/12/09									103
At 31/12/10									103
Caaf Emilia Romagna									
At 31/12/09						0.688%	5,000		2,582
At 31/12/10						0.688%	5,000		2,582
Assoform									
At 31/12/09						1.670%	n.d.	*	258
At 31/12/10							n.d.	*	258
Consorzio Assoenergia Rimini									
At 31/12/09						1.620%	n.d.	*	517
At 31/12/10						1.620%	n.d.	*	517
Effegidi									
At 31/12/09									6,000
At 31/12/10									6,000
Total interests in other companies:									**9,460**
* quota									
Total interests:									**95,570,635**

ATTACHMENT II

Remuneration paid to directors, statutory auditors, general managers and executives with strategic responsibilities (art. 78 of Consob Regulation no. 11971/99)

(Values in thousands of EUR)

Name and surname	Appointments held in 2010	Peridod in office	Mandate expiry date *	Emoluments for office	Other remunera tions	Total
DIRECTORS						
Massimo Ferretti	Chairman	01/01-31/12/2010	2011	604	251	855
Alberta Ferretti	Deputy Chairman and Executive Director	01/01-31/12/2010	2011	483	77	560
Simone Badioli	Chief Executive Officer and Executive Director	01/01-31/12/2010	2011	254	98	352
Marcello Tassinari	Managing Director and Executive Director	01/01-31/12/2010	2011	331 **	87	418
Umberto Paolucci	Independent, non-executive Director	01/01-31/12/2010	2011	60		60
Roberto Lugano	Independent, non-executive Director	01/01-31/12/2010	2011	27	3	30
Pierfrancesco Giustiniani	Independent, non-executive Director	01/01-31/12/2010	2011	30		30
STATUTORY AUDITORS						
Fernando Ciotti	President of the Board of Statutory Auditors	01/01-31/12/2010	2011	13	22	35
Romano Del Bianco	Statutory Auditor	01/01-31/12/2010	2011	10	9	19
Bruno Piccioni	Statutory Auditor	01/01-31/12/2010	2011	10	8	18
Total				**1,822**	**555**	**2,377**
					(1)	**(2)**

(*) year in which the shareholders' meeting is held to approve the financial statements and at which the mandate expires

(**) includes 30 thousand as director's emoluments and the balance as executive of the Company

(1) includes remuneration for work as employee, emoluments for the compensation committee and emolumentson 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 2010	Options held at 31/12/09			Options granted in 2010			Options exercised in 2010			Expired options	Options held at the end of 2010		
(A)	(B)	N. of options (1)	Average exercise price (2)	Average expiry (3)	N. of options (4)	Average exercise price (5)	Average expiry (6)	N. of options (7)	Average exercise price (8)	Average expiry (9)	N. of options (10)	N. of options (11) = 1+4-7-10	Average exercise price (12)	Average expiry (13)
Massimo Ferretti	Chairman	396,488	4.1	2015							198,244	198,244	4.1	2015
Alberta Ferretti	Deputy Chairman and Executive Director	396,488	4.1	2015							198,244	198,244	4.1	2015
Simone Badioli	Chif Executive Officer and Executive Director	377,608	4.1	2015							188,804	188,804	4.1	2015
Marcello Tassinari	Managing Director and Executive	377,608	4.1	2015							188,804	188,804	4.1	2015
Other employees of the		132,162	4.1	2015							66,081	66,081	4.1	2015
Totale		**1,680,354**									**840,177**	**840,177**		

ATTACHMENT IV

Balance Sheet Assets, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2010	of which related parties	31 December 2009	of which related parties correlate
NON-CURRENT ASSETS					
Intangible fixed assets					
Trademarks		4,029		4,155	
Other intangible fixed assets		162		51	
Total intangible fixed assets	(1)	4,191		4,206	
Tangible fixed assets					
Lands		15,803		15,803	
Buildings		24,740		25,115	
Leasehold improvements		3,136		3,690	
Plant and machinary		4,739		5,479	
Equipment		82		128	
Other tangible fixed assets		586		732	
Total tangible fixed assets	(2)	49,087		50,948	
Other fixed assets					
Equity investments	(3)	95,571	95,561	88,197	88,187
Other fixed assets	(4)	42,332	42,301	45,126	45,092
Deferred tax assets	(5)	7,039		5,787	
Total other fixed assets		144,941		139,110	
TOTAL NON-CURRENT ASSETS		**198,218**		**194,264**	
CURRENT ASSETS					
Stocks and inventories	(6)	23,359		25,244	
Trade receivables	(7)	69,056	66,514	53,184	47,922
Tax receivables	(8)	4,255		5,317	
Cash	(9)	852		455	
Other receivables	(10)	14,290		12,575	
TOTAL CURRENT ASSETS		**111,812**		**96,775**	
TOTAL ASSETS		**310,031**		**291,039**	

ATTACHMENT V

Balance Sheet Liabilities, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	31 December 2010	of which related parties	31 December 2009	of which related parties correlate
SHAREHOLDERS' EQUITY					
Share capital		25,371		25,371	
Share premium reserve		71,240		71,240	
Other reserves		31,079		36,250	
Fair Value reserve		7,742		7,742	
IAS reserve		1,086		1,139	
Profits / (Losses) carried-forward		2,175		2,155	
Net profit / loss		-2,190		-5,171	
TOTAL SHAREHOLDERS' EQUITY	**(11)**	**136,503**		**138,726**	
NON-CURRENT LIABILITIES					
Provisions	(12)	662		2,305	
Deferred tax liabilities	(5)	7,775		7,768	
Post employment benefits	(13)	5,218		5,345	
Long term financial liabilities	(14)	13,176		17,890	
Long term not financial liabilities	(15)	3,293		0	
TOTAL NON-CURRENT LIABILITIES		**30,123**		**33,308**	
CURRENT LIABILITIES					
Trade payables	(16)	68,855	45,192	60,866	37,030
Tax payables	(17)	1,392		1,351	
Short term financial liabilities	(18)	67,412		50,904	
Other liabilities	(19)	5,747		5,884	
TOTAL CURRENT LIABILITIES		**143,405**		**119,005**	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**310,031**		**291,039**	

ATTACHMENT VI

Income Statement, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full year 2010	of which related parties	Full year 2009	of which related parties
REVENUES FROM SALES AND SERVICES	**(20)**	**115.918**	**30.929**	**116.452**	**26.940**
Other revenues and income	(21)	5.061	3.063	5.364	2.730
TOTAL REVENUES		**120.979**		**121.816**	
Changes in inventory		-1.833		-1.342	
Costs of raw materials, cons. and goods for resale	(22)	-37.470	-6.375	-37.392	-6.818
Costs of services	(23)	-42.483	-7.123	-40.796	-6.849
Costs for use of third parties assets	(24)	-11.046	-8.559	-14.719	-12.125
Labour costs	(25)	-23.133		-25.334	
Other operating expenses	(26)	-2.172		-1.498	
Amortisation and write-downs	(27)	-2.771		-4.527	
Financial income/(expenses)	(28)	-2.170	80	-2.229	8
PROFIT /LOSS BEFORE TAXES	**-**	**2.098**	**-**	**6.022**	
income taxes	(29)	-92		851	
NET PROFIT /LOSS	**-**	**2.190**	**-**	**5.171**	

ATTACHMENT VII

Cash Flow Statement, with related parties

Pursuant to Consob Resolution no. 15519 dated 27 July 2006

(Values in thousands of EUR)	Notes	Full Year 2010	of which related parties	Full Year 2009	of which related parties
OPENING BALANCE		**454**		**673**	
Profit before taxes		-2,098		-6,022	
Amortisation		2,771		4,527	
Accrual (+)/availment (-) of long term provisions and post employment benefits		-1,770		634	
Paid income taxes		-373		-447	
Financial income (-) and financial charges (+)		2,170		2,229	
Change in operating assets and liabilities		-4,418	-10,430	-9,723	-9,005
CASH FLOW (ABSORBED)/ GENERATED BY OPERATING ACTIVITY	**(30)**	**- 3,719**		**- 8,802**	
Increase (-)/ decrease (+) in intangible fixed assets		-139		-61	
Increase (-)/ decrease (+) in tangible fixed assets		-556		-1,708	
Investments (-)/ Disinvestments (+)		-7,574	-7,374	-3,863	-2,013
CASH FLOW (ABSORBED)/ GENERATED BY INVESTING ACTIVITY	**(31)**	**- 8,268**		**- 5,633**	
Other variations in reserves and profits carried-forward of shareholders' equity		-33		-949	
Dividends paid		0		-710	
Proceeds (+)/repayment (-) of financial payments		11,793		16,047	
Increase (-)/ decrease (+) in long term financial receivables		2,795	2,791	2,057	2,040
Financial income (+) and financial charges (-)		-2,170		-2,229	
CASH FLOW (ABSORBED)/GENERATED BY FINANCING ACTIVITY	**(32)**	**12,385**		**14,216**	
CLOSING BALANCE		**851**		**454**	

ATTACHMENT VIII

Prospect of crucial data from the statutory financial statements of Fratelli Ferretti Holding at 31 December 2009

(Values in units of EUR)	STATUTORY FINANCIAL STATEMENTS 2009	STATUTORY FINANCIAL STATEMENTS 2008
BALANCE SHEET		
ASSETS		
Intangible fixed assets	296,269	9,091
Equity investments	80,785,928	70,638,590
Non current assets	**81,082,197**	**70,647,681**
Trade receivables	273,510	544,646
Tax receivables	7,217,792	7,000,000
Cash	417,540	450,573
Other receivables	102,444	
Current assets	**8,011,286**	**7,995,219**
Total assets	**89,093,483**	**78,642,900**
LIABILITIES		
Share capital	100,000	100,000
Share premium reserve	67,783,322	67,783,322
Other reserves	31,125	
Profits (Losses) carried-forward		-15,912
Net profit	253,725	47,037
Shareholders' equity	**68,168,172**	**67,914,447**
Long term financial liabilities	10,500,000	10,500,000
Non-current liabilities	**10,500,000**	**10,500,000**
Trade payables	10,425,311	228,453
Current liabilities	**10,425,311**	**228,453**
Total shareholders' equity and liabilities	**89,093,483**	**78,642,900**

INCOME STATEMENT		
Revenues from sales and services		
Other revenues and income		500,000
Total revenues	**-**	**500,000**
Operating costs	-92,870	-592,856
Amortisation and write-downs	-18,201	-2,932
Provisions	-1,490	-1,338
Financial income (expenses)	43,808	-102,873
Profit (loss) from affiliates	280,980	802,800
Financial assets adjustments		-600,000
Extraordinary profit/(loss)	37,864	
Profit before taxes	**250,091**	**2,801**
Income taxes	3,634	44,236
Net profit	**253,725**	**47,037**

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

The undersigned Massimo Ferretti as President of the Board of Directors, and Marcello Tassinari as manager responsible for preparing Aeffe S.p.A. 's financial reports, pursuant to the provisions of art. 154 bis, clauses 3 and 4, of Legislative Decree n. 58 of 1998, hereby attest:

- The adequacy with respect to the Company structure and
- The effective application

of the administrative and accounting procedures applied in the preparation of the financial statements at 31 December 2010.

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 issuer.

9 March 2011

President of the board of directors	Manager responsible for preparing Aeffe S.p.A. financial reports
Massimo Ferretti	Marcello Tassinari